

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

(MARK ONE)

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

For the fiscal year ended December 31, 2020

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 No. 1-10765

**UNIVERSAL HEALTH SERVICES, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**23-2077891**

(I.R.S. Employer  
Identification Number)

**UNIVERSAL CORPORATE CENTER**

367 South Gulph Road

P.O. Box 61558

King of Prussia, Pennsylvania

(Address of principal executive offices)

**19406-0958**

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class B Common Stock, \$0.01 par value	UHS	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Class D Common Stock, \$.01 par value

(Title of each Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of voting stock held by non-affiliates at June 30, 2020 was \$7.0 billion. (For the purpose of this calculation, it was assumed that Class A, Class C, and Class D Common Stock, which are not traded but are convertible share-for-share into Class B Common Stock, have the same market value as Class B Common Stock. Also, for purposes of this calculation only, all directors are deemed to be affiliates.)

The number of shares of the registrant's Class A Common Stock, \$.01 par value, Class B Common Stock, \$.01 par value, Class C Common Stock, \$.01 par value, and Class D Common Stock, \$.01 par value, outstanding as of January 31, 2021, were 6,577,100; 77,836,686; 661,688 and 18,191, respectively.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the registrant's definitive proxy statement for our 2021 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2020 (incorporated by reference under Part III).

**UNIVERSAL HEALTH SERVICES, INC.  
2020 FORM 10-K ANNUAL REPORT**

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This Annual Report on Form 10-K is for the year ended December 31, 2020. This Annual Report modifies and supersedes documents filed prior to this Annual 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 Annual Report.

In this Annual 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

### ITEM 1. Business

Our principal business is owning and operating, through our subsidiaries, acute care hospitals and outpatient facilities and behavioral health care facilities.

As of February 25, 2021, we owned and/or operated 360 inpatient facilities and 39 outpatient and other facilities including the following located in 38 states, Washington, D.C., the United Kingdom and Puerto Rico:

#### Acute care facilities located in the U.S.:

- 26 inpatient acute care hospitals;
- 17 free-standing emergency departments, and;
- 6 outpatient centers & 1 surgical hospital.

#### Behavioral health care facilities (334 inpatient facilities and 15 outpatient facilities):

##### Located in the U.S.:

- 185 inpatient behavioral health care facilities, and;
- 12 outpatient behavioral health care facilities.

##### Located in the U.K.:

- 146 inpatient behavioral health care facilities, and;
- 3 outpatient behavioral health care facilities.

##### Located in Puerto Rico:

- 3 inpatient behavioral health care facilities.

As a percentage of our consolidated net revenues, net revenues from our acute care hospitals, outpatient facilities and commercial health insurer accounted for 55% during 2020, 54% during 2019 and 53% during 2018. Net revenues from our behavioral health care facilities and commercial health insurer accounted for 45% of our consolidated net revenues during 2020, 46% during 2019 and 47% during 2018.

Our behavioral health care facilities located in the U.K. generated net revenues of approximately \$584 million in 2020, \$554 million in 2019 and \$505 million in 2018. Total assets at our U.K. behavioral health care facilities were approximately \$1.334 billion as of December 31, 2020, \$1.270 billion as of December 31, 2019 and \$1.224 billion as of December 31, 2018.

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

#### **Available Information**

We are a Delaware corporation that was organized in 1979. Our principal executive offices are located at Universal Corporate Center, 367 South Gulph Road, P.O. Box 61558, King of Prussia, PA 19406. Our telephone number is (610) 768-3300.

Our website is located at <http://www.uhsinc.com>. Copies of our annual, quarterly and current reports that we file with the SEC, and any amendments to those reports, are available free of charge on our website. Our filings are also available to the public at the website maintained by the SEC, [www.sec.gov](http://www.sec.gov). The information posted on our website is not incorporated into this Annual Report. Our Board of Directors' committee charters (Audit Committee, Compensation Committee and Nominating & Governance Committee), Code of Business Conduct and Corporate Standards applicable to all employees, Code of Ethics for Senior Financial Officers, Corporate Governance Guidelines and our Code of Conduct, Corporate Compliance Manual and Compliance Policies and Procedures are available free of charge on our website. Copies of such reports and charters are available in print to any stockholder who makes a request. Such requests should be made to our Secretary at our King of Prussia, PA corporate headquarters. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K relating to amendments to or waivers of any provision of our Code of Ethics for Senior Financial Officers by promptly posting this information on our website.

In accordance with Section 303A.12(a) of the New York Stock Exchange Listed Company Manual, we submitted our CEO's certification to the New York Stock Exchange in 2020. Additionally, contained in Exhibits 31.1 and 31.2 of this Annual Report on

### **Our Mission**

Our company mission is:

To provide superior quality healthcare services that  
PATIENTS recommend to families and friends,  
PHYSICIANS prefer for their patients,  
PURCHASERS select for their clients,  
EMPLOYEES are proud of, and  
INVESTORS seek for long-term returns.

To achieve this, we have a commitment to:

- service excellence
- continuous improvement in measurable ways
- employee development
- ethical and fair treatment of all
- teamwork
- compassion
- innovation in service delivery

### **Business Strategy**

We believe community-based hospitals will remain the focal point of the healthcare delivery network and we are committed to a philosophy of self-determination for both the company and our hospitals.

**Acquisition of Additional Hospitals.** We selectively seek opportunities to expand our base of operations by acquiring, constructing or leasing additional hospital facilities. We are committed to a program of rational growth around our core businesses, while retaining the missions of the hospitals we manage and the communities we serve. Such expansion may provide us with access to new markets and new healthcare delivery capabilities. We also continue to examine our facilities and consider divestiture of those facilities that we believe do not have the potential to contribute to our growth or operating strategy. In recent years our behavioral health services segment has been focused on efforts to partner with non-UHS acute care hospitals to help operate their behavioral health services. These arrangements include hospital purchases, leased beds and joint venture operating agreements.

**Improvement of Operations of Existing Hospitals and Services.** We also seek to increase the operating revenues and profitability of owned hospitals by the introduction of new services, improvement of existing services, physician recruitment and the application of financial and operational controls.

We are involved in continual development activities for the benefit of our existing facilities. From time to time applications are filed with state health planning agencies to add new services in existing hospitals in states which require certificates of need, or CONs. Although we expect that some of these applications will result in the addition of new facilities or services to our operations, no assurances can be made for ultimate success by us in these efforts.

**Quality and Efficiency of Services.** Pressures to contain healthcare costs and technological developments allowing more procedures to be performed on an outpatient basis have led payers to demand a shift to ambulatory or outpatient care wherever possible. We are responding to this trend by emphasizing the expansion of outpatient services. In addition, in response to cost containment pressures, we continue to implement programs at our facilities designed to improve financial performance and efficiency while continuing to provide quality care, including more efficient use of professional and paraprofessional staff, monitoring and adjusting staffing levels and equipment usage, improving patient management and reporting procedures and implementing more efficient billing and collection procedures. In addition, we will continue to emphasize innovation in our response to the rapid changes in regulatory trends and market conditions while fulfilling our commitment to patients, physicians, employees, communities and our stockholders.

In addition, our aggressive recruiting of highly qualified physicians and developing provider networks help to establish our facilities as an important source of quality healthcare in their respective communities.

### **Hospital Utilization**

We believe that the most important factors relating to the overall utilization of a hospital include the quality and market position of the hospital and the number, quality and specialties of physicians providing patient care within the facility. Generally, we believe that the ability of a hospital to meet the health care needs of its community is determined by its breadth of services, level of technology, emphasis on quality of care and convenience for patients and physicians. Other factors that affect utilization include general and local economic conditions, market penetration of managed care programs, the degree of outpatient use, the availability of reimbursement programs such as Medicare and Medicaid, and demographic changes such as the growth in local populations. Utilization across the industry also is being affected by improvements in clinical practice, medical technology and pharmacology. Current industry trends in utilization and occupancy have been significantly affected by changes in reimbursement policies of third party payers. We are also unable to predict the extent to which these industry trends will continue or accelerate. In addition, our acute care services business is typically subject to certain seasonal fluctuations, such as higher patient volumes and net patient service revenues in the first and fourth quarters of the year.

The following table sets forth certain operating statistics for hospitals operated by us for the years indicated. Accordingly, information related to hospitals acquired during the five-year period has been included from the respective dates of acquisition, and information related to hospitals divested during the five year period has been included up to the respective dates of divestiture.

	2020	2019	2018	2017	2016
Average Licensed Beds:					
Acute Care Hospitals	6,457	6,379	6,232	6,127	5,934
Behavioral Health Centers	23,661	23,812	23,509	23,151	21,829
Average Available Beds (1):					
Acute Care Hospitals	6,285	6,205	6,056	5,954	5,759
Behavioral Health Centers	23,559	23,711	23,425	23,068	21,744
Admissions:					
Acute Care Hospitals	286,535	317,983	303,985	297,390	274,074
Behavioral Health Centers	448,870	488,367	482,658	467,822	456,052
Average Length of Stay (Days):					
Acute Care Hospitals	5.1	4.6	4.5	4.4	4.6
Behavioral Health Centers	13.7	13.3	13.3	13.6	13.2
Patient Days (2):					
Acute Care Hospitals (1)	1,458,321	1,451,847	1,376,988	1,312,265	1,251,511
Behavioral Health Centers	6,142,823	6,487,707	6,418,334	6,381,756	6,004,066
Occupancy Rate-Licensed Beds (3):					
Acute Care Hospitals	62%	62%	61%	59%	58%
Behavioral Health Centers	71%	75%	75%	76%	75%
Occupancy Rate-Available Beds (3):					
Acute Care Hospitals	63%	64%	62%	60%	59%
Behavioral Health Centers	71%	75%	75%	76%	75%

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

### **Sources of Revenue**

We receive payments for services rendered from private insurers, including managed care plans, the federal government under the Medicare program, state governments under their respective Medicaid programs and directly from patients. See *Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Sources of Revenue* for additional disclosure. Other information related to our revenues, income and other operating information for each reporting segment of our business is provided in Note 12 to our Consolidated Financial Statements, *Segment Reporting*.

## **Regulation and Other Factors**

**Overview:** The healthcare industry is subject to numerous laws, regulations and rules including, among others, those related to government healthcare participation requirements, various licensure and accreditations, reimbursement for patient services, health information privacy and security rules, and Medicare and Medicaid fraud and abuse provisions (including, but not limited to, federal statutes and regulations prohibiting kickbacks and other illegal inducements to potential referral sources, false claims submitted to federal or state health care programs and self-referrals by physicians). Providers that are found to have violated any of these laws and regulations may be excluded from participating in government healthcare programs, subjected to significant fines or penalties and/or required to repay amounts received from the government for previously billed patient services. Although we believe our policies, procedures and practices comply with governmental regulations, no assurance can be given that we will not be subjected to additional governmental inquiries or actions, or that we would not be faced with sanctions, fines or penalties if so subjected. Even if we were to ultimately prevail, a significant governmental inquiry or action under one of the above laws, regulations or rules could have a material adverse impact on us.

**Licensing, Certification and Accreditation:** All of our U.S. hospitals are subject to compliance with various federal, state and local statutes and regulations in the U.S. and receive periodic inspection by state licensing agencies to review standards of medical care, equipment and cleanliness. Our hospitals must also comply with the conditions of participation and licensing requirements of federal, state and local health agencies, as well as the requirements of municipal building codes, health codes and local fire departments. Various other licenses and permits are also required in order to dispense narcotics, operate pharmacies, handle radioactive materials and operate certain equipment. Our facilities in the United Kingdom are also subject to various laws and regulations.

All of our eligible hospitals have been accredited by The Joint Commission. All of our acute care hospitals and most of our behavioral health centers in the U.S. are certified as providers of Medicare and Medicaid services by the appropriate governmental authorities.

If any of our facilities were to lose its Joint Commission accreditation or otherwise lose its certification under the Medicare and Medicaid programs, the facility may be unable to receive reimbursement from the Medicare and Medicaid programs and other payers. We believe our facilities are in substantial compliance with current applicable federal, state, local and independent review body regulations and standards. The requirements for licensure, certification and accreditation are subject to change and, in order to remain qualified, it may become necessary for us to make changes in our facilities, equipment, personnel and services in the future, which could have a material adverse impact on operations.

**Certificates of Need:** Many of the states in which we operate hospitals have enacted certificates of need ("CON") laws as a condition prior to hospital capital expenditures, construction, expansion, modernization or initiation of major new services. Failure to obtain necessary state approval can result in our inability to complete an acquisition, expansion or replacement, the imposition of civil or, in some cases, criminal sanctions, the inability to receive Medicare or Medicaid reimbursement or the revocation of a facility's license, which could harm our business. In addition, significant CON reforms have been proposed in a number of states that would increase the capital spending thresholds and provide exemptions of various services from review requirements. In the past, we have not experienced any material adverse effects from those requirements, but we cannot predict the impact of these changes upon our operations.

**Conversion Legislation:** Many states have enacted or are considering enacting laws affecting the conversion or sale of not-for-profit hospitals to for-profit entities. These laws generally require prior approval from the attorney general, advance notification and community involvement. In addition, attorneys general in states without specific conversion legislation may exercise discretionary authority over these transactions. Although the level of government involvement varies from state to state, the trend is to provide for increased governmental review and, in some cases, approval of a transaction in which a not-for-profit entity sells a health care facility to a for-profit entity. The adoption of new or expanded conversion legislation and the increased review of not-for-profit hospital conversions may limit our ability to grow through acquisitions of not-for-profit hospitals.

**Utilization Review:** Federal regulations require that admissions and utilization of facilities by Medicare and Medicaid patients must be reviewed in order to ensure efficient utilization of facilities and services. The law and regulations require Peer Review Organizations ("PROs") to review the appropriateness of Medicare and Medicaid patient admissions and discharges, the quality of care provided, the validity of diagnosis related group ("DRG") classifications and the appropriateness of cases of extraordinary length of stay. PROs may deny payment for services provided, assess fines and also have the authority to recommend to the Department of Health and Human Services ("HHS") that a provider that is in substantial non-compliance with the standards of the PRO be excluded from participating in the Medicare program. We have contracted with PROs in each state where we do business to perform the required reviews.

**Audits:** Most hospitals are subject to federal audits to validate the accuracy of Medicare and Medicaid program submitted claims. If these audits identify overpayments, we could be required to pay a substantial rebate of prior years' payments subject to

various administrative appeal rights. The federal government contracts with third-party “recovery audit contractors” (“RACs”) and “Medicaid integrity contractors” (“MICs”), on a contingent fee basis, to audit the propriety of payments to Medicare and Medicaid providers. Similarly, Medicare zone program integrity contractors (“ZPICs”) target claims for potential fraud and abuse. Additionally, Medicare administrative contractors (“MACs”) must ensure they pay the right amount for covered and correctly coded services rendered to eligible beneficiaries by legitimate providers. The Centers for Medicare and Medicaid Services (“CMS”) announced its intent to consolidate many of these Medicare and Medicaid program integrity functions into new unified program integrity contractors (“UPICs”), though it remains unclear what effect, if any, this consolidation may have. We have undergone claims audits related to our receipt of federal healthcare payments during the last three years, the results of which have not required material adjustments to our consolidated results of operations. However, potential liability from future federal or state audits could ultimately exceed established reserves, and any excess could potentially be substantial. Further, Medicare and Medicaid regulations also provide for withholding Medicare and Medicaid overpayments in certain circumstances, which could adversely affect our cash flow.

#### ***Self-Referral and Anti-Kickback Legislation***

**The Stark Law:** The Social Security Act includes a provision commonly known as the “Stark Law.” This law prohibits physicians from referring Medicare and Medicaid patients to entities with which they or any of their immediate family members have a financial relationship, unless an exception is met. These types of referrals are known as “self-referrals.” Sanctions for violating the Stark Law include civil penalties up to \$25,820 for each violation, and up to \$172,137 for sham arrangements. There are a number of exceptions to the self-referral prohibition, including an exception for a physician’s ownership interest in an entire hospital as opposed to an ownership interest in a hospital department unit, service or subpart. However, federal laws and regulations now limit the ability of hospitals relying on this exception to expand aggregate physician ownership interest or to expand certain hospital facilities. This regulation also places a number of compliance requirements on physician-owned hospitals related to reporting of ownership interest. There are also exceptions for many of the customary financial arrangements between physicians and providers, including employment contracts, leases and recruitment agreements that adhere to certain enumerated requirements. CMS issued a final rule in 2020 that created a new Stark exception for value-based models. Although the final regulations provide exceptions to the Stark Law, there may remain regulatory risks for participating hospitals, as well as financial and operational risks.

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. Nonetheless, because the law in this area is complex and constantly evolving, there can be no assurance that federal regulatory authorities will not determine that any of our arrangements with physicians violate the Stark Law.

**Anti-kickback Statute:** A provision of the Social Security Act known as the “anti-kickback statute” prohibits healthcare providers and others from directly or indirectly soliciting, receiving, offering or paying money or other remuneration to other individuals and entities in return for using, referring, ordering, recommending or arranging for such referrals or orders of services or other items covered by a federal or state health care program. However, changes to the anti-kickback statute have reduced the intent required for violation; one is no longer required to have actual knowledge or specific intent to commit a violation of the anti-kickback statute in order to be found in violation of such law.

The anti-kickback statute contains certain exceptions, and the Office of the Inspector General of the Department of Health and Human Services (“OIG”) has issued regulations that provide for “safe harbors,” from the federal anti-kickback statute for various activities. These activities, which must meet certain requirements, include (but are not limited to) the following: investment interests, space rental, equipment rental, practitioner recruitment, personnel services and management contracts, sale of practice, referral services, warranties, discounts, employees, group purchasing organizations, waiver of beneficiary coinsurance and deductible amounts, managed care arrangements, obstetrical malpractice insurance subsidies, investments in group practices, freestanding surgery centers, donation of technology for electronic health records and referral agreements for specialty services. In 2020, the OIG issued a final rule that established an anti-kickback statute safe harbor for value based models. Although the final regulations provide safe harbors, there may remain regulatory risks for participating hospitals, as well as financial and operational risks. The fact that conduct or a business arrangement does not fall within a safe harbor or exception does not automatically render the conduct or business arrangement illegal under the anti-kickback statute. However, such conduct and business arrangements may lead to increased scrutiny by government enforcement authorities.

Although we believe that our arrangements with physicians and other referral sources have been structured to comply with current law and available interpretations, there can be no assurance that all arrangements comply with an available safe harbor or that regulatory authorities enforcing these laws will determine these financial arrangements do not violate the anti-kickback statute or other applicable laws. Violations of the anti-kickback statute may be punished by a criminal fine of up to \$100,000 for each violation or imprisonment, however, under 18 U.S.C. Section 3571, this fine may be increased to \$250,000 for individuals and \$500,000 for organizations. Civil money penalties may include fines of up to \$104,330 per violation and damages of up to three times the total amount of the remuneration and/or exclusion from participation in Medicare and Medicaid.

**Similar State Laws:** Many of the states in which we operate have adopted laws that prohibit payments to physicians in exchange for referrals similar to the anti-kickback statute and the Stark Law, some of which apply regardless of the source of payment for care. These statutes typically provide criminal and civil penalties as well as loss of licensure. In many instances, the state statutes provide that any arrangement falling in a federal safe harbor will be immune from scrutiny under the state statutes. However, in most cases, little precedent exists for the interpretation or enforcement of these state laws.

These laws and regulations are extremely complex and, in many cases, we don't have the benefit of regulatory or judicial interpretation. It is possible that different interpretations or enforcement of these laws and regulations could subject our current or past practices to allegations of impropriety or illegality or could require us to make changes in our facilities, equipment, personnel, services, capital expenditure programs and operating expenses. A determination that we have violated one or more of these laws, or the public announcement that we are being investigated for possible violations of one or more of these laws (see Item 3. Legal Proceedings), could have a material adverse effect on our business, financial condition or results of operations and our business reputation could suffer significantly. In addition, we cannot predict whether other legislation or regulations at the federal or state level will be adopted, what form such legislation or regulations may take or what their impact on us may be.

If we are deemed to have failed to comply with the anti-kickback statute, the Stark Law or other applicable laws and regulations, we could be subjected to liabilities, including criminal penalties, civil penalties (including the loss of our licenses to operate one or more facilities), and exclusion of one or more facilities from participation in the Medicare, Medicaid and other federal and state health care programs. The imposition of such penalties could have a material adverse effect on our business, financial condition or results of operations.

**Federal False Claims Act and Similar State Regulations:** A current trend affecting the health care industry is the increased use of the federal False Claims Act, and, in particular, actions being brought by individuals on the government's behalf under the False Claims Act's qui tam, or whistleblower, provisions. Whistleblower provisions allow private individuals to bring actions on behalf of the government by alleging that the defendant has defrauded the Federal government.

When a defendant is determined by a court of law to have violated the False Claims Act, the defendant may be liable for up to three times the actual damages sustained by the government, plus mandatory civil penalties of between \$11,803 to \$23,607 for each separate false claim. There are many potential bases for liability under the False Claims Act. Liability often arises when an entity knowingly submits a false claim for reimbursement to the federal government. The Fraud Enforcement and Recovery Act of 2009 ("FERA") amended and expanded the number of actions for which liability may attach under the False Claims Act, eliminating requirements that false claims be presented to federal officials or directly involve federal funds. FERA also clarifies that a false claim violation occurs upon the knowing retention, as well as the receipt, of overpayments. In addition, recent changes to the anti-kickback statute have made violations of that law punishable under the civil False Claims Act. Further, a number of states have adopted their own false claims provisions as well as their own whistleblower provisions whereby a private party may file a civil lawsuit on behalf of the state in state court. The False Claims Act require that federal healthcare program overpayments be returned within 60 days from the date the overpayment was identified, or by the date any corresponding cost report was due, whichever is later. Failure to return an overpayment within this period may result in additional civil False Claims Act liability.

**Other Fraud and Abuse Provisions:** The Social Security Act also imposes criminal and civil penalties for submitting false claims to Medicare and Medicaid. False claims include, but are not limited to, billing for services not rendered, billing for services without prescribed documentation, misrepresenting actual services rendered in order to obtain higher reimbursement and cost report fraud. Like the anti-kickback statute, these provisions are very broad.

Further, the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") broadened the scope of the fraud and abuse laws by adding several criminal provisions for health care fraud offenses that apply to all health benefit programs, whether or not payments under such programs are paid pursuant to federal programs. HIPAA also introduced enforcement mechanisms to prevent fraud and abuse in Medicare. There are civil penalties for prohibited conduct, including, but not limited to billing for medically unnecessary products or services.

**HIPAA Administrative Simplification and Privacy Requirements:** The administrative simplification provisions of HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act ("HITECH"), require the use of uniform electronic data transmission standards for health care claims and payment transactions submitted or received electronically. These provisions are intended to encourage electronic commerce in the health care industry. HIPAA also established federal rules protecting the privacy and security of personal health information. The privacy and security regulations address the use and disclosure of individual health care information and the rights of patients to understand and control how such information is used and disclosed. Violations of HIPAA can result in both criminal and civil fines and penalties.

We believe that we are in material compliance with the privacy regulations of HIPAA, as we continue to develop training and revise procedures to address ongoing compliance. The HIPAA security regulations require health care providers to implement administrative, physical and technical safeguards to protect the confidentiality, integrity and availability of patient information.

HITECH has since strengthened certain HIPAA rules regarding the use and disclosure of protected health information, extended certain HIPAA provisions to business associates, and created new security breach notification requirements. HITECH has also extended the ability to impose civil money penalties on providers not knowing that a HIPAA violation has occurred. We believe that we have been in substantial compliance with HIPAA and HITECH requirements to date. Recent changes to the HIPAA regulations may result in greater compliance requirements for healthcare providers, including expanded obligations to report breaches of unsecured patient data, as well as create new liabilities for the actions of parties acting as business associates on our behalf.

**Red Flags Rule:** In addition, the Federal Trade Commission (“FTC”) Red Flags Rule requires financial institutions and businesses maintaining accounts to address the risk of identity theft. The Red Flag Program Clarification Act of 2010, signed on December 18, 2010, appears to exclude certain healthcare providers from the Red Flags Rule, but permits the FTC or relevant agencies to designate additional creditors subject to the Red Flags Rule through future rulemaking if the agencies determine that the person in question maintains accounts subject to foreseeable risk of identity theft. Compliance with any such future rulemaking may require additional expenditures in the future.

**Patient Safety and Quality Improvement Act of 2005:** On July 29, 2005, the Patient Safety and Quality Improvement Act of 2005 was enacted, which has the goal of reducing medical errors and increasing patient safety. This legislation establishes a confidential reporting structure in which providers can voluntarily report “Patient Safety Work Product” (“PSWP”) to “Patient Safety Organizations” (“PSOs”). Under the system, PSWP is made privileged, confidential and legally protected from disclosure. PSWP does not include medical, discharge or billing records or any other original patient or provider records but does include information gathered specifically in connection with the reporting of medical errors and improving patient safety. This legislation does not preempt state or federal mandatory disclosure laws concerning information that does not constitute PSWP. PSOs are certified by the Secretary of the HHS for three-year periods and analyze PSWP, provide feedback to providers and may report non-identifiable PSWP to a database. In addition, PSOs are expected to generate patient safety improvement strategies.

**Environmental Regulations:** Our healthcare operations generate medical waste that must be disposed of in compliance with federal, state and local environmental laws, rules and regulations. Infectious waste generators, including hospitals, face substantial penalties for improper disposal of medical waste, including civil penalties of up to \$25,000 per day of noncompliance, criminal penalties of up to \$50,000 per day, imprisonment, and remedial costs. In addition, our operations, as well as our purchases and sales of facilities are subject to various other environmental laws, rules and regulations. We believe that our disposal of such wastes is in material compliance with all state and federal laws.

**Corporate Practice of Medicine:** Several states, including Florida, Nevada, California and Texas, have laws and/or regulations that prohibit corporations and other entities from employing physicians and practicing medicine for a profit or that prohibit certain direct and indirect payments or fee-splitting arrangements between health care providers that are designed to induce or encourage the referral of patients to, or the recommendation of, particular providers for medical products and services. Possible sanctions for violation of these restrictions include loss of license and civil and criminal penalties. In addition, agreements between the corporation and the physician may be considered void and unenforceable. These statutes and/or regulations vary from state to state, are often vague and have seldom been interpreted by the courts or regulatory agencies. We do not expect these state corporate practice of medicine proscriptions to significantly affect our operations. Many states have laws and regulations which prohibit payments for referral of patients and fee-splitting with physicians. We do not make any such payments or have any such arrangements.

**EMTALA:** All of our hospitals are subject to the Emergency Medical Treatment and Active Labor Act (“EMTALA”). This federal law generally requires hospitals with an emergency department that are certified providers under Medicare to conduct a medical screening examination of every person who visits the hospital’s emergency room for treatment and, if the patient is suffering from a medical emergency, to either stabilize the patient’s condition or transfer the patient to a facility that can better handle the condition. Our obligation to screen and stabilize emergency medical conditions exists regardless of a patient’s ability to pay for treatment. There are severe penalties under EMTALA if a hospital fails to screen or appropriately stabilize or transfer a patient or if the hospital delays appropriate treatment in order to first inquire about the patient’s ability to pay. Penalties for violations of EMTALA include civil monetary penalties and exclusion from participation in the Medicare program. In addition to any liabilities that a hospital may incur under EMTALA, an injured patient, the patient’s family or a medical facility that suffers a financial loss as a direct result of another hospital’s violation of the law can bring a civil suit against the hospital unrelated to the rights granted under that statute.

The federal government broadly interprets EMTALA to cover situations in which patients do not actually present to a hospital’s emergency room, but present for emergency examination or treatment to the hospital’s campus, generally, or to a hospital-based clinic that treats emergency medical conditions or are transported in a hospital-owned ambulance, subject to certain exceptions. EMTALA does not generally apply to patients admitted for inpatient services; however, CMS has sought industry comments on the potential applicability of EMTALA to hospital inpatients and the responsibilities of hospitals with specialized capabilities, respectively. CMS has not yet issued regulations or guidance in response to that request for comments. The government also has expressed its intent to investigate and enforce EMTALA violations actively in the future. We believe that we operate in substantial compliance with EMTALA.

**Health Care Industry Investigations:** 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 and litigation. Please see *Item 3. Legal Proceedings* included herein for additional disclosure. In addition, 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, no assurance can be given that we will not be subjected to inquiries or actions, or that we will not be faced with sanctions, fines or penalties in connection with the investigations. Even if we were to ultimately prevail, the government's inquiry and/or action in connection with these matters could have a material adverse effect on our future operating results.

Our substantial Medicare, Medicaid and other governmental billings may result in heightened scrutiny of our operations. It is possible that governmental entities could initiate additional investigations or litigation in the future and that such matters could result in significant penalties as well as adverse publicity. It is also possible that our executives and/or managers could be included as targets or witnesses in governmental investigations or litigation and/or named as defendants in private litigation.

**Revenue Rulings 98-15 and 2004-51:** In March 1998 and May 2004, the IRS issued guidance regarding the tax consequences of joint ventures between for-profit and not-for-profit hospitals. As a result of the tax rulings, the IRS has proposed, and may in the future propose, to revoke the tax-exempt or public charity status of certain not-for-profit entities which participate in such joint ventures or to treat joint venture income as unrelated business taxable income to them. The tax rulings have limited development of joint ventures and any adverse determination by the IRS or the courts regarding the tax-exempt or public charity status of a not-for-profit partner or the characterization of joint venture income as unrelated business taxable income could further limit joint venture development with not-for-profit hospitals, and/or require the restructuring of certain existing joint ventures with not-for-profits.

**State Rate Review:** Some states where we operate hospitals have adopted legislation mandating rate or budget review for hospitals or have adopted taxes on hospital revenues, assessments or licensure fees to fund indigent health care within the state. In the aggregate, state rate reviews and indigent tax provisions have not materially, adversely affected our results of operations.

**Medical Malpractice Tort Law Reform:** Medical malpractice tort law has historically been maintained at the state level. All states have laws governing medical liability lawsuits. Over half of the states have limits on damages awards. Almost all states have eliminated joint and several liability in malpractice lawsuits, and many states have established limits on attorney fees. Many states had bills introduced in their legislative sessions to address medical malpractice tort reform. Proposed solutions include enacting limits on non-economic damages, malpractice insurance reform, and gathering lawsuit claims data from malpractice insurance companies and the courts for the purpose of assessing the connection between malpractice settlements and premium rates. Reform legislation has also been proposed, but not adopted, at the federal level that could preempt additional state legislation in this area.

**Compliance Program:** Our company-wide compliance program has been in place since 1998. Currently, the program's elements include a Code of Conduct, risk area specific policies and procedures, employee education and training, an internal system for reporting concerns, auditing and monitoring programs, and a means for enforcing the program's policies.

Since its initial adoption, the compliance program continues to be expanded and developed to meet the industry's expectations and our needs. Specific written policies, procedures, training and educational materials and programs, as well as auditing and monitoring activities have been prepared and implemented to address the functional and operational aspects of our business. Specific areas identified through regulatory interpretation and enforcement activities have also been addressed in our program. Claims preparation and submission, including coding, billing, and cost reports, comprise the bulk of these areas. Financial arrangements with physicians and other referral sources, including compliance with anti-kickback and Stark laws and emergency department treatment and transfer requirements are also the focus of policy and training, standardized documentation requirements, and review and audit.

**United Kingdom Regulation:** Our operations in the United Kingdom are also subject to a high level of regulation relating to registration and licensing requirements, employee regulation, clinical standards, environmental rules as well as other areas. We are also subject to a highly regulated business environment, and failure to comply with the various laws and regulations applicable to us could lead to substantial penalties and other adverse effects on our business.

## **Human Capital Management**

### **Employees and Medical Staff**

As of early February, 2021, we had approximately 89,000 total employees consisting of: (i) approximately 78,800 employees located in the U.S., of which approximately 57,900 were employed full-time, and; (ii) approximately 10,200 employees located in the U.K. Our hospitals are staffed by licensed physicians who have been admitted to the medical staff of individual hospitals. In a number of our markets, physicians may have admitting privileges at other hospitals in addition to ours. Within our acute care division, approximately 310 physicians are employed by physician practice management subsidiaries of ours either directly or through contracts with affiliated group practices structured as 501A corporations. Members of the medical staffs of our hospitals also serve on the medical staffs of hospitals not owned by us and may terminate their affiliation with our hospitals at any time. In addition, within our behavioral health division, approximately 510 psychiatrists are employed by subsidiaries of ours either directly or through contracts with affiliated group practices structured as 501A corporations. Each of our hospitals is managed on a day-to-day basis by a managing director employed by a subsidiary of ours. In addition, a Board of Governors, including members of the hospital's medical staff, governs the medical, professional and ethical practices at each hospital. We believe that our relations with our employees are satisfactory.

### **Labor Relations**

Approximately 1,725 of our employees at five of our hospitals are unionized. At Valley Hospital Medical Center, housekeeping and dietary employees are represented by the Culinary Workers and Bartenders Union, engineers are represented by the International Union of Operating Engineers and Registered Nurses are represented by the Service Employees International Union ("SEIU"). Engineers at Desert Springs Hospital are represented by the International Union of Operating Engineers and Registered Nurses and Technical employees are represented by the SEIU. At the Psychiatric Institute of Washington, clinical, clerical, support and maintenance employees are represented by the Communication Workers of America (AFL-CIO). Registered Nurses, Licensed Practical Nurses, certain technicians and therapists and some clerical employees at HRI Hospital in Boston are represented by the Service Employees International Union. At Brooke Glen Behavioral Hospital, unionized employees are represented by the Teamsters and the Northwestern Nurses Association/Pennsylvania Association of Staff Nurses and Allied Professionals.

### **Culture and Work Environment**

Our commitment to "Service Excellence" serves as the foundation of our culture and is defined as providing world-class service that is professional, timely, effective and efficient to all of our customer groups at all times. Serving as the foundation of our company mission, vision, and principles, Service Excellence is the way we approach every human interaction at our company, all the time, every day.

All new employees participate in a Service Excellence training session. Employees learn what Service Excellence means at our company and develop an action plan on how to apply this to their everyday work. The individual action plan is mutually shared and maintained with employees and their managers.

To recruit and retain a diverse and talented workforce, we continuously monitor and update our competitive compensation and benefit packages. We regularly survey our employees to obtain their views and assess employee satisfaction. We use the views expressed in the surveys to assess and update our people strategy and policies.

### **Ethical Standards**

We set high ethical standards for ourselves because caring for our patients is a sacred trust. We are committed to fostering a culture of accountability at all levels and encourage our employees to report anything they believe could be out of compliance with our values. We provide protected ways for them to do that.

Our commitment to fairness and integrity extends to everyone with whom we interact and do business.

### **Diversity and Inclusion**

We know that the quality of the patient experience is driven by the personal compassion, competence and commitment our team members deliver every day. We value each member of our team and are committed to treating everyone with dignity and respect. A collaborative approach among our staff is encouraged because we all share the goal of providing superior quality patient care and support to families and loved ones.

### **Health and Safety**

Policies and training programs to encourage work safety are a major focus in our organization. During 2020, our increased attention to workplace safety has enabled us to continue our commitment to keeping our employees and facilities safe during the COVID-19 pandemic.

### **Employee Development**

We have a number of employee and leadership development programs in place to strengthen our company, help further our employees' personal career goals and assist with succession planning. We encourage employees to take charge of their career

development and set objectives in partnership with their managers. We train managers to partner with employees and support them in their efforts.

We utilize various methods for personal and technical development: on-demand videos, webinars, classroom trainings, coaching, and more. We also offer tuition reimbursement as a part of our benefits program.

## **Equal Employment Opportunity**

We are committed to the principle of Equal Employment Opportunity for all employees and applicants. It is our policy to ensure that both current and prospective employees receive equal employment opportunity without consideration of race, religion, color, national origin, nationality, ancestry, age, sex, marital status, sexual orientation, or disability in accordance with local, state and federal laws.

## **Employee Assistance – The UHS Foundation**

During 2020, the UHS Foundation, which was previously established to assist our employees that are significantly impacted by various events such as FEMA-qualified natural disasters and presidential-declared natural disasters, expanded eligibility to provide financial support for UHS employees and their families who were significantly impacted by the COVID-19 pandemic.

During the year, in response to the COVID 19 pandemic, the base salaries of all of our executive and non-executive officers, as well as certain other members of our senior management team, were reduced by various percentages. In turn, we contributed the funds generated from these base salary reductions to the UHS Foundation. In addition, the UHS Foundation also received voluntary contributions from other employees and various other parties, including members of our Board of Directors.

Utilizing funds from the UHS Foundation, we worked with impacted employees to cover the employee cost-share for benefits throughout COVID-19. In addition, we also deployed the ‘UHS Resource Guide, a consolidated one-stop access to the benefits, resources, and support tools available across the organization. In addition, we also expanded resources through our employee assistance program, with a particular focus on emotional wellness and COVID-19 support for our front-line healthcare workers.

## ***Competition***

The health care industry is highly competitive. In recent years, competition among healthcare providers for patients has intensified in the United States due to, among other things, regulatory and technological changes, increasing use of managed care payment systems, cost containment pressures and a shift toward outpatient treatment. In all of the geographical areas in which we operate, there are other facilities that provide services comparable to those offered by our facilities. In addition, some of our competitors include hospitals that are owned by tax-supported governmental agencies or by nonprofit corporations and may be supported by endowments and charitable contributions and exempt from property, sale and income taxes. Such exemptions and support are not available to us.

In some markets, certain of our competitors may have greater financial resources, be better equipped and offer a broader range of services than us. Certain hospitals that are located in the areas served by our facilities are specialty or large hospitals that provide medical, surgical and behavioral health services, facilities and equipment that are not available at our hospitals. The increase in outpatient treatment and diagnostic facilities, outpatient surgical centers and freestanding ambulatory surgical also increases competition for us. In addition, some of our hospitals face competition from hospitals or surgery centers that are physician owned.

The number and quality of the physicians on a hospital’s staff are important factors in determining a hospital’s success and competitive advantage. Typically, physicians are responsible for making hospital admissions decisions and for directing the course of patient treatment. We believe that physicians refer patients to a hospital primarily on the basis of the patient’s needs, the quality of other physicians on the medical staff, the location of the hospital and the breadth and scope of services offered at the hospital’s facilities. We strive to retain and attract qualified doctors by maintaining high ethical and professional standards and providing adequate support personnel, technologically advanced equipment and facilities that meet the needs of those physicians.

In addition, we depend on the efforts, abilities, and experience of our medical support personnel, including our nurses, pharmacists and lab technicians and other health care professionals. We compete with other health care providers in recruiting and retaining qualified hospital management, nurses and other medical personnel. Our acute care and behavioral health care facilities are experiencing the effects of a shortage of skilled nursing staff nationwide, which has caused and may continue to cause an increase in salaries, wages and benefits expense in excess of the inflation rate. In addition, in some markets like California, there are requirements to maintain specified nurse-staffing levels. To the extent we cannot meet those levels, we may be required to limit the healthcare services provided in these markets which would have a corresponding adverse effect on our net operating revenues.

Many states in which we operate hospitals have CON laws. The application process for approval of additional covered services, new facilities, changes in operations and capital expenditures is, therefore, highly competitive in these states. In those states that do not have CON laws or which set relatively high levels of expenditures before they become reviewable by state authorities, competition in the form of new services, facilities and capital spending is more prevalent. See “Regulation and Other Factors.”

Our ability to negotiate favorable service contracts with purchasers of group health care services also affects our competitive position and significantly affects the revenues and operating results of our hospitals. Managed care plans attempt to direct and control the use of hospital services and to demand that we accept lower rates of payment. In addition, employers and traditional health insurers are increasingly interested in containing costs through negotiations with hospitals for managed care programs and discounts from established charges. In return, hospitals secure commitments for a larger number of potential patients. Generally, hospitals compete for service contracts with group health care service purchasers on the basis of price, market reputation, geographic location, quality and range of services, quality of the medical staff and convenience. The importance of obtaining contracts with managed care organizations varies from market to market depending on the market strength of such organizations.

A key element of our growth strategy is expansion through the acquisition of additional hospitals in select markets. The competition to acquire hospitals is significant. We face competition for acquisition candidates primarily from other for-profit health care companies, as well as from not-for-profit entities. Some of our competitors have greater resources than we do. We intend to selectively seek opportunities to expand our base of operations by adhering to our disciplined program of rational growth, but may not be successful in accomplishing acquisitions on favorable terms.

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

At December 31, 2020, we held approximately 5.7% 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, which is scheduled to expire on December 31st of each year, pursuant to the terms of which we conduct the Trust's day-to-day affairs, provide administrative services and present investment opportunities. The advisory agreement was renewed by the Trust for 2021 at the same rate as the prior three years, providing for an advisory computation at 0.70% of the Trust's average invested real estate assets. We earned an advisory fee from the Trust, which is included in net revenues in the accompanying consolidated statements of income, of approximately \$4.1 million during 2020, \$4.0 million during 2019 and \$3.8 million during 2018.

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.

Our pre-tax share of income from the Trust was \$1.1 million during each of 2020 and 2019 and \$1.4 million during 2018, which are included in other income, net, on the accompanying consolidated statements of income for each year. We received dividends from the Trust amounting to \$2.2 million during 2020 and \$2.1 million during each of 2019 and 2018.

The carrying value of our investment in the Trust was \$5.4 million and \$6.4 million at December 31, 2020 and 2019, respectively, and is included in other assets in the accompanying consolidated balance sheets. The market value of our investment in the Trust was \$50.6 million at December 31, 2020 and \$92.4 million at December 31, 2019, based on the closing price of the Trust's stock on the respective dates.

The Trust commenced operations in 1986 by purchasing certain hospital 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 those subsidiaries are unconditionally guaranteed by us and are cross-defaulted with one another.

Total rent expense under the operating leases on the three wholly-owned hospital facilities with the Trust was \$17.1 million, \$16.4 million and \$16.0 million during 2020, 2019 and 2018, respectively. 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 and below 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 their appraised fair market value upon any of the following: (i) at the end of the lease terms or any renewal terms; (ii) upon one month's notice should a change of control of the Trust occur, or; (iii) within the time period as specified in the lease in the event that we provide notice to the Trust of our intent to offer a substitution property/properties in exchange for one (or more) of the three hospital properties leased from the Trust should we be unable to reach an agreement with the Trust on the properties to be substituted. 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.

The table below details the renewal options and terms for each of our three wholly-owned acute care hospital facilities leased from the Trust:

<u>Hospital Name</u>	<u>Annual Minimum Rent</u>	<u>End of Lease Term</u>	<u>Renewal Term (years)</u>
McAllen Medical Center	\$ 5,485,000	December, 2026	5 (a)
Wellington Regional Medical Center	\$ 3,030,000	December, 2021	10 (b)
Southwest Healthcare System, Inland Valley Campus	\$ 2,648,000	December, 2021	10 (b)

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

The existing lease on Southwest Healthcare System, Inland Valley Campus is scheduled to expire on December 31, 2021 and we are considering terminating the lease at that time. As permitted pursuant to the terms of the lease, we have the right to purchase the leased property at its appraised fair market value at the end of the existing lease term. However, we are planning to offer the Trust potential substitution properties, with a fair market value substantially equal to that of the existing leased property, in exchange for the Inland Valley Campus. We expect to submit our proposal to the Trust, which is subject to the Trust's approval, during the first quarter of 2021. Should a property substitution agreement be reached with the Trust, we anticipate that the transaction would be effective December 31, 2021, upon expiration of the existing lease on the Inland Valley Campus. We can provide no assurance that we will ultimately agree on a property substitution with the Trust in connection with the Inland Valley Campus.

In addition, certain of our subsidiaries are tenants in various medical office buildings and two free-standing emergency departments owned by the Trust or by limited liability companies in which the Trust holds 95% to 100% of the ownership interest.

During the third quarter of 2019, the Trust commenced construction on a new 75,000 rentable square feet MOB that is located on the campus of Texoma Medical Center, a hospital that is owned and operated by one of our subsidiaries. The construction on this MOB was substantially completed in December, 2020. In connection with this MOB, a master flex lease was executed between a wholly-owned subsidiary of ours and a Trust limited partnership that owns the MOB. Pursuant to the terms of this master flex lease, our subsidiary will master lease approximately 50% of the rentable square feet of the MOB, allocated to specific floors of the building, which could be reduced during the term if certain conditions are met, for a ten-year term at an initial minimum annual rent of \$644,000. As of December 31, 2020, as a result of fully executed leases between the Trust and third-party tenants, the master lease flex commitment has been reduced to 5,840 rentable square feet on the third floor of the MOB.

During the third quarter of 2019, a joint-venture agreement between us and a non-related third-party was finalized in connection with the development of a newly constructed behavioral health care facility located in Clive, Iowa. Pursuant to the terms of the agreement, we hold a majority ownership interest in the venture and will act as manager of the facility when completed and opened. This joint-venture also entered into an agreement with the Trust whereby a wholly-owned subsidiary of the Trust constructed the 100-bed behavioral health care hospital, which was substantially completed in December, 2020 and the property received a temporary certificate of occupancy on December 31, 2020. Upon completion and issuance of the temporary certificate of occupancy, the joint venture lease from the Trust commenced pursuant to a 20-year, triple net lease with five, 10-year renewal options. Construction of the approximately 82,000 square foot hospital was managed by a wholly-owned subsidiary of ours for an aggregate fee of approximately \$750,000. The approximate cost of the project is estimated at \$35.1 million and the initial annual rent is estimated at approximately \$2.5 million.

#### ***Executive Officers of the Registrant***

The executive officers, whose terms will expire at such time as their successors are elected, are as follows:

<u>Name and Age</u>	<u>Present Position with the Company</u>
Marc D. Miller (50)	Chief Executive Officer, President and Director
Alan B. Miller (83)	Executive Chairman of the Board
Steve G. Filton (63)	Executive Vice President, Chief Financial Officer and Secretary
Marvin G. Pember (67)	Executive Vice President, President of Acute Care Division
Matthew J. Peterson (51)	Executive Vice President, President of Behavioral Health Division

Mr. Marc D. Miller was appointed Chief Executive Officer and President effective January 1, 2021. He has served as President since May, 2009 and prior thereto served as Senior Vice President and co-head of our Acute Care Hospitals since 2007. He was elected a Director in May, 2006 and Vice President in 2005. He has served in various capacities related to our acute care division since 2000. He was elected to the Board of Trustees of Universal Health Realty Income Trust in December, 2008. In August, 2015, he was appointed to the Board of Directors of Premier, Inc., a publicly traded healthcare performance improvement alliance. See Note 9 to

the Consolidated Financial Statements-Relationship with Universal Health Realty Income Trust and Other Related Party Transactions for additional disclosure regarding the Company's group purchasing organization agreement with Premier, Inc. Marc D. Miller is the son of Alan B. Miller, our Executive Chairman of the Board.

Mr. Alan B. Miller was appointed Executive Chairman of the Board effective January 1, 2021. He had been Chairman of the Board and Chief Executive Officer since the Company's inception and also served as President from inception until May, 2009. Prior thereto, he was President, Chairman of the Board and Chief Executive Officer of American Medicorp, Inc. He currently serves as Chairman of the Board, Chief Executive Officer and President of Universal Health Realty Income Trust. He is the father of Marc D. Miller, our Chief Executive Officer, President and Director.

Mr. Filton was elected Executive Vice President in 2017 and continues to serve as Chief Financial Officer since his appointment in 2003. He has also served as Secretary since 1999. He had served as Senior Vice President since 2003, as Vice President and Controller since 1991, and as Director of Corporate Accounting since 1985.

Mr. Pember was elected Executive Vice President in 2017 and continues to serve as President of our Acute Care Division since commencement of his employment with us in 2011. He had served as Senior Vice President since 2011. He was formerly employed for 12 years at Indiana University Health, Inc. (formerly known as Clarian Health Partners, Inc.), a nonprofit hospital system that operates multiple facilities in Indiana, where he served as Executive Vice President and Chief Financial Officer.

Mr. Peterson's employment with us commenced in September, 2019 as Executive Vice President and President of our Behavioral Health Division. He was formerly employed at UnitedHealth Group for 11 years serving in various capacities including Chief Operating Officer for OptumGovernment, a health services and technology company, as well as various other Senior Vice President/Vice President roles. In addition to his civilian business career, Mr. Peterson has served for nearly 30 years as a member of the United States Military, currently a Colonel and hospital/healthcare administrator in the Air National Guard.

#### **ITEM 1A. Risk Factors**

We are subject to numerous known and unknown risks, many of which are described below and elsewhere in this Annual Report. Any of the events described below could have a material adverse effect on our business, financial condition and results of operations. Additional risks and uncertainties that we are not aware of, or that we currently deem to be immaterial, could also impact our business and results of operations.

#### **Risks Related to Business Operations**

##### ***A significant portion of our revenue is produced by facilities located in Texas, Nevada and California.***

**Texas:** We own 7 inpatient acute care hospitals and 22 inpatient behavioral healthcare facilities as listed in *Item 2. Properties*. On a combined basis, these facilities contributed 16% of our consolidated net revenues during each of 2020, 2019 and 2018. On a combined basis, after deducting an allocation for corporate overhead expense, these facilities generated 13% in 2020, 14% in 2019 and 12% in 2018, of our income from operations after net income attributable to noncontrolling interest.

**Nevada:** We own 8 inpatient acute care hospitals and 4 inpatient behavioral healthcare facilities as listed in *Item 2. Properties*. On a combined basis, these facilities contributed 17% of our consolidated net revenues during 2020, 18% in 2019 and 17% during 2018. On a combined basis, after deducting an allocation for corporate overhead expense, these facilities generated 17% in 2020, 23% in 2019 and 24% in 2018, of our income from operations after net income attributable to noncontrolling interest. Effective January, 2020, United/Sierra Healthcare in Las Vegas, entered into an agreement with a competitor health system that was previously excluded from their contractual network in the area. As a result, we believe that our 6 acute care hospitals in the Las Vegas, Nevada market, will likely experience a decline in patient volumes. However, we have entered into an amended agreement with United/Sierra Healthcare related to our hospitals in the Las Vegas market that provided for various rate increases that began in January, 2020. Although we estimate that the unfavorable impact of the projected declines in patient volumes should be largely offset by the favorable impact of the increased rates, we can provide no assurance that these developments on the Las Vegas market, will not have a material adverse impact on our future results of operations.

**California:** We own 5 inpatient acute care hospitals and 7 inpatient behavioral healthcare facilities as listed in *Item 2. Properties*. On a combined basis, these facilities contributed 11% of our consolidated net revenues during each of 2020, 2019 and 2018. On a combined basis, after deducting an allocation for corporate overhead expense, these facilities generated 20% in 2020, 17% in 2019 and 16% in 2018 of our income from operations after net income attributable to noncontrolling interest.

The significant portion of our revenues and earnings derived from these facilities makes us particularly sensitive to legislative, regulatory, economic, environmental and competition changes in Texas, Nevada and California. Any material change in the current payment programs or regulatory, economic, environmental or competitive conditions in these states could have a disproportionate effect on our overall business results.

***Our revenues and results of operations are significantly affected by payments received from the government and other third party payers.***

We derive a significant portion of our revenue from third-party payers, including the Medicare and Medicaid programs. Changes in these government programs in recent years have resulted in limitations on reimbursement and, in some cases, reduced levels of reimbursement for healthcare services. Payments from federal and state government programs are subject to statutory and regulatory changes, administrative rulings, interpretations and determinations, requirements for utilization review, and federal and state funding restrictions, all of which could materially increase or decrease program payments, as well as affect the cost of providing service to patients and the timing of payments to facilities. We are unable to predict the effect of recent and future policy changes on our operations. In addition, the uncertainty and fiscal pressures placed upon federal and state governments as a result of, among other things, deterioration in general economic conditions and the funding requirements from the federal healthcare reform legislation, may affect the availability of taxpayer funds for Medicare and Medicaid programs. In addition, the vast majority of the net revenues generated at our behavioral health facilities located in the United Kingdom are derived from governmental payers. If the rates paid or the scope of services covered by governmental payers in the United States or United Kingdom are reduced, there could be a material adverse effect on our business, financial position and results of operations.

We receive Medicaid revenues in excess of \$100 million annually from each of California, Texas, Nevada, Washington, D.C., Pennsylvania, Illinois and Massachusetts, making us particularly sensitive to reductions in Medicaid and other state based revenue programs as well as regulatory, economic, environmental and competitive changes in those states.

In addition to changes in government reimbursement programs, our ability to negotiate favorable contracts with private payers, including managed care organizations, significantly affects the revenues and operating results of our hospitals. Private payers, including managed care organizations, increasingly are demanding that we accept lower rates of payment.

We expect continued third-party efforts to aggressively manage reimbursement levels and cost controls. Reductions in reimbursement amounts received from third-party payers could have a material adverse effect on our financial position and our results of operations.

***If we are not able to provide high quality medical care at a reasonable price, patients may choose to receive their health care from our competitors.***

In recent years, the number of quality measures that hospitals are required to report publicly has increased. CMS publishes performance data related to quality measures and data on patient satisfaction surveys that hospitals submit in connection with the Medicare program. Federal law provides for the future expansion of the number of quality measures that must be reported. Additionally, the Legislation requires all hospitals to annually establish, update and make public a list of their standard charges for products and services. Also, the No Surprises Act, adopted as part of the Consolidated Appropriations Act, 2021 (“CAA”), creates additional price transparency requirements beginning January 1, 2022, including requiring providers to send health plans of insured patients and uninsured patients a good faith estimate of the expected charges and diagnostic codes prior to the scheduled date of the service or item. If any of our hospitals achieve poor results on the quality measures or patient satisfaction surveys (or results that are lower than our competitors) or if our standard charges are higher than our competitors, our patient volume could decline because patients may elect to use competing hospitals or other health care providers that have better metrics and pricing. This circumstance could harm our business and results of operations.

***An increase in uninsured and underinsured patients in our acute care facilities or the deterioration in the collectability of the accounts of such patients could harm our results of operations.***

Collection of receivables from third-party payers and patients is our primary source of cash and is critical to our operating performance. Our primary collection risks relate to uninsured patients and the portion of the bill that is the patient's responsibility, which primarily includes co-payments and deductibles. However, we also have substantial receivables due to us from certain state-based funding programs. We estimate our provisions for doubtful accounts based on general factors such as payer mix, the agings of the receivables, historical collection experience and assessment of probability of future collections. We routinely review accounts receivable balances in conjunction with these factors and other economic conditions that might ultimately affect the collectability of the patient accounts and make adjustments to our allowances as warranted. Significant changes in business office operations, payer mix, economic conditions or trends in federal and state governmental health coverage could affect our collection of accounts receivable, cash flow and results of operations. If we experience unexpected increases in the growth of uninsured and underinsured patients or in bad debt expenses, our results of operations will be harmed.

***Our hospitals face competition for patients from other hospitals and health care providers.***

The healthcare industry is highly competitive, and competition among hospitals, and other healthcare providers for patients and physicians has intensified in recent years. In all of the geographical areas in which we operate, there are other facilities that provide services comparable to those offered by our facilities. Some of our competitors include hospitals that are owned by tax-supported governmental agencies or by nonprofit corporations and may be supported by endowments and charitable contributions and exempt from property, sales and income taxes. Such exemptions and support are not available to us.

In some markets, certain of our competitors may have greater financial resources, be better equipped and offer a broader range of services than we offer. The number of inpatient facilities, as well as outpatient surgical and diagnostic centers, many of which are fully or partially owned by physicians, in the geographic areas in which we operate has increased significantly. As a result, most of our hospitals operate in an increasingly competitive environment.

We also operate health care facilities in the United Kingdom where the National Health Service (the “NHS”) is the principal provider of healthcare services. In addition to the NHS, we face competition in the United Kingdom from independent sector providers and other publicly funded entities for patients.

If our competitors are better able to attract patients, recruit physicians and other healthcare professionals, expand services or obtain favorable managed care contracts at their facilities, we may experience a decline in patient volume and our business may be harmed.

***Our performance depends on our ability to recruit and retain quality physicians.***

Typically, physicians are responsible for making hospital admissions decisions and for directing the course of patient treatment. As a result, the success and competitive advantage of our hospitals depends, in part, on the number and quality of the physicians on the medical staffs of our hospitals, the admitting practices of those physicians and our maintenance of good relations with those physicians. Physicians generally are not employees of our hospitals, and, in a number of our markets, physicians have admitting privileges at other hospitals in addition to our hospitals. They may terminate their affiliation with us at any time. If we are unable to provide high ethical and professional standards, adequate support personnel and technologically advanced equipment and facilities that meet the needs of those physicians, they may be discouraged from referring patients to our facilities and our results of operations may decline.

It may become difficult for us to attract and retain an adequate number of physicians to practice in certain of the non-urban communities in which our hospitals are located. Our failure to recruit physicians to these communities or the loss of physicians in these communities could make it more difficult to attract patients to our hospitals and thereby may have a material adverse effect on our business, financial condition and results of operations.

Generally, the top ten attending physicians within each of our facilities represent a large share of our inpatient revenues and admissions. The loss of one or more of these physicians, even if temporary, could cause a material reduction in our revenues, which could take significant time to replace given the difficulty and cost associated with recruiting and retaining physicians.

***If we do not continually enhance our hospitals with the most recent technological advances in diagnostic and surgical equipment, our ability to maintain and expand our markets will be adversely affected.***

The technology used in medical equipment and related devices is constantly evolving and, as a result, manufacturers and distributors continue to offer new and upgraded products to health care providers. To compete effectively, we must continually assess our equipment needs and upgrade when significant technological advances occur. If our facilities do not stay current with technological advances in the health care industry, patients may seek treatment from other providers and/or physicians may refer their patients to alternate sources, which could adversely affect our results of operations and harm our business.

***Our performance depends on our ability to attract and retain qualified nurses and medical support staff and we face competition for staffing that may increase our labor costs and harm our results of operations.***

We depend on the efforts, abilities, and experience of our medical support personnel, including our nurses, pharmacists and lab technicians and other healthcare professionals. We compete with other healthcare providers in recruiting and retaining qualified hospital management, nurses and other medical personnel.

The nationwide shortage of nurses and other medical support personnel has been a significant operating issue facing us and other healthcare providers. This shortage may require us to enhance wages and benefits to recruit and retain nurses and other medical support personnel or require us to hire expensive temporary personnel. In addition, in some markets like California, there are requirements to maintain specified nurse-staffing levels. To the extent we cannot meet those levels, we may be required to limit the healthcare services provided in these markets, which would have a corresponding adverse effect on our net operating revenues.

We cannot predict the degree to which we will be affected by the future availability or cost of attracting and retaining talented medical support staff. If our general labor and related expenses increase, we may not be able to raise our rates correspondingly. Our failure to either recruit and retain qualified hospital management, nurses and other medical support personnel or control our labor costs could harm our results of operations.

Increased labor union activity is another factor that could adversely affect our labor costs. Union organizing activities and certain potential changes in federal labor laws and regulations could increase the likelihood of employee unionization in the future, to the extent a greater portion of our employee base unionized, it is possible our labor costs could increase materially.

***The failure of certain employers, or the closure of certain facilities, could have a disproportionate impact on our hospitals.***

The economies in the communities in which our hospitals operate are often dependent on a small number of large employers. Those employers often provide income and health insurance for a disproportionately large number of community residents who may depend on our hospitals and other health care facilities for their care. The failure of one or more large employer or the closure or substantial reduction in the number of individuals employed at facilities located in or near the communities where our hospitals operate, could cause affected employees to move elsewhere to seek employment or lose insurance coverage that was otherwise available to them. The occurrence of these events could adversely affect our revenue and results of operations, thereby harming our business.

***The trend toward value-based purchasing may negatively impact our revenues.***

We believe that value-based purchasing initiatives of both governmental and private payers tying financial incentives to quality and efficiency of care will increasingly affect the results of operations of our hospitals and other healthcare facilities and may negatively impact our revenues if we are unable to meet expected quality standards. The Legislation contains a number of provisions intended to promote value-based purchasing in federal healthcare programs. Medicare now requires providers to report certain quality measures in order to receive full reimbursement increases for inpatient and outpatient procedures that were previously awarded automatically. In addition, hospitals that meet or exceed certain quality performance standards will receive increased reimbursement payments, and hospitals that have “excess readmissions” for specified conditions will receive reduced reimbursement. Furthermore, Medicare no longer pays hospitals additional amounts for the treatment of certain hospital-acquired conditions unless the conditions were present at admission. Beginning in federal fiscal year 2015, hospitals that rank in the worst 25% of all hospitals nationally for hospital acquired conditions in the previous year were subject to reduced Medicare reimbursements. The Legislation also prohibits the use of federal funds under the Medicaid program to reimburse providers for treating certain provider-preventable conditions.

There is a trend among private payers toward value-based purchasing of healthcare services, as well. Many large commercial payers require hospitals to report quality data, and several of these payers will not reimburse hospitals for certain preventable adverse events. We expect value-based purchasing programs, including programs that condition reimbursement on patient outcome measures, to become more common and to involve a higher percentage of reimbursement amounts. We are unable at this time to predict how this trend will affect our results of operations, but it could negatively impact our revenues if we are unable to meet quality standards established by both governmental and private payers.

***Controls designed to reduce inpatient services and increasing rates of “denials” may reduce our revenues.***

Controls imposed by third-party payers designed to reduce admissions and lengths of stay, commonly referred to as “utilization review,” have affected and are expected to continue to affect our facilities. Utilization review entails the review of the admission and course of treatment of a patient by managed care plans. Inpatient utilization, average lengths of stay and occupancy rates continue to be negatively affected by payer-required preadmission authorization and utilization review and by payer pressure to maximize outpatient and alternative healthcare delivery services for less acutely ill patients. Efforts to impose more stringent cost controls are expected to continue. In addition, we have been experiencing increasing rates of denied claims (“denials”) from managed care payers which have reduced our net revenues and increased our operating costs as we devote additional resources to enhanced documentation and collection efforts. Although we cannot predict the effect these factors will have on our operations, significant limits on the scope of services reimbursed, and reimbursements withheld due to denials, could have a material adverse effect on our business, financial position and results of operations.

***We depend heavily on key management personnel and the departure of one or more of our key executives or a significant portion of our local hospital management personnel could harm our business.***

The expertise and efforts of our senior executives and key members of our local hospital management personnel are critical to the success of our business. The loss of the services of one or more of our senior executives or of a significant portion of our local hospital management personnel could significantly undermine our management expertise and our ability to provide efficient, quality healthcare services at our facilities, which could harm our business. Effective January 1, 2021, Mr. Alan B. Miller, our Founder, Chairman and Chief Executive Officer has stepped down as Chief Executive Officer and Mr. Marc D. Miller, our former President, has been appointed as new Chief Executive Officer. Mr. Alan B. Miller continues to serve in his current role as Executive Chairman of our Board of Directors in addition to retaining certain other management responsibilities within our Company.

**Risks Related to the COVID-19 Pandemic**

***COVID-19 and other pandemics, epidemics, or public health threats may adversely affect our business, results of operations and financial condition.***

We are subject to risks associated with public health threats and epidemics, including the health concerns relating to the COVID-19 pandemic. In January 2020, the Centers for Disease Control and Prevention (“CDC”) confirmed the spread of the disease to the United States. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. The federal government has declared COVID-19 a national emergency, as many federal and state authorities have implemented aggressive

measures to “flatten the curve” of confirmed individuals diagnosed with COVID-19 in an attempt to curtail the spread of the virus and to avoid overwhelming the health care system.

The COVID-19 pandemic has adversely impacted and is likely to further adversely impact us, our employees, our patients, our vendors and supply chain partners, and financial institutions, which could continue to have a material adverse effect on our business, results of operations and financial condition. In an effort to slow the spread of the disease, since March, 2020, at various times, most state and local governments mandated general “shelter-in-place” orders or other similar restrictions that require or strongly encourage social distancing and, face coverings, and that have closed or limited non-essential business activities. Some of these restrictions remain in place. Additionally, evidence suggests that individuals decide to forego medical care delivered in traditional venues.

These dynamics have manifested themselves in our hospitals in, among other ways, reduced emergency room visits, elective/scheduled procedures and acute and behavioral health patient days. While such measures are expected to assist in responding to the recent outbreak, self-quarantines, shelter-in-place orders, and suspension of voluntary procedures and surgeries have had, and will likely continue to have, an adverse impact on the operations and financial position of health care provider systems due to increased costs (including labor costs which have been pressured during the COVID-19 pandemic due to a shortage of clinicians and increased wage rates due to increased demand for those services), actual reduction and potential reduction in overall patient volume, and shifts in payor mix.

Despite these measures, there have been waves of escalated COVID-19 cases at various times, including the fourth quarter of 2020 and into the first quarter of 2021, in many states in the U.S., including many states in which we operate hospitals. Recently, COVID-19 vaccinations have begun to be administered and while we expect the administration of vaccines will assist in easing the number of COVID-19 patients, the pace at which this is likely to occur is very difficult to predict. The extent to which the COVID-19 pandemic and measures taken in response thereto impact our business, results of operations and financial condition will depend on numerous factors and future developments, most of which are beyond our control or ability to predict. The ultimate impact of the COVID-19 pandemic is highly uncertain and subject to change. We are not able to fully quantify the impact that these factors will have on our future financial results, but expect developments related to the COVID-19 pandemic to materially affect our financial performance in 2021. Even after the COVID-19 pandemic has subsided, we may continue to experience materially adverse impacts on our financial condition and our results of operations as a result of its macroeconomic impact, including any recession that has occurred or may occur in the future.

***There is a high degree of uncertainty regarding the implementation and impact of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) and the Paycheck Protection Program and Health Care Enhancement Act (“PPPHCE Act”).***

The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), a stimulus package signed into law on March 27, 2020, authorizes \$100 billion in grant funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (the “PHSSEF”). These funds are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using PHSSEF funds to reimburse expenses or losses that other sources are obligated to reimburse. However, since the expenses and losses will be ultimately measured over the life of the COVID-19 pandemic, potential retrospective unfavorable adjustments in future periods, of funds recorded as revenues in prior periods, could occur. The U.S. Department of Health and Human Services (“HHS”) initially distributed \$30 billion of this funding based on each provider’s share of total Medicare fee-for-service reimbursement in 2019. Subsequently, HHS distributed \$50 billion in CARES Act funding (including the \$30 billion already distributed) proportional to providers’ share of 2018 net patient revenue. We have received payments from these initial distributions of the PHSSEF as disclosed herein. HHS has indicated that distributions of the remaining \$50 billion will be targeted primarily to hospitals in COVID-19 high impact areas, to rural providers, safety net hospitals and certain Medicaid providers and to reimburse providers for COVID-19-related treatment of uninsured patients. We have received payments from these targeted distributions of the PHSSEF, as disclosed herein. The CARES Act also makes other forms of financial assistance available to healthcare providers, including through Medicare and Medicaid payment adjustments and an expansion of the Medicare Accelerated and Advance Payment Program, which makes available accelerated payments of Medicare funds in order to increase cash flow to providers. On April 26, 2020, CMS announced it was reevaluating and temporarily suspending the Accelerated and Advance Payment Program in light of the availability of the PHSSEF and the significant funds available through other programs. We have received accelerated payments under this program as disclosed herein.

The Paycheck Protection Program and Health Care Enhancement Act (the “PPPHCE Act”), a stimulus package signed into law on April 24, 2020, includes additional emergency appropriations for COVID-19 response, including \$75 billion to be distributed to eligible providers through the PHSSEF. Recipients will not be required to repay the government for funds received, provided they comply with HHS-defined terms and conditions. A third phase of PHSSEF allocations was recently announced, under which \$24.5 billion was made available for providers who previously received, rejected or accepted PHSSEF payments. Applicants that have not yet received PHSSEF payments of 2 percent of patient revenue will receive a payment that, when combined with prior payments (if any), equals 2 percent of patient care revenue. Providers that have already received payments of approximately 2 percent of annual revenue from patient care can submit more information and may be eligible for an additional payment. On December 27, 2020, the Consolidated Appropriations Act, 2021 (“CAA”) was signed into law. The CAA appropriated an additional \$3 billion to the PHSSEF, codified flexibility for providers to calculate lost revenues and permitted parent organizations to allocate PHSSEF targeted distributions to subsidiary organizations. The CAA also provides that not less than 85 percent of the unobligated PHSSEF amounts and any future funds recovered from health care providers should be used for additional distributions that consider financial losses and

changes in operating expenses in the third or fourth quarters of 2020 and the first quarter of 2021 that are attributable to the coronavirus. The CAA provided additional funding for testing, contact tracing and vaccine administration. Providers receiving payments were required to sign terms and conditions regarding utilization of the payments. Any provider receiving funds in excess of \$10,000 in the aggregate will be required to report data elements to HHS detailing utilization of the payments. Providers will report healthcare related expenses attributable to COVID-19 that have not been reimbursed by another source, which may include general and administrative or healthcare related operating expenses. Funds may also be applied to lost revenues, represented as a negative change in year-over-year net patient care operating income. All such fund payments must be expended by June 30, 2021.

There is a high degree of uncertainty surrounding the implementation of the CARES Act and the PPPHCE Act, and the federal government may consider additional stimulus and relief efforts, but we are unable to predict whether additional stimulus measures will be enacted or their impact. There can be no assurance as to the total amount of financial and other types of assistance we will receive under the CARES Act and the PPPHCE Act, and it is difficult to predict the impact of such legislation on our operations or how they will affect operations of our competitors. Moreover, we are unable to assess the extent to which anticipated negative impacts on us arising from the COVID-19 pandemic will be offset by amounts or benefits received or to be received under the CARES Act and the PPPHCE Act.

### **Risks Related to the Regulatory Environment**

#### ***Reductions or changes in Medicare and Medicaid funding could have a material adverse effect on our future results of operations.***

The Budget Control Act of 2011 (the “*Budget Control Act*”) mandated significant reductions in federal spending for fiscal years 2012-2021, including a reduction of 2% on all Medicare payments during this period. Subsequent legislation enacted by Congress extended these reductions through 2030. There is a substantial risk that Congress could act to extend or increase these across-the-board reductions. The Consolidated Appropriations Act, 2021 (“CAA”) eliminated the 2% reduction in Medicare payments from sequestration through March 31, 2021. Please see *Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, Sources of Revenue-Medicare*, for additional disclosure.

Beginning in 2024 and continuing through 2027, the Medicaid disproportionate share hospital (“DSH”) allotment to the states from federal funds will be reduced. Such reductions have been delayed several times, most recently under the CAA, which further delays the DSH through 2024. During the reduction period, state Medicaid DSH allotments from federal funds will be reduced by \$8 billion annually. Reductions are imposed on states based on percentage of uninsured individuals, Medicaid utilization and uncompensated care.

#### ***We are subject to uncertainties regarding health care reform.***

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act (the “*Legislation*”). Two primary goals of the *Legislation* are to provide for increased access to coverage for healthcare and to reduce healthcare-related expenses.

Although it was expected that as a result of the *Legislation* there would be a reduction in uninsured patients, which would reduce our expense from uncollectible accounts receivable, the *Legislation* makes a number of other changes to Medicare and Medicaid which we believe may have an adverse impact on us. It has been projected that the *Legislation* will result in a net reduction in Medicare and Medicaid payments to hospitals totaling \$155 billion over 10 years. The *Legislation* revises reimbursement under the Medicare and Medicaid programs to emphasize the efficient delivery of high quality care and contains a number of incentives and penalties under these programs to achieve these goals. The *Legislation* implements a value-based purchasing program, which will reward the delivery of efficient care. Conversely, certain facilities will receive reduced reimbursement for failing to meet quality parameters; such hospitals will include those with excessive readmission or hospital-acquired condition rates. It remains unclear what portions of that *legislation* may remain, or what any replacement or alternative programs may be created by future legislation.

A 2012 U.S. Supreme Court ruling limited the federal government’s ability to expand health insurance coverage by holding unconstitutional sections of the *Legislation* that sought to withdraw federal funding for state noncompliance with certain Medicaid coverage requirements. Pursuant to that decision, the federal government may not penalize states that choose not to participate in the Medicaid expansion program by reducing their existing Medicaid funding. Therefore, states can choose to accept or not to participate without risking the loss of federal Medicaid funding. As a result, many states, including Texas, have not expanded their Medicaid programs without the threat of loss of federal funding. CMS has granted section 1115 demonstration waivers providing for work and community engagement requirements for certain Medicaid eligible individuals. CMS has also released guidance to states interested in receiving their Medicaid funding through a block grant mechanism. It is anticipated this will lead to reductions in coverage, and likely increases in uncompensated care, in states where these demonstration waivers are granted.

The various provisions in the *Legislation* that directly or indirectly affect Medicare and Medicaid reimbursement are scheduled to take effect over a number of years. The impact of the *Legislation* on healthcare providers will be subject to implementing regulations, interpretive guidance and possible future legislation or legal challenges. Certain *Legislation* provisions, such as that creating the Medicare Shared Savings Program, create uncertainty in how healthcare may be reimbursed by federal programs in the

future. Thus, we cannot predict the impact of the Legislation on our future reimbursement at this time and we can provide no assurance that the Legislation will not have a material adverse effect on our future results of operations.

The Legislation also contained provisions aimed at reducing fraud and abuse in healthcare. The Legislation amends several existing laws, including the federal Anti-Kickback Statute and the False Claims Act, making it easier for government agencies and private plaintiffs to prevail in lawsuits brought against healthcare providers. While Congress had previously revised the intent requirement of the Anti-Kickback Statute to provide that a person is not required to “have actual knowledge or specific intent to commit a violation of” the Anti-Kickback Statute in order to be found in violation of such law, the Legislation also provides that any claims for items or services that violate the Anti-Kickback Statute are also considered false claims for purposes of the federal civil False Claims Act. The Legislation provides that a healthcare provider that retains an overpayment in excess of 60 days is subject to the federal civil False Claims Act, although certain final regulations implementing this statutory requirement remain pending. The Legislation also expands the Recovery Audit Contractor program to Medicaid. These amendments also make it easier for severe fines and penalties to be imposed on healthcare providers that violate applicable laws and regulations.

We have partnered with local physicians in the ownership of certain of our facilities. These investments have been permitted under an exception to the physician self-referral law. The Legislation permits existing physician investments in a hospital to continue under a “grandfather” clause if the arrangement satisfies certain requirements and restrictions, but physicians are prohibited from increasing the aggregate percentage of their ownership in the hospital. The Legislation also imposes certain compliance and disclosure requirements upon existing physician-owned hospitals and restricts the ability of physician-owned hospitals to expand the capacity of their facilities. As discussed below, should the Legislation be repealed in its entirety, this aspect of the Legislation would also be repealed restoring physician ownership of hospitals and expansion right to its position and practice as it existed prior to the Legislation.

The impact of the Legislation on each of our hospitals may vary. Because Legislation provisions are effective at various times over the next several years, we anticipate that many of the provisions in the Legislation may be subject to further revision. Initiatives to repeal the Legislation, in whole or in part, to delay elements of implementation or funding, and to offer amendments or supplements to modify its provisions have been persistent. The ultimate outcomes of legislative attempts to repeal or amend the Legislation and legal challenges to the Legislation are unknown. Legislation has already been enacted that has eliminated the penalty for failing to maintain health coverage that was part of the original Legislation. In addition, Congress has considered legislation that would, if enacted, in material part: (i) eliminate the large employer mandate to obtain or provide health insurance coverage, respectively; (ii) permit insurers to impose a surcharge up to 30 percent on individuals who go uninsured for more than two months and then purchase coverage; (iii) provide tax credits towards the purchase of health insurance, with a phase-out of tax credits accordingly to income level; (iv) expand health savings accounts; (v) impose a per capita cap on federal funding of state Medicaid programs, or, if elected by a state, transition federal funding to block grants, and; (vi) permit states to seek a waiver of certain federal requirements that would allow such state to define essential health benefits differently from federal standards and that would allow certain commercial health plans to take health status, including pre-existing conditions, into account in setting premiums.

In addition to legislative changes, the Legislation can be significantly impacted by executive branch actions. President Biden is expected to undertake executive actions that will strengthen the Legislation and may reverse the policies of the prior administration. The Trump Administration had directed the issuance of final rules (i) enabling the formation of association health plans that would be exempt from certain Legislation requirements such as the provision of essential health benefits; (ii) expanding the availability of short-term, limited duration health insurance, (iii) eliminating cost-sharing reduction payments to insurers that would otherwise offset deductibles and other out-of-pocket expenses for health plan enrollees at or below 250 percent of the federal poverty level; (iv) relaxing requirements for state innovation waivers that could reduce enrollment in the individual and small group markets and lead to additional enrollment in short-term, limited duration insurance and association health plans; and (v) incentivizing the use of health reimbursement accounts by employers to permit employees to purchase health insurance in the individual market. The uncertainty resulting from these Executive Branch policies has led to reduced Exchange enrollment in 2018, 2019 and 2020 is expected to further worsen the individual and small group market risk pools in future years. It is also anticipated that these policies may create additional cost and reimbursement pressures on hospitals.

It remains unclear what portions of the Legislation may remain, or whether any replacement or alternative programs may be created by any future legislation. Any such future repeal or replacement may have significant impact on the reimbursement for healthcare services generally, and may create reimbursement for services competing with the services offered by our hospitals. Accordingly, there can be no assurance that the adoption of any future federal or state healthcare reform legislation will not have a negative financial impact on our hospitals, including their ability to compete with alternative healthcare services funded by such potential legislation, or for our hospitals to receive payment for services.

While attempts to repeal the entirety of the Legislation have not been successful to date, a key provision of the Legislation was repealed as part of the Tax Cuts and Jobs Act and on December 14, 2018, a Texas Federal District Court Judge declared the Legislation unconstitutional, reasoning that the individual mandate tax penalty was essential to and not severable from the remainder of the Legislation. The case was appealed to the U.S. Court of Appeals for the Fifth Circuit and on December 18, 2019, a three-judge

panel declared the Legislation's individual mandate unconstitutional and remanded the case back to the Texas Federal District Court to determine which of the Legislation's provisions should be stricken with the mandate or whether the entire law is unconstitutional without the individual mandate. On March 2, 2020, the Supreme Court agreed to hear two consolidated cases, filed by the State of California and the United States House of Representatives, asking the Supreme Court to review the ruling by the U.S. Court of Appeals for the Fifth Circuit decision and to review whether, if the mandate is unconstitutional, it can be separated from the rest of the Legislation. Oral argument was heard on November 10, 2020, and a ruling is expected in 2021. The Legislation will remain law while the case proceeds through the appeals process; however, the case creates additional uncertainty as to whether any or all of the Legislation could be struck down, which creates operational risk for the health care industry. We cannot predict the effect of the elimination of the individual mandate tax penalty, the final result and effect of the *California v. Texas* case. While the results of the 2020 elections potentially reduce the risk of the Legislation being eliminated in whole or in part, the continued uncertainties regarding implementation of the Legislation create unpredictability for the strategic and business planning efforts of health care providers, which in itself constitutes a risk.

Under the Legislation, hospitals are required to make public a list of their standard charges, and effective January 1, 2019, CMS has required that this disclosure be in machine-readable format and include charges for all hospital items and services and average charges for diagnosis-related groups. On November 27, 2019, CMS published a final rule on "Price Transparency Requirements for Hospitals to Make Standard Charges Public." This rule took effect on January 1, 2021 and requires all hospitals to also make public their payor-specific negotiated rates, minimum negotiated rates, maximum negotiated rates and cash for all items and services, including individual items and services and service packages, that could be provided by a hospital to a patient. Failure to comply with these requirements may result in daily monetary penalties.

As part of the CAA, Congress passed legislation aimed at preventing or limiting patient balance billing in certain circumstances. The CAA addresses surprise medical bills stemming from emergency services, out-of-network ancillary providers at in-network facilities, and air ambulance carriers. The legislation prohibits surprise billing when out-of-network emergency services or out-of-network services at an in-network facility are provided, unless informed consent is received. In these circumstances providers are prohibited from billing the patient for any amounts that exceed in-network cost-sharing requirements. The legislation requires implementing regulations within a year of enactment.

***We are required to treat patients with emergency medical conditions regardless of ability to pay.***

In accordance with our internal policies and procedures, as well as the Emergency Medical Treatment and Active Labor Act, or EMTALA, we provide a medical screening examination to any individual who comes to one of our hospitals while in active labor and/or seeking medical treatment (whether or not such individual is eligible for insurance benefits and regardless of ability to pay) to determine if such individual has an emergency medical condition. If it is determined that such person has an emergency medical condition, we provide such further medical examination and treatment as is required to stabilize the patient's medical condition, within the facility's capability, or arrange for transfer of such individual to another medical facility in accordance with applicable law and the treating hospital's written procedures. Our obligations under EMTALA may increase substantially going forward; CMS has sought stakeholder comments concerning the potential applicability of EMTALA to hospital inpatients and the responsibilities of hospitals with specialized capabilities, respectively, but has yet to issue further guidance in response to that request. If the number of indigent and charity care patients with emergency medical conditions we treat increases significantly, or if regulations expanding our obligations to inpatients under EMTALA is proposed and adopted, our results of operations will be harmed.

***If we fail to continue to meet the promoting interoperability criteria related to electronic health record systems ("EHR"), our operations could be harmed.***

Pursuant to Health Information Technology for Economic and Clinical Health ("HITECH") regulations, hospitals that did not qualify as a meaningful user of EHR by 2015 were subject to a reduced market basket update to the inpatient prospective payment system ("IPPS") standardized amount in 2015 and each subsequent fiscal year. In the 2019 IPPS final rule, CMS re-named the meaningful use program to "promoting interoperability". We believe that all of our acute care hospitals have met the applicable promoting interoperability criteria and therefore are not subject to a reduced market basket update to the IPPS standardized amount. However, under the HITECH Act, hospitals must continue to meet the applicable criteria in each fiscal year or they will be subject to a market basket update reduction in a subsequent fiscal year. Failure of our acute care hospitals to continue to meet the applicable meaningful use criteria would have an adverse effect on our future net revenues and results of operations.

***Our performance depends on our ability to attract and retain qualified nurses and medical support staff and we face competition for staffing that may increase our labor costs and harm our results of operations.***

We depend on the efforts, abilities, and experience of our medical support personnel, including our nurses, pharmacists and lab technicians and other healthcare professionals. We compete with other healthcare providers in recruiting and retaining qualified hospital management, nurses and other medical personnel.

The nationwide shortage of nurses and other medical support personnel has been a significant operating issue facing us and other healthcare providers. This shortage may require us to enhance wages and benefits to recruit and retain nurses and other medical support personnel or require us to hire expensive temporary personnel. In addition, in some markets like California, there are

requirements to maintain specified nurse-staffing levels. To the extent we cannot meet those levels, we may be required to limit the healthcare services provided in these markets, which would have a corresponding adverse effect on our net operating revenues.

We cannot predict the degree to which we will be affected by the future availability or cost of attracting and retaining talented medical support staff. If our general labor and related expenses increase, we may not be able to raise our rates correspondingly. Our failure to either recruit and retain qualified hospital management, nurses and other medical support personnel or control our labor costs could harm our results of operations.

Increased labor union activity is another factor that could adversely affect our labor costs. Union organizing activities and certain potential changes in federal labor laws and regulations could increase the likelihood of employee unionization.

***If we fail to comply with extensive laws and government regulations, we could suffer civil or criminal penalties or be required to make significant changes to our operations that could reduce our revenue and profitability.***

The healthcare industry is required to comply with extensive and complex laws and regulations at the federal, state and local government levels relating to, among other things: hospital billing practices and prices for services; relationships with physicians and other referral sources; adequacy of medical care and quality of medical equipment and services; ownership of facilities; qualifications of medical and support personnel; confidentiality, maintenance, privacy and security issues associated with health-related information and patient medical records; the screening, stabilization and transfer of patients who have emergency medical conditions; certification, licensure and accreditation of our facilities; operating policies and procedures, and; construction or expansion of facilities and services.

Among these laws are the federal False Claims Act, the Health Insurance Portability and Accountability Act of 1996, ("HIPAA"), the federal anti-kickback statute and the provision of the Social Security Act commonly known as the "Stark Law." These laws, and particularly the anti-kickback statute and the Stark Law, impact the relationships that we may have with physicians and other referral sources. We have a variety of financial relationships with physicians who refer patients to our facilities, including employment contracts, leases and professional service agreements. We also provide financial incentives, including minimum revenue guarantees, to recruit physicians into communities served by our hospitals. The Office of the Inspector General of the Department of Health and Human Services, or OIG, has enacted safe harbor regulations that outline practices that are deemed protected from prosecution under the anti-kickback statute. A number of our current arrangements, including financial relationships with physicians and other referral sources, may not qualify for safe harbor protection under the anti-kickback statute. Failure to meet a safe harbor does not mean that the arrangement necessarily violates the anti-kickback statute, but may subject the arrangement to greater scrutiny. We cannot assure that practices that are outside of a safe harbor will not be found to violate the anti-kickback statute. CMS published a Medicare self-referral disclosure protocol, which is intended to allow providers to self-disclose actual or potential violations of the Stark law. Because there are only a few judicial decisions interpreting the Stark law, there can be no assurance that our hospitals will not be found in violation of the Stark Law or that self-disclosure of a potential violation would result in reduced penalties.

Federal regulations issued under HIPAA contain provisions that require us to implement and, in the future, may require us to implement additional costly electronic media security systems and to adopt new business practices designed to protect the privacy and security of each of our patient's health and related financial information. Such privacy and security regulations impose extensive administrative, physical and technical requirements on us, restrict our use and disclosure of certain patient health and financial information, provide patients with rights with respect to their health information and require us to enter into contracts extending many of the privacy and security regulatory requirements to third parties that perform duties on our behalf. Additionally, recent changes to HIPAA regulations may result in greater compliance requirements, including obligations to report breaches of unsecured patient data, as well as create new liabilities for the actions of parties acting as business associates on our behalf.

These laws and regulations are extremely complex, and, in many cases, we do not have the benefit of regulatory or judicial interpretation. In the future, it is possible that different interpretations or enforcement of these laws and regulations could subject our current or past practices to allegations of impropriety or illegality or could require us to make changes in our facilities, equipment, personnel, services, capital expenditure programs and operating expenses. A determination that we have violated one or more of these laws (see *Note 8 to the Consolidated Financial Statements - Commitments and Contingencies*, as included this Form 10-K), or the public announcement that we are being investigated for possible violations of one or more of these laws, could have a material adverse effect on our business, financial condition or results of operations and our business reputation could suffer significantly. In addition, we cannot predict whether other legislation or regulations at the federal or state level will be adopted, what form such legislation or regulations may take or what their impact on us may be. See *Item 1 Business—Self-Referral and Anti-Kickback Legislation*.

If we are deemed to have failed to comply with the anti-kickback statute, the Stark Law or other applicable laws and regulations, we could be subjected to liabilities, including criminal penalties, civil penalties (including the loss of our licenses to operate one or more facilities), and exclusion of one or more facilities from participation in the Medicare, Medicaid and other federal and state healthcare programs. The imposition of such penalties could have a material adverse effect on our business, financial condition or results of operations.

We also operate health care facilities in the United Kingdom and have operations and commercial relationships with companies in other foreign jurisdictions and, as a result, are subject to certain U.S. and foreign laws applicable to businesses generally, including anti-corruption laws. The Foreign Corrupt Practices Act regulates U.S. companies in their dealings with foreign officials, prohibiting bribes and similar practices, and requires that they maintain records that fairly and accurately reflect transactions and appropriate internal accounting controls. In addition, the United Kingdom Bribery Act has wide jurisdiction over certain activities that affect the United Kingdom.

Our operations in the United Kingdom are also subject to a high level of regulation relating to registration and licensing requirements, employee regulation, clinical standards, environmental rules as well as other areas. We are also subject to a highly regulated business environment, and failure to comply with the various laws and regulations, applicable to us could lead to substantial penalties, and other adverse effects on our business.

***We are subject to occupational health, safety and other similar regulations and failure to comply with such regulations could harm our business and results of operations.***

We are subject to a wide variety of federal, state and local occupational health and safety laws and regulations. Regulatory requirements affecting us include, but are not limited to, those covering: (i) air and water quality control; (ii) occupational health and safety (e.g., standards regarding blood-borne pathogens and ergonomics, etc.); (iii) waste management; (iv) the handling of asbestos, polychlorinated biphenyls and radioactive substances; and (v) other hazardous materials. If we fail to comply with those standards, we may be subject to sanctions and penalties that could harm our business and results of operations.

***We are subject to pending legal actions, purported stockholder class actions, governmental investigations and regulatory actions.***

We, our subsidiaries, PSI, and its subsidiaries, are subject to pending legal actions, governmental investigations and regulatory actions (see Note 8 to the Consolidated Financial Statements - Commitments and Contingencies, as included this Form 10-K). We may become subject to additional medical malpractice lawsuits, product liability lawsuits, class action lawsuits and other legal actions in the ordinary course of business.

Defending ourselves against the allegations in the lawsuits and governmental investigations, or similar matters and any related publicity, could potentially entail significant costs and could require significant attention from our management and our reputation could suffer significantly. We are unable to predict the outcome of these matters or to reasonably estimate the amount or range of any such loss; however, these lawsuits and the related publicity and news articles that have been published concerning these matters could have a material adverse effect on our business, financial condition, results of operations and/or cash flows which in turn could cause a decline in our stock price. In an effort to resolve one or more of these matters, we may choose to negotiate a settlement. Amounts we pay to settle any of these matters may be material. All professional and general liability insurance we purchase is subject to policy limitations. We believe that, based on our past experience and actuarial estimates, our insurance coverage is adequate considering the claims arising from the operations of our hospitals. While we continuously monitor our coverage, our ultimate liability for professional and general liability claims could change materially from our current estimates. If such policy limitations should be partially or fully exhausted in the future, or payments of claims exceed our estimates or are not covered by our insurance, it could have a material adverse effect on our operations.

We are and may become subject to other loss contingencies, both known and unknown, which may relate to past, present and future facts, events, circumstances and occurrences. Should an unfavorable outcome occur in some or all of our legal proceedings or other loss contingencies, or if successful claims and other actions are brought against us in the future, there could be a material adverse impact on our financial position, results of operations and liquidity.

In particular, government investigations, as well as qui tam and stockholder lawsuits, may lead to material fines, penalties, damages payments or other sanctions, including exclusion from government healthcare programs. The federal False Claims Act permits private parties to bring qui tam, or whistleblower, lawsuits on behalf of the government against companies alleging that the defendant has defrauded the federal government. These private parties are entitled to share in any amounts recovered by the government, and, as a result, the number of whistleblower lawsuits that have been filed against providers has increased significantly in recent years. Because qui tam lawsuits are filed under seal, we could be named in one or more such lawsuits of which we are not aware. Settlements of lawsuits involving Medicare and Medicaid issues routinely require both monetary payments and corporate integrity agreements, each of which could have a material adverse effect on our business, financial condition, results of operations and/or cash flows.

***The failure of certain employers, or the closure of certain facilities, could have a disproportionate impact on our hospitals.***

The economies in the communities in which our hospitals operate are often dependent on a small number of large employers. Those employers often provide income and health insurance for a disproportionately large number of community residents who may depend on our hospitals and other health care facilities for their care. The failure of one or more large employer or the closure or substantial reduction in the number of individuals employed at facilities located in or near the communities where our hospitals operate, could cause affected employees to move elsewhere to seek employment or lose insurance coverage that was otherwise available to them. The occurrence of these events could adversely affect our revenue and results of operations, thereby harming our business.

**If any of our existing health care facilities lose their accreditation or any of our new facilities fail to receive accreditation, such facilities could become ineligible to receive reimbursement under Medicare or Medicaid.**

The construction and operation of healthcare facilities are subject to extensive federal, state and local regulation relating to, among other things, the adequacy of medical care, equipment, personnel, operating policies and procedures, fire prevention, rate-setting and compliance with building codes and environmental protection. Additionally, such facilities are subject to periodic inspection by government authorities to assure their continued compliance with these various standards.

All of our hospitals are deemed certified, meaning that they are accredited, properly licensed under the relevant state laws and regulations and certified under the Medicare program. The effect of maintaining certified facilities is to allow such facilities to participate in the Medicare and Medicaid programs. We believe that all of our healthcare facilities are in material compliance with applicable federal, state, local and other relevant regulations and standards. However, should any of our healthcare facilities lose their deemed certified status and thereby lose certification under the Medicare or Medicaid programs, such facilities would be unable to receive reimbursement from either of those programs and our business could be materially adversely effected.

***State efforts to regulate the construction or expansion of health care facilities could impair our ability to expand.***

Many of the states in which we operate hospitals have enacted Certificates of Need, or (“CON”), laws as a condition prior to hospital capital expenditures, construction, expansion, modernization or initiation of major new services. Our failure to obtain necessary state approval could result in our inability to complete a particular hospital acquisition, expansion or replacement, make a facility ineligible to receive reimbursement under the Medicare or Medicaid programs, result in the revocation of a facility’s license or impose civil or criminal penalties on us, any of which could harm our business.

In addition, significant CON reforms have been proposed in a number of states that would increase the capital spending thresholds and provide exemptions of various services from review requirements. In the past, we have not experienced any material adverse effects from those requirements, but we cannot predict the impact of these changes upon our operations.

**Risks Related to Information Technology**

***A cyber security incident could cause a violation of HIPAA, breach of member privacy, or other negative impacts.***

In September, 2020, we experienced an information technology security incident which led us to suspend user access to our information technology applications related to operations located in the United States. While our information technology applications were offline, patient care was delivered safely and effectively at our facilities across the country utilizing established back-up processes, including offline documentation methods. We have investigated the nature and potential impact of the security incident and engaged third-party information technology and forensic vendors to assist. No evidence of unauthorized access, copying or misuse of any patient or employee data has been identified to date. Promptly after the incident, our information technology applications were restored at our acute care and behavioral health hospitals, as well as at the corporate level, thereby re-establishing connections to all major systems and applications, including electronic medical records, laboratory and pharmacy systems and our hospitals resumed normal operations.

We rely extensively on our information technology (“IT”) systems to manage clinical and financial data, communicate with our patients, payers, vendors and other third parties and summarize and analyze operating results. In addition, we have made significant investments in technology to adopt and utilize electronic health records and to become meaningful users of health information technology pursuant to the American Recovery and Reinvestment Act of 2009. Our IT systems are subject to damage or interruption from power outages, facility damage, computer and telecommunications failures, computer viruses, security breaches including credit card or personally identifiable information breaches, vandalism, theft, natural disasters, catastrophic events, human error and potential cyber threats, including malicious codes, worms, phishing attacks, denial of service attacks, ransomware and other sophisticated cyber-attacks, and our disaster recovery planning cannot account for all eventualities. As cyber criminals continue to become more sophisticated through evolution of their tactics, techniques and procedures, we have taken, and will continue to take, additional preventive measures to strengthen the cyber defenses of our networks and data. However, if any of our systems are damaged, fail to function properly or otherwise become unavailable, we may incur substantial costs to repair or replace them, and may experience loss or corruption of critical data such as protected health information or other data subject to privacy laws and proprietary business information and interruptions or disruptions and delays in our ability to perform critical functions, which could materially and adversely affect our businesses and results of operations and could result in significant penalties or fines, litigation, loss of customers, significant damage to our reputation and business, and other losses. In addition, our future results of operations, as well as our reputation, could be adversely impacted by theft, destruction, loss, or misappropriation of public health information, other confidential data or proprietary business information.

**Risks Related to the Market Conditions and Liquidity**

***Our revenues and volume trends may be adversely affected by certain factors over which we have no control.***

Our revenues and volume trends are dependent on many factors, including physicians’ clinical decisions and availability, payer programs shifting to a more outpatient-based environment, whether or not certain services are offered, seasonal and severe weather conditions, including the effects of extreme low temperatures, hurricanes and tornados, earthquakes, climate change, current local

economic and demographic changes. In addition, technological developments and pharmaceutical improvements may reduce the demand for healthcare services or the profitability of the services we offer. Further, the Medicare program's three-year phase out and eventual elimination of the Inpatient Only List, a list of surgeries and procedures that are only covered by Medicare when provided in an inpatient setting, may reduce inpatient volumes.

***A worsening of economic and employment conditions in the United States could materially affect our business and future results of operations.***

Our patient volumes, revenues and financial results depend significantly on the universe of patients with health insurance, which to a large extent is dependent on the employment status of individuals in our markets. Worsening of economic conditions may result in a higher unemployment rate which may increase the number of individuals without health insurance. As a result, our facilities may experience a decrease in patient volumes, particularly in less intense, more elective service lines, or an increase in services provided to uninsured patients. These factors could have a material unfavorable impact on our future patient volumes, revenues and operating results.

In addition, as of December 31, 2020, we had approximately \$3.9 billion of goodwill recorded on our consolidated balance sheet. Should the revenues and financial results of our acute care and/or behavioral health care facilities be materially, unfavorably impacted due to, among other things, a worsening of the economic and employment conditions in the United States that could negatively impact our patient volumes and reimbursement rates, a continued rise in the unemployment rate and continued increases in the number of uninsured patients treated at our facilities, we may incur future charges to recognize impairment in the carrying value of our goodwill and other intangible assets, which could have a material adverse effect on our financial results.

***Legal uncertainty or a worsening of the economic conditions in the United Kingdom could materially affect our business and future results of operations.***

On June 23, 2016, the United Kingdom affirmatively voted in a non-binding referendum in favor of the exit of the United Kingdom from the European Union ("Brexit") and it was approved by vote of the British legislature. On March 29, 2017, the United Kingdom triggered Article 50 of the Lisbon Treaty, formally starting negotiations regarding its exit from the European Union. On January 31, 2020, the United Kingdom formally exited the European Union. On December 24, 2020, the United Kingdom and the European Union reached a post-Brexit trade and cooperation agreement that created new business and security requirements and preserved the United Kingdom's tariff- and quota-free access to the European Union member states.

Changes to the trading relationship between the United Kingdom and the European Union may result in increased cost of goods imported into the United Kingdom. Additional currency volatility could result in a weaker British pound, which may decrease the profitability of our operations in the United Kingdom. A weaker British pound versus the U.S. Dollar also causes local currency results of our United Kingdom operations to be translated into fewer U.S. Dollars during a reporting period. While we may elect to enter into hedging arrangements to protect our business against certain currency fluctuations, these hedging arrangements do not provide comprehensive protection, and our results of operations could be adversely affected by foreign exchange fluctuations.

Brexit could lead to legal and regulatory uncertainty as the United Kingdom determines which European Union laws to replace or replicate. Brexit could also lead to increased legal and regulatory complexity as national laws and regulations in the United Kingdom start to diverge from European Union laws and regulations. For instance, rules for data transfers outside of the United Kingdom and European Economic Area have changed significantly with Brexit and a recent Court of European Justice decision, and are subject to further revision and updated regulatory guidance, making necessary compliance measures challenging to ascertain and implement with respect to our United Kingdom operations. The exit of the United Kingdom from the European Union could also create future economic uncertainty, both in the United Kingdom and globally, and could cause disruptions to and create uncertainty surrounding our business. Any of these effects of Brexit, and others we cannot anticipate, could harm our business, financial condition or results of operations.

***We continue to see rising costs in construction materials and labor. Such increased costs could have an adverse effect on the cash flow return on investment relating to our capital projects.***

The cost of construction materials and labor has significantly increased. As we continue to invest in modern technologies, emergency rooms and operating room expansions, the construction of medical office buildings for physician expansion and reconfiguring the flow of patient care, we spend large amounts of money generated from our operating cash flow or borrowed funds. Although we evaluate the financial feasibility of such projects by determining whether the projected cash flow return on investment exceeds our cost of capital, such returns may not be achieved if the cost of construction continues to rise significantly or the expected patient volumes are not attained.

***The deterioration of credit and capital markets may adversely affect our access to sources of funding and we cannot be certain of the availability and terms of capital to fund the growth of our business when needed.***

We require substantial capital resources to fund our acquisition growth strategy and our ongoing capital expenditure programs for renovation, expansion, construction and addition of medical equipment and technology. We believe that our capital expenditure program is adequate to expand, improve and equip our existing hospitals. We cannot predict, however, whether financing for our

growth plans and capital expenditure programs will be available to us on satisfactory terms when needed, which could harm our business.

To fund all or a portion of our future financing needs, we rely on borrowings from various sources including fixed rate, long-term debt as well as borrowings pursuant to our revolving credit facility and accounts receivable securitization program. If any of the lenders were unable to fulfill their future commitments, our liquidity could be impacted, which could have a material unfavorable impact on our results of operations and financial condition.

***The LIBOR calculation method may change and LIBOR is expected to be phased out after 2021.***

Our Credit Agreement permits interest on borrowings to be calculated based on LIBOR, and in the past, we have had interest rate swaps that were based on LIBOR. On July 27, 2017, the United Kingdom Financial Conduct Authority (the “FCA”) announced that it will no longer require banks to submit rates for the calculation of LIBOR after 2021. The phase-out of LIBOR may result in the establishment of one or more alternative benchmark rates, but at this time it is uncertain what alternative benchmark rates would replace LIBOR. In the meantime, actions by the FCA, other regulators, or law enforcement agencies may result in changes to the method by which LIBOR is calculated. At this time, it is not possible to predict the effect of any such changes or any other reforms to LIBOR that may be enacted in the United Kingdom or elsewhere.

**Risks Related to Our Common Stock**

***The number of outstanding shares of our Class B Common Stock is subject to potential increases or decreases.***

At December 31, 2020, 22.1 million shares of Class B Common Stock were reserved for issuance upon conversion of shares of Class A, C and D Common Stock outstanding, for issuance upon exercise of options to purchase Class B Common Stock and for issuance of stock under other incentive plans. Class A, C and D Common Stock are convertible on a share for share basis into Class B Common Stock. To the extent that these shares were converted into or exercised for shares of Class B Common Stock, the number of shares of Class B Common Stock available for trading in the public market place would increase substantially and the current holders of Class B Common Stock would own a smaller percentage of that class.

In addition, from time-to-time our Board of Directors approve stock repurchase programs authorizing us to purchase shares of our Class B Common Stock on the open market at prevailing market prices or in negotiated transactions off the market. Such repurchases decrease the number of outstanding shares of our Class B Common Stock. Conversely, as a potential means of generating additional funds to operate and expand our business, we may from time-to-time issue equity through the sale of stock which would increase the number of outstanding shares of our Class B Common Stock. Based upon factors such as, but not limited to, the market price of our stock, interest rate on borrowings and uses or potential uses for cash, repurchase or issuance of our stock could have a dilutive effect on our future basic and diluted earnings per share.

***The right to elect the majority of our Board of Directors and the majority of the general shareholder voting power resides with the holders of Class A and C Common Stock, the majority of which is owned by Alan B. Miller, Executive Chairman of our Board of Directors.***

Our Restated Certificate of Incorporation provides that, with respect to the election of directors, holders of Class A Common Stock vote as a class with the holders of Class C Common Stock, and holders of Class B Common Stock vote as a class with holders of Class D Common Stock, with holders of all classes of our Common Stock entitled to one vote per share.

As of March 24, 2020, the shares of Class A and Class C Common Stock constituted 8.5% of the aggregate outstanding shares of our Common Stock, had the right to elect five members of the Board of Directors and constituted 87.9% of our general voting power as of that date. As of March 24, 2020, the shares of Class B and Class D Common Stock (excluding shares issuable upon exercise of options) constituted 91.5% of the outstanding shares of our Common Stock, had the right to elect two members of the Board of Directors and constituted 12.1% of our general voting power as of that date.

As to matters other than the election of directors, our Restated Certificate of Incorporation provides that holders of Class A, Class B, Class C and Class D Common Stock all vote together as a single class, except as otherwise provided by law.

Each share of Class A Common Stock entitles the holder thereof to one vote; each share of Class B Common Stock entitles the holder thereof to one-tenth of a vote; each share of Class C Common Stock entitles the holder thereof to 100 votes (provided the holder of Class C Common Stock holds a number of shares of Class A Common Stock equal to ten times the number of shares of Class C Common Stock that holder holds); and each share of Class D Common Stock entitles the holder thereof to ten votes (provided the holder of Class D Common Stock holds a number of shares of Class B Common Stock equal to ten times the number of shares of Class D Common Stock that holder holds).

In the event a holder of Class C or Class D Common Stock holds a number of shares of Class A or Class B Common Stock, respectively, less than ten times the number of shares of Class C or Class D Common Stock that holder holds, then that holder will be entitled to only one vote for every share of Class C Common Stock, or one-tenth of a vote for every share of Class D Common Stock, which that holder holds in excess of one-tenth the number of shares of Class A or Class B Common Stock, respectively, held by that

holder. The Board of Directors, in its discretion, may require beneficial owners to provide satisfactory evidence that such owner holds ten times as many shares of Class A or Class B Common Stock as Class C or Class D Common Stock, respectively, if such facts are not apparent from our stock records.

Since a substantial majority of the Class A shares and Class C shares are controlled by Mr. Alan B. Miller and members of his family, one of whom is Marc D. Miller, our Chief Executive Officer, President and a director, and they can elect a majority of our company's directors and effect or reject most actions requiring approval by stockholders without the vote of any other stockholders, there are potential conflicts of interest in overseeing the management of our company.

In addition, because this concentrated control could discourage others from initiating any potential merger, takeover or other change of control transaction that may otherwise be beneficial to our businesses, our business and prospects and the trading price of our securities could be adversely affected.

#### **ITEM 1B. Unresolved Staff Comments**

None.

#### **ITEM 2. Properties**

##### ***Executive and Administrative Offices and Commercial Health Insurer***

We own various office buildings in King of Prussia and Wayne, Pennsylvania, Brentwood, Tennessee, Denton, Texas and Reno, Nevada.

##### ***Facilities***

The following tables set forth the name, location, type of facility and, for acute care hospitals and behavioral health care facilities, the number of licensed beds:

##### **Acute Care Hospitals**

Name of Facility	Location	Number of Beds	Real Property Ownership Interest
Aiken Regional Medical Centers	Aiken, South Carolina	211	Owned
Aurora Pavilion	Aiken, South Carolina	62	Owned
Centennial Hills Hospital Medical Center	Las Vegas, Nevada	336	Owned
Corona Regional Medical Center	Corona, California	238	Owned
Desert Springs Hospital	Las Vegas, Nevada	293	Owned
Desert View Hospital	Pahrump, Nevada	25	Owned
Doctors' Hospital of Laredo (7)	Laredo, Texas	183	Owned
Doctor's Hospital Emergency Room Laredo	Laredo, Texas	—	Leased
Doctor's Hospital Emergency Room Saunders	Laredo, Texas	—	Owned
Fort Duncan Regional Medical Center	Eagle Pass, Texas	101	Owned
The George Washington University Hospital (1)	Washington, D.C.	395	Leased
Henderson Hospital	Henderson, Nevada	170	Owned
ER at Green Valley Ranch	Henderson, Nevada	—	Owned
Lakewood Ranch Medical Center	Bradenton, Florida	120	Owned
ER at Fruitville	Sarasota, Florida	—	Owned
Manatee Memorial Hospital	Bradenton, Florida	295	Owned
Northern Nevada Medical Center	Sparks, Nevada	124	Owned
ER at McCarran NW	Reno, Nevada	—	Owned
Northwest Texas Healthcare System	Amarillo, Texas	405	Owned
The Pavilion at Northwest Texas Healthcare System	Amarillo, Texas	90	Owned
Northwest Emergency at Town Square	Amarillo, Texas	—	Owned
Northwest Emergency on Georgia	Amarillo, Texas	—	Owned
Palmdale Regional Medical Center	Palmdale, California	184	Owned
South Texas Health System (3)			

Name of Facility	Location	Number of Beds	Real Property Ownership Interest
Edinburg Regional Medical Center/Children's Hospital (3)	Edinburg, Texas	235	Owned
McAllen Medical Center (2) (3)	McAllen, Texas	441	Leased
McAllen Heart Hospital (3)	McAllen, Texas	60	Owned
South Texas Behavioral Health Center (3)	McAllen, Texas	134	Owned
South Texas Health System ER Alamo (3)	Alamo, Texas	—	Owned
South Texas Health System ER McColl (3)	Edinburg, Texas	—	Owned
South Texas Health System ER Mission (2) (3)	Mission, Texas	—	Leased
South Texas Health System ER Monte Cristo (3)	Edinburg, Texas	—	Owned
South Texas Health System ER Ware Road (3)	McAllen, Texas	—	Owned
South Texas Health System ER Weslaco (2) (3)	Weslaco, Texas	—	Leased
Southwest Healthcare System			
Inland Valley Campus (2)	Wildomar, California	120	Leased
Rancho Springs Campus	Murrieta, California	120	Owned
Spring Valley Hospital Medical Center	Las Vegas, Nevada	364	Owned
ER at Blue Diamond	Las Vegas, Nevada	—	Owned
St. Mary's Regional Medical Center	Enid, Oklahoma	229	Owned
Summerlin Hospital Medical Center	Las Vegas, Nevada	485	Owned
Temecula Valley Hospital	Temecula, California	140	Owned
Texoma Medical Center	Denison, Texas	354	Owned
TMC Behavioral Health Center	Denison, Texas	60	Owned
ER at Anna	Anna, Texas	—	Owned
ER at Sherman	Sherman, Texas	—	Owned
Valley Hospital Medical Center	Las Vegas, Nevada	306	Owned
Wellington Regional Medical Center (2)	West Palm Beach, Florida	235	Leased
ER at Westlake	West Palm Beach, Florida	—	Leased

#### Inpatient Behavioral Health Care Facilities

##### United States:

Name of Facility	Location	Number of Beds	Real Property Ownership Interest
Alabama Clinical Schools	Birmingham, Alabama	80	Owned
Alhambra Hospital	Rosemead, California	115	Owned
Alliance Health Center	Meridian, Mississippi	214	Owned
The Arbour Hospital	Boston, Massachusetts	136	Owned
Arbour-Fuller Hospital	South Attleboro, Massachusetts	102	Owned
Arbour-HRI Hospital	Brookline, Massachusetts	62	Owned
Arrowhead Behavioral Health	Maumee, Ohio	48	Owned
Austin Lakes Hospital	Austin, Texas	58	Leased
Austin Oaks Hospitals	Austin, Texas	80	Owned
Behavioral Hospital of Bellaire	Houston, Texas	124	Leased
Belmont Pines Hospital	Youngstown, Ohio	121	Owned
Benchmark Behavioral Health System	Woods Cross, Utah	94	Owned
Black Bear Treatment Center	Sautee, Georgia	115	Owned
Bloomington Meadows Hospital	Bloomington, Indiana	78	Owned
Boulder Creek Academy	Bonners Ferry, Idaho	105	Owned
Brentwood Behavioral Health of Mississippi	Flowood, Mississippi	121	Owned
Brentwood Hospital	Shreveport, Louisiana	260	Owned
The Bridgeway	North Little Rock, Arkansas	127	Owned
Brook Hospital—Dupont	Louisville, Kentucky	88	Owned
Brook Hospital—KMI	Louisville, Kentucky	110	Owned
Brooke Glen Behavioral Hospital	Fort Washington, Pennsylvania	146	Owned

**United States:**

Name of Facility	Location	Number of Beds	Real Property Ownership Interest
Brynn Marr Hospital	Jacksonville, North Carolina	102	Owned
Calvary Addiction Recovery Center	Phoenix, Arizona	68	Owned
Canyon Behavioral Health	Temple, Texas	102	Owned
Canyon Ridge Hospital	Chino, California	157	Owned
The Carolina Center for Behavioral Health	Greer, South Carolina	156	Owned
Cedar Creek	St. Johns, Michigan	54	Owned
Cedar Grove Residential Treatment Center	Murfreesboro, Tennessee	40	Owned
Cedar Hills Hospital (8)	Beaverton, Oregon	98	Owned
Cedar Ridge	Oklahoma City, Oklahoma	60	Owned
Cedar Ridge Residential Treatment Center	Oklahoma City, Oklahoma	56	Owned
Cedar Ridge Bethany	Bethany, Oklahoma	56	Owned
Cedar Springs Behavioral Health	Colorado Springs, Colorado	110	Owned
Centennial Peaks	Louisville, Colorado	104	Owned
Center for Change	Orem, Utah	58	Owned
Central Florida Behavioral Hospital	Orlando, Florida	174	Owned
Chris Kyle Patriots Hospital	Anchorage, Alaska	36	Owned
Clarion Psychiatric Center	Clarion, Pennsylvania	112	Owned
Clive Behavioral Health (12)	Clive, Iowa	100	Leased
Coastal Behavioral Health	Savannah, Georgia	50	Owned
Coastal Harbor Treatment Center	Savannah, Georgia	141	Owned
Columbus Behavioral Center for Children and Adolescents	Columbus, Indiana	57	Owned
Compass Intervention Center	Memphis, Tennessee	108	Owned
Copper Hills Youth Center	West Jordan, Utah	197	Owned
Coral Shores	Stuart, Florida	80	Owned
Cumberland Hall	Hopkinsville, Kentucky	97	Owned
Cumberland Hospital	New Kent, Virginia	110	Owned
Cypress Creek Hospital	Houston, Texas	128	Owned
Del Amo Hospital	Torrance, California	166	Owned
Diamond Grove Center	Louisville, Mississippi	55	Owned
Dover Behavioral Health	Dover, Delaware	104	Owned
El Paso Behavioral Health System	El Paso, Texas	166	Owned
Emerald Coast Behavioral Hospital	Panama City, Florida	86	Owned
Fairmount Behavioral Health System	Philadelphia, Pennsylvania	239	Owned
Fairfax			
Fairfax Hospital	Kirkland, Washington	157	Owned
Fairfax Hospital—Everett	Everett, Washington	30	Leased
Fairfax Hospital—Monroe	Monroe, Washington	34	Leased
Forest View Hospital	Grand Rapids, Michigan	108	Owned
Fort Lauderdale Hospital	Fort Lauderdale, Florida	182	Owned
Foundations Behavioral Health	DoylesTown, Pennsylvania	108	Leased
Foundations for Living	Mansfield, Ohio	84	Owned
Fox Run Hospital	St. Clairsville, Ohio	100	Owned
Fremont Hospital	Fremont, California	148	Owned
Friends Hospital	Philadelphia, Pennsylvania	219	Owned
Garfield Park Hospital	Chicago, Illinois	88	Owned
Garland Behavioral Health	Garland, Texas	72	Leased
Glen Oaks Hospital	Greenville, Texas	54	Owned
Gulf Coast Youth Services	Fort Walton Beach, Florida	28	Owned
Gulfport Behavioral Health System	Gulfport, Mississippi	109	Owned
Hampton Behavioral Health Center	Westhampton, New Jersey	120	Owned
Harbour Point (Pines)	Portsmouth, Virginia	186	Owned
Hartgrove Hospital	Chicago, Illinois	160	Owned

**United States:**

Name of Facility	Location	Number of Beds	Real Property Ownership Interest
Havenwyck Hospital	Auburn Hills, Michigan	243	Owned
Heartland Behavioral Health Services	Nevada, Missouri	151	Owned
Hermitage Hall	Nashville, Tennessee	111	Owned
Heritage Oaks Hospital	Sacramento, California	125	Owned
Hickory Trail Hospital	DeSoto, Texas	86	Owned
Highlands Behavioral Health System	Highlands Ranch, Colorado	86	Owned
Hill Crest Behavioral Health Services	Birmingham, Alabama	219	Owned
Holly Hill Hospital	Raleigh, North Carolina	296	Owned
The Horsham Clinic	Ambler, Pennsylvania	206	Owned
Hughes Center	Danville, Virginia	64	Owned
Inland Northwest Behavioral Health (10)	Spokane, Washington	100	Owned
Intermountain Hospital	Boise, Idaho	155	Owned
Kempsville Center of Behavioral Health	Norfolk, Virginia	82	Owned
KeyStone Center	Wallingford, Pennsylvania	153	Owned
Kingwood Pines Hospital	Kingwood, Texas	116	Owned
La Amistad Behavioral Health Services	Maitland, Florida	85	Owned
Lakeside Behavioral Health System	Memphis, Tennessee	373	Owned
Lancaster Behavioral Health Hospital (9)	Lancaster, Pennsylvania	126	Owned
Laurel Heights Hospital	Atlanta, Georgia	124	Owned
Laurel Oaks Behavioral Health Center	Dothan, Alabama	124	Owned
Laurel Ridge Treatment Center	San Antonio, Texas	330	Owned
Liberty Point Behavioral Health	Staunton, Virginia	56	Owned
Lighthouse Care Center of Augusta	Augusta, Georgia	82	Owned
Lighthouse Care Center of Conway	Conway, South Carolina	105	Owned
Lincoln Prairie Behavioral Health Center	Springfield, Illinois	97	Owned
Lincoln Trail Behavioral Health System	Radcliff, Kentucky	140	Owned
Mayhill Hospital	Denton, Texas	59	Leased
McDowell Center for Children	Dyersburg, Tennessee	32	Owned
The Meadows Psychiatric Center	Centre Hall, Pennsylvania	119	Owned
Meridell Achievement Center	Austin, Texas	134	Owned
Mesilla Valley Hospital	Las Cruces, New Mexico	119	Owned
Michael's House	Palm Springs, California	90	Owned
Michiana Behavioral Health Center	Plymouth, Indiana	83	Owned
Midwest Center for Youth and Families	Kouts, Indiana	74	Owned
Millwood Hospital	Arlington, Texas	134	Leased
Mountain Youth Academy	Mountain City, Tennessee	90	Owned
Natchez Trace Youth Academy	Waverly, Tennessee	115	Owned
Newport News Behavioral Health Center	Newport News, Virginia	132	Owned
North Spring Behavioral Healthcare	Leesburg, Virginia	127	Leased
North Star Hospital	Anchorage, Alaska	74	Owned
North Star Bragaw	Anchorage, Alaska	30	Owned
North Star DeBarr Residential Treatment Center	Anchorage, Alaska	30	Owned
North Star Palmer Residential Treatment Center	Palmer, Alaska	30	Owned
Oak Plains Academy	Ashland City, Tennessee	98	Owned
Okaloosa Youth Academy	Crestview, Florida	75	Leased
Old Vineyard Behavioral Health	Winston-Salem, North Carolina	164	Owned
Palmetto Lowcountry Behavioral Health	North Charleston, South Carolina	108	Owned
Palmetto Summerville	Summerville, South Carolina	64	Leased
Palm Point Behavioral	Titusville, FL	74	Owned
Palm Shores Behavioral Health Center	Bradenton, Florida	64	Owned
Palo Verde Behavioral Health	Tucson, Arizona	84	Leased
Parkwood Behavioral Health System	Olive Branch, Mississippi	148	Owned

**United States:**

Name of Facility	Location	Number of Beds	Real Property Ownership Interest
The Pavilion	Champaign, Illinois	106	Owned
Peachford Behavioral Health System of Atlanta	Atlanta, Georgia	246	Owned
Pembroke Hospital	Pembroke, Massachusetts	120	Owned
Pinnacle Pointe Hospital	Little Rock, Arkansas	127	Owned
Poplar Springs Hospital	Petersburg, Virginia	208	Owned
Prairie St John's	Fargo, North Dakota	158	Owned
Pride Institute	Eden Prairie, Minnesota	42	Owned
Provo Canyon School	Provo, Utah	274	Owned
Provo Canyon Behavioral Hospital	Orem, Utah	80	Owned
Psychiatric Institute of Washington	Washington, D.C.	130	Owned
Quail Run Behavioral Health	Phoenix, Arizona	102	Owned
The Recovery Center	Wichita Falls, Texas	34	Leased
The Ridge Behavioral Health System	Lexington, Kentucky	110	Owned
Rivendell Behavioral Health Services of Arkansas	Benton, Arkansas	80	Owned
Rivendell Behavioral Health Services of Kentucky	Bowling Green, Kentucky	125	Owned
River Crest Hospital	San Angelo, Texas	80	Owned
Riveredge Hospital	Forest Park, Illinois	210	Owned
River Oaks Hospital	New Orleans, Louisiana	126	Owned
River Park Hospital	Huntington, West Virginia	187	Owned
River Point Behavioral Health	Jacksonville, Florida	84	Owned
Rockford Center	Newark, Delaware	138	Owned
Rolling Hills Hospital	Franklin, Tennessee	130	Owned
Roxbury	Shippensburg, Pennsylvania	112	Owned
Salt Lake Behavioral Health	Salt Lake City, Utah	118	Leased
San Marcos Treatment Center	San Marcos, Texas	265	Owned
Sandy Pines Hospital	Tequesta, Florida	149	Owned
Schick Shadel Hospital	Burien, Washington	60	Owned
Sierra Vista Hospital	Sacramento, California	171	Owned
Southern Crescent Behavioral Health			
Anchor Hospital	Atlanta, Georgia	122	Owned
St. Simons by the Sea	St. Simons, Georgia	101	Owned
Skywood Recovery	Augusta, Michigan	100	Owned
Spring Mountain Sahara	Las Vegas, Nevada	30	Owned
Spring Mountain Treatment Center	Las Vegas, Nevada	110	Owned
Springwoods	Fayetteville, Arkansas	80	Owned
Stonington Institute	North Stonington, Connecticut	64	Owned
Streamwood Behavioral Health	Streamwood, Illinois	178	Owned
Summit Oaks Hospital	Summit, New Jersey	126	Owned
SummitRidge	Lawrenceville, Georgia	96	Owned
Suncoast Behavioral Health Center	Bradenton, Florida	60	Owned
Texas NeuroRehab Center	Austin, Texas	123	Owned
Three Rivers Behavioral Health	West Columbia, South Carolina	122	Owned
Three Rivers Residential Treatment-Midlands Campus	West Columbia, South Carolina	64	Owned
Turning Point Hospital	Moultrie, Georgia	79	Owned
University Behavioral Center	Orlando, Florida	112	Owned
University Behavioral Health of Denton	Denton, Texas	104	Owned
Valle Vista Hospital	Greenwood, Indiana	132	Owned
Valley Hospital	Phoenix, Arizona	122	Owned
The Vines Hospital	Ocala, Florida	98	Owned
Virginia Beach Psychiatric Center	Virginia Beach, Virginia	100	Owned
Wekiva Springs	Jacksonville, Florida	120	Owned
Wellstone Regional Hospital	Jeffersonville, Indiana	100	Owned

**United States:**

Name of Facility	Location	Number of Beds	Real Property Ownership Interest
West Hills Hospital	Reno, Nevada	95	Owned
West Oaks Hospital	Houston, Texas	176	Owned
Willow Springs Center	Reno, Nevada	116	Owned
Windmoor Healthcare	Clearwater, Florida	144	Owned
Windsor—Laurelwood Center	Willoughby, Ohio	160	Leased
Wyoming Behavioral Institute	Casper, Wyoming	129	Owned

**United Kingdom:**

Name of Facility	Location	Number of Beds	Real Property Ownership Interest
Acer Clinic	Chesterfield, UK	14	Owned
Acer Clinic 2	Chesterfield, UK	14	Owned
Albert Ward	Darlington, UK	25	Owned
Amberwood Lodge	Dorset, UK	9	Owned
Ashbrook	Birmingham, UK	16	Owned
Ashfield House	Huddersfield, UK	6	Owned
Aspen House	South Yorkshire, UK	20	Owned
Aspen Lodge	Rotherham, UK	16	Owned
Beacon Lower	Bradford, UK	8	Owned
Beacon Upper	Bradford, UK	8	Owned
Beckly House	Halifax, UK	12	Owned
Bostall House	London, UK	6	Owned
Bury Hospital	Bury, UK	167	Owned
Broughton House	Lincolnshire, UK	34	Owned
Broughton Lodge	Cheshire, UK	20	Owned
Cambian Alders	Gloucester, UK	20	Owned
Cambian Ansel Clinic	Nottingham, UK	25	Owned
Cambian Appletree	Durham, UK	26	Owned
Cambian Beeches	Nottinghamshire, UK	12	Owned
Cambian Birches	Notts, UK	6	Owned
Cambian Cedars	Birmingham, UK	24	Owned
Cambian Churchill	London, UK	57	Owned
Cambian Conifers	Derby, UK	7	Owned
Cambian Elms	Birmingham, UK	10	Owned
Cambian Grange	Nottinghamshire, UK	8	Owned
Cambian Heathers	West Bromwich, UK	20	Owned
Cambian Lodge	Nottinghamshire, UK	8	Owned
Cambian Manor	Central Drive, UK	20	Owned
Cambian Nightingale	Dorset, UK	10	Owned
Cambian Oaks	Barnsley, UK	36	Owned
Cambian Pines	Woodhouse, UK	7	Owned
Cambian Views	Matlock, UK	10	Owned
Cambian Woodside	Bradford, UK	9	Owned
CAS Brunel	Henbury, UK	32	Owned
Cedar Vale	Nottinghamshire, UK	14	Owned
Chaseways	Sawbridgeworth, UK	6	Owned
Cherry Tree House	Nottinghamshire, UK	6	Owned
Chesterholme	Northumberland, UK	16	Owned
Coventry	Coventry, UK	56	Owned
Cygnet Hospital—Beckton	Beckton, UK	62	Owned

**United Kingdom:**

Name of Facility	Location	Number of Beds	Real Property Ownership Interest
Cygnet Hospital—Bierley	Bierley, UK	63	Owned
Cygnet Wing—Blackheath	Blackheath, UK	32	Leased
Cygnet Lodge—Brighouse	Brighouse, UK	25	Owned
Cygnet Hospital—Derby	Derby, UK	50	Owned
Cygnet Hospital—Ealing	Ealing, UK	26	Owned
Cygnet Hospital—Godden Green	Godden Green, UK	39	Owned
Cygnet Hospital—Harrogate	Harrogate, UK	36	Owned
Cygnet Hospital—Harrow	Harrow, UK	61	Owned
Cygnet Hospital—Kewstoke	Kewstoke, UK	72	Owned
Cygnet Lodge—Lewisham	Lewisham, UK	17	Owned
Cygnet Lodge – Salford	Manchester, UK	24	Owned
Cygnet Hospital—Stevenage	Stevenage, UK	88	Owned
Cygnet Hospital—Taunton	Taunton, UK	55	Owned
Cygnet Lodge – Kenton	Westlands, UK	15	Owned
Cygnet Hospital—Wyke	Wyke, UK	49	Owned
Cygnet Lodge – Woking	Knaphill, UK	31	Owned
Delfryn House	Flintshire, UK	28	Owned
Delfryn Lodge	Flintshire, UK	24	Owned
Dene Brook	Dalton Parva, UK	13	Owned
Devon Lodge	Southampton, UK	12	Owned
Dove Valley	Wombwell, UK	10	Owned
Ducks Halt	Essex, UK	5	Owned
Eleni House	Essex, UK	8	Owned
Ellen Mhor	Dundee, UK	12	Owned
Elston House	Nottinghamshire, UK	8	Owned
Fairways	Suffolk, UK	8	Owned
Farm Lodge	Rainham, UK	5	Owned
The Fields	Sheffield, UK	54	Owned
Highwoods	Colchester, UK	20	Owned
The Fountains	Blackburn, UK	32	Owned
The Gables	Essex, UK	7	Owned
Gledcliffe Road	Huddersfield, UK	6	Owned
Gledholt	Huddersfield, UK	9	Owned
Gledholt Mews	Huddersfield, UK	21	Owned
Glyn House	Stoke on Trent, UK	5	Owned
Hawkstone	Utley, UK	10	Owned
Hollyhurst	County Durham, UK	19	Owned
Hope House	County Durham, UK	11	Owned
Kirkside House	Leeds, UK	7	Owned
Kirkside Lodge	Leeds, UK	8	Owned
Langdale House	Huddersfield, UK	8	Owned
Langdale Coach House	Huddersfield, UK	3	Owned
Larch Court	Essex, UK	4	Owned
Limes Houses	Nottinghamshire, UK	6	Owned
Lindsay House	Dundee, UK	2	Owned
Longfield House	Bradford, UK	9	Owned
Lowry House	Hyde, UK	12	Owned
Maidstone	Maidstone, UK	65	Owned
Marion House	Derby, UK	5	Owned
Meadows Mews	Tipton, UK	10	Owned
Morgan House	Stoke on Trent, UK	5	Owned
Newbus Grange	County Durham, UK	17	Owned

**United Kingdom:**

Name of Facility	Location	Number of Beds	Real Property Ownership Interest
Newham House	Middlesbrough, UK	20	Owned
Nield House	Crewe, UK	30	Owned
Norcott House	Liversedge, UK	11	Owned
Norcott Lodge	Liversedge, UK	9	Owned
North West Supported Living	Maclesfield, UK	5	Owned
Oak Court	Essex, UK	12	Owned
Oakhurst Lodge	Hampshire, UK	8	Owned
Oaklands	Northumberland, UK	19	Owned
Old Leigh House	Essex, UK	7	Leased
The Orchards	Essex, UK	5	Owned
The Outwood	Leeds, UK	10	Owned
Oxley Lodge	Huddersfield, UK	4	Owned
Oxley Woodhouse	Huddersfield, UK	13	Owned
Pindar House	Barnsley, UK	22	Owned
Portland Road 45	Edgbaston, UK	4	Leased
Raglan House	West Midlands, UK	25	Owned
Ramsey	Colchester, UK	21	Owned
Ranaich House	Stirling, UK	14	Owned
Redlands	County Durham, UK	5	Owned
Rhyd Alyn	Flintshire, UK	6	Owned
Rufford Lodge	Mansfield, UK	2	Owned
Sedgley House	Wolverhampton, UK	20	Owned
Sedgley Lodge	Wolverhampton, UK	14	Owned
Shear Meadow	Hemel Hempstead, UK	4	Owned
Sheffield Hospital	Sheffield, UK	57	Owned
Sherwood House	Mansfield, UK	30	Owned
Sherwood Lodge	Mansfield, UK	17	Owned
Sherwood Lodge Step Down	Mansfield, UK	9	Owned
The Squirrels	Hampshire, UK	9	Owned
St. Augustine's	Stoke on Trent, UK	32	Owned
St. Teilo House	Gwent, UK	23	Owned
St. Williams	Darlington, UK	12	Owned
Storthfields	Derby, UK	22	Owned
The Sycamores	Derbyshire, UK	6	Owned
The Sycamores No 4 & 5	Derbyshire, UK	4	Owned
Tabley Nursing Home—Tabley	Tabley, UK	51	Leased
Thistle Care Home	Dundee, UK	10	Owned
Thornfield Grange	County Durham, UK	9	Owned
Thornfield House	Bradford, UK	7	Owned
Thors Park	Essex, UK	14	Owned
Toller Road	Leicestershire, UK	8	Owned
Trinity House	Galloway, UK	13	Owned
Tupwood Gate Nursing Home	Caterham, UK	33	Owned
River View	County Durham, UK	6	Owned
Vincent Court	Lancashire, UK	5	Owned
Walkern Lodge	Stevenage, UK	4	Owned
Wallace Hospital	Dundee, UK	10	Owned
Wast Hills	West Midlands, UK	26	Owned
Whorlton Hall	County Durham, UK	17	Owned
Willow House	West Midlands, UK	8	Owned
Woking Hospital	Woking, UK	60	Owned
Woodcross Street	Wolverhampton, UK	8	Owned

**United Kingdom:**

Name of Facility	Location	Number of Beds	Real Property Ownership Interest
Woodrow House	Stockport, UK	9	Owned
Yew Trees	Essex, UK	10	Owned

**Puerto Rico:**

Name of Facility	Location	Number of Beds	Real Property Ownership Interest
First Hospital Panamericano—Cidra	Cidra, Puerto Rico	165	Owned
First Hospital Panamericano—San Juan	San Juan, Puerto Rico	45	Owned
First Hospital Panamericano—Ponce	Ponce, Puerto Rico	30	Owned

**Outpatient Behavioral Health Care Facilities****United States:**

Name of Facility	Location	Real Property Ownership Interest
Arbour Counseling Services	Rockland, Massachusetts	Owned
Arbour Senior Care	Rockland, Massachusetts	Owned
Behavioral Educational Services	Riverdale, Florida	Leased
The Canyon at Santa Monica	Santa Monica, California	Leased
First Home Care (VA)	Portsmouth, Virginia	Leased
Foundations Atlanta	Atlanta, Georgia	Leased
Foundations Detroit	Bingham Farms, Michigan	Leased
Foundations San Francisco	San Francisco, California	Leased
Michael's House Outpatient	Palm Springs, California	Leased
The Pointe	Little Rock, Arkansas	Leased
St. Louis Behavioral Medicine Institute	St. Louis, Missouri	Owned
Talbott Recovery	Atlanta, Georgia	Owned

**United Kingdom:**

Name of Facility	Location	Real Property Ownership Interest
Long Eaton Day Services	Nottingham, UK	Owned
Oakwood Gardens (SL)	Wolverhampton, UK	Leased
Sheffield Day Services	Sheffield, UK	Owned

**Outpatient Centers and Surgical Hospital**

Name of Facility	Location	Real Property Ownership Interest
Aiken Surgery Center	Aiken, South Carolina	Owned
Cancer Care Institute of Carolina	Aiken, South Carolina	Owned
Cornerstone Regional Hospital (4)	Edinburg, Texas	Leased
Manatee Diagnostic Center	Bradenton, Florida	Leased
Palms Westside Clinic ASC (6)	Royal Palm Beach, Florida	Leased
Quail Surgical and Pain Management Center (11)	Reno, Nevada	Leased

## Outpatient Centers and Surgical Hospital

**Real  
Property  
Ownership  
Interest**

Name of Facility	Location	Real Property Ownership Interest
Temecula Valley Day Surgery and Pain Therapy Center (5)	Murrieta, California	Leased
(1) We hold an 80% ownership interest in this facility through a general partnership interest in a limited partnership. The remaining 20% ownership interest is held by an unaffiliated third party which leases the property to the partnership for nominal rent. The term of the partnership is scheduled to expire in July, 2047, and we have five, five-year extension options. The term of the lease is coterminous with the partnership term with a fair market value rental of the property during the extension term.		
(2) Real property leased from Universal Health Realty Income Trust.		
(3) These entities are consolidated under one license operating as the South Texas Health System.		
(4) We manage and own a noncontrolling interest of approximately 50% in the entity that operates this facility.		
(5) We manage and own a majority interest in an LLC that owns and operates this center.		
(6) We own a noncontrolling ownership interest of approximately 50% in the entity that operates this facility that is managed by a third-party.		
(7) We hold an 89% ownership interest in this facility through both general and limited partnership interests. The remaining 11% ownership interest is held by unaffiliated third parties.		
(8) Land of this facility is leased.		
(9) We manage and own a noncontrolling interest of 50% in this facility. The remaining 50% ownership interest is held by an unaffiliated third party. Land of this facility is leased from the unaffiliated third party member.		
(10) We manage and hold an 80% ownership interest in this facility. The remaining 20% ownership interest is held by an unaffiliated third party.		
(11) We hold a 51% ownership interest in this facility. The remaining 49% ownership interest is held by unaffiliated third parties.		
(12) We manage and hold a 52% ownership interest in this facility. The remaining 48% ownership interest is held by an unaffiliated third party. The real property is leased from Universal Health Realty Income Trust.		

We own or lease medical office buildings adjoining some of our hospitals. We believe that the leases on the facilities, medical office buildings and other real estate leased or owned by us do not impose any material limitation on our operations. The aggregate lease payments on facilities leased by us were \$82 million in both 2020 and 2019 and \$81 million in 2018.

### **ITEM 3. Legal Proceedings**

The information regarding our legal proceedings is contained in *Note 8 to the Consolidated Financial Statements - Commitments and Contingencies*, as included this Form 10-K, is incorporated herein by reference.

### **ITEM 4. Mine Safety Disclosures**

Not applicable.

## PART II

### **ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our Class B Common Stock is traded on the New York Stock Exchange under the symbol UHS. Shares of our Class A, Class C and Class D Common Stock are not traded in any public market, but are each convertible into shares of our Class B Common Stock on a share-for-share basis.

The number of stockholders of record as of January 31, 2021, were as follows:

Class A Common	17
Class B Common	895
Class C Common	1
Class D Common	92

#### **Stock Repurchase Programs**

In July, 2019, our Board of Directors authorized a \$1.0 billion increase to our stock repurchase program, which increased the aggregate authorization to \$2.7 billion from the previous \$1.7 billion authorization approved in various increments since 2014. Pursuant to this program, which had an aggregate available repurchase authorization of \$559.6 million as of December 31, 2020, shares of our Class B Common Stock may be repurchased, from time to time as conditions allow, on the open market or in negotiated private transactions. There is no expiration date for our stock repurchase programs.

In April, 2020, as part of various COVID-19 initiatives, we suspended our stock repurchase program. We are planning to resume stock repurchases, subject to approval by our Board of Directors, during the second quarter of 2021.

As reflected below, during the three-month period ended December 31, 2020, no shares were repurchased pursuant to the terms of our stock repurchase program, since as mentioned above, we have suspended our stock repurchase program as part of our various COVID-19 initiatives. During the three –month period ended December 31, 2020, 49,525 shares were repurchased in connection with income tax withholding obligations resulting from the exercise of stock options and the vesting of restricted stock grants.

During the period of October 1, 2020 through December 31, 2020, we repurchased the following shares:

	<b>Additional Dollars Authorized For Repurchase (in thousands)</b>	<b>Total number of shares purchased</b>	<b>Total number of shares cancelled</b>	<b>Average price paid per share for forfeited restricted shares</b>	<b>Total Number of shares purchased as part of publicly announced programs</b>	<b>Average price paid per share for shares purchased as part of publicly announced programs</b>	<b>Aggregate purchase price paid (in thousands)</b>	<b>Maximum number of dollars that may yet be purchased under the program (in thousands)</b>
October, 2020	—	—	1,100	\$ 0.01	—	\$ —	\$ —	\$ 559,563
November, 2020	—	10,346	573	\$ 0.01	—	\$ —	\$ —	\$ 559,563
December, 2020	—	39,179	1,384	\$ 0.01	—	\$ —	\$ —	\$ 559,563
Total October through December	<b>\$ —</b>	<b>49,525</b>	<b>3,057</b>	<b>\$ 0.01</b>	<b>—</b>	<b>N/A</b>	<b>\$ —</b>	

#### **Dividends**

We have a history of paying quarterly cash dividends to our shareholders. In April, 2020, as part of various COVID-19 initiatives, we suspended declaration and payment of quarterly dividends. Our Board of Directors have recently approved resumption of quarterly dividend payments, of \$0.20 per share, beginning in the first quarter of 2021.

Our Credit Agreement contains covenants that include limitations on, among other things, dividends and stock repurchases (see below in *Capital Resources-Credit Facilities and Outstanding Debt Securities*).

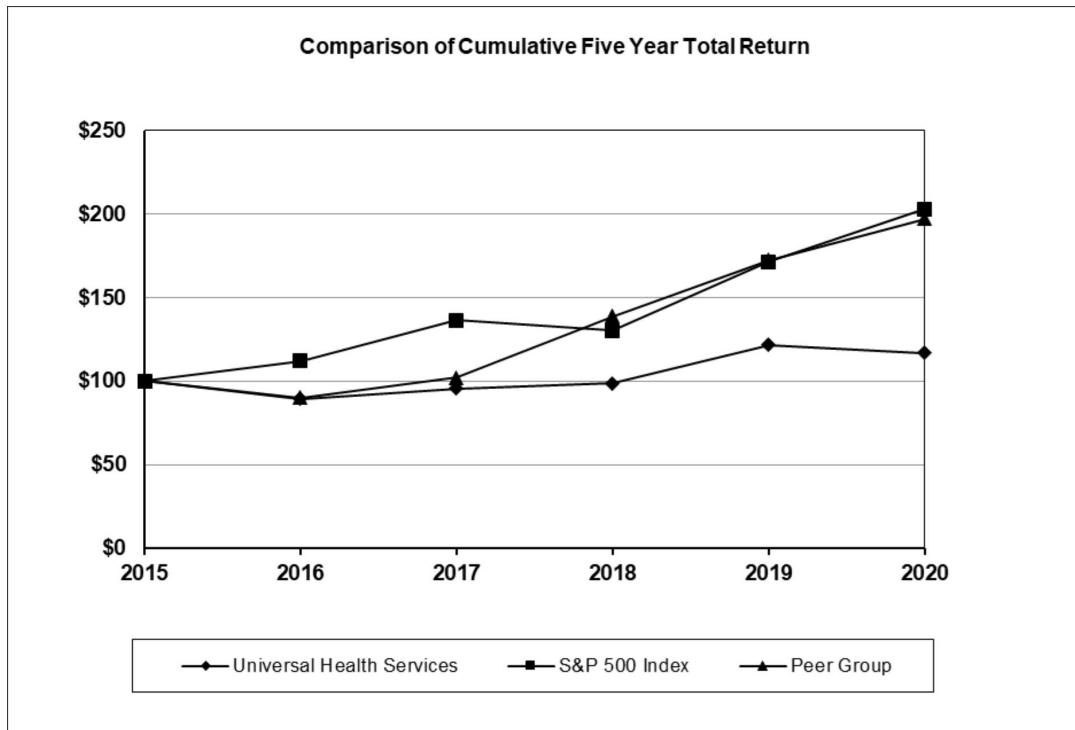
#### **Equity Compensation**

Refer to Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, of this report for information regarding securities authorized for issuance under our equity compensation plans.

### **Stock Price Performance Graph**

The following graph compares the cumulative total stockholder return on our common stock with the cumulative total return on the stock included in the Standard & Poor's 500 Index and a Peer Group Index during the five year period ended December 31, 2020. The graph assumes an investment of \$100 made in our common stock and each Index as of January 1, 2016 and has been weighted based on market capitalization. Note that our common stock price performance shown below should not be viewed as being indicative of future performance.

Companies in the peer group, which consist of companies in the S&P 500 Index or S&P MidCap 400 Index are as follows: Acadia Healthcare Company, Inc., Community Health Systems, Inc., HCA Healthcare, Inc., LifePoint Health, Inc. (included until November, 2018, when it was acquired by Apollo Management) and Tenet Healthcare Corporation.



Company Name / Index	2015 Base	2016	2017	2018	2019	2020
Universal Health Services, Inc.	\$ 100.00	\$ 89.32	\$ 95.51	\$ 98.53	\$ 121.80	\$ 116.92
S&P 500 Index	\$ 100.00	\$ 111.96	\$ 136.40	\$ 130.42	\$ 171.49	\$ 203.04
Peer Group	\$ 100.00	\$ 90.10	\$ 102.29	\$ 138.74	\$ 172.52	\$ 197.03

## ITEM 6. Selected Financial Data

The following table contains our selected financial data for, or as of the end of, each of the five years ended December 31, 2020. You should read this table in conjunction with the consolidated financial statements and related notes included elsewhere in this report and in Part II, *Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations*.

	Year Ended December 31,				
	2020	2019	2018	2017	2016
<b>Summary of Operations (in thousands)</b>					
Net revenues	\$ 11,558,897	\$ 11,378,259	\$ 10,772,278	\$ 10,409,865	\$ 9,766,210
Income before income taxes	\$ 1,252,083	\$ 1,066,337	\$ 1,034,525	\$ 1,135,009	\$ 1,156,358
Net income attributable to UHS	\$ 943,953	\$ 814,854	\$ 779,705	\$ 752,303	\$ 702,409
Net margin	8.2%	7.2%	7.2%	7.2%	7.2%
Return on average equity	16.1%	15.0%	14.6%	15.5%	16.0%
<b>Financial Data (in thousands)</b>					
Cash provided by operating activities	\$ 2,360,169	\$ 1,438,469	\$ 1,274,742	\$ 1,247,585	\$ 1,254,509
Capital expenditures, net (1)	\$ 731,307	\$ 634,095	\$ 664,962	\$ 557,506	\$ 519,939
Total assets	\$ 13,476,879	\$ 11,668,250	\$ 11,265,480	\$ 10,761,828	\$ 10,317,802
Current maturities of long-term debt	\$ 331,998	\$ 87,550	\$ 63,446	\$ 545,619	\$ 105,895
Long-term debt	\$ 3,524,253	\$ 3,896,577	\$ 3,935,187	\$ 3,494,390	\$ 4,030,230
UHS's common stockholders' equity	\$ 6,317,146	\$ 5,504,105	\$ 5,389,262	\$ 4,989,514	\$ 4,533,220
Percentage of total debt to total capitalization	38%	42%	43%	45%	48%
<b>Operating Data—Acute Care Hospitals (2)</b>					
Average licensed beds	6,457	6,379	6,232	6,127	5,934
Average available beds	6,285	6,205	6,056	5,954	5,759
Inpatient admissions	286,535	317,983	303,985	297,390	274,074
Average length of patient stay	5.1	4.6	4.5	4.4	4.6
Patient days	1,458,321	1,451,847	1,376,988	1,312,265	1,251,511
Occupancy rate for licensed beds	62%	62%	61%	59%	58%
Occupancy rate for available beds	63%	64%	62%	60%	59%
<b>Operating Data—Behavioral Health Facilities (2)</b>					
Average licensed beds	23,661	23,812	23,509	23,151	21,829
Average available beds	23,559	23,711	23,425	23,068	21,744
Inpatient admissions	448,870	488,367	482,658	467,822	456,052
Average length of patient stay	13.7	13.3	13.3	13.6	13.2
Patient days	6,142,823	6,487,707	6,418,334	6,381,756	6,004,066
Occupancy rate for licensed beds	71%	75%	75%	76%	75%
Occupancy rate for available beds	71%	75%	75%	76%	75%
<b>Per Share Data</b>					
Net income attributable to UHS—basic	\$ 11.06	\$ 9.16	\$ 8.35	\$ 7.86	\$ 7.22
Net income attributable to UHS—diluted	\$ 10.99	\$ 9.13	\$ 8.31	\$ 7.81	\$ 7.14
Dividends declared	\$ 0.20	\$ 0.60	\$ 0.40	\$ 0.40	\$ 0.40
<b>Other Information (in thousands)</b>					
Weighted average number of shares outstanding—basic	85,061	88,762	93,276	95,652	97,208
Weighted average number of shares and share equivalents outstanding—diluted	85,587	89,040	93,750	96,325	98,380

(1) Amounts exclude non-cash capital lease obligations, if any.

(2) Excludes statistical information related to divested facilities.

## **ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### ***Overview***

Our principal business is owning and operating, through our subsidiaries, acute care hospitals and outpatient facilities and behavioral health care facilities.

As of February 25, 2021, we owned and/or operated 360 inpatient facilities and 39 outpatient and other facilities including the following located in 38 states, Washington, D.C., the United Kingdom and Puerto Rico:

#### ***Acute care facilities located in the U.S.:***

- 26 inpatient acute care hospitals;
- 17 free-standing emergency departments, and;
- 6 outpatient centers & 1 surgical hospital.

#### ***Behavioral health care facilities (334 inpatient facilities and 15 outpatient facilities):***

##### ***Located in the U.S.:***

- 185 inpatient behavioral health care facilities, and;
- 12 outpatient behavioral health care facilities.

##### ***Located in the U.K.:***

- 146 inpatient behavioral health care facilities, and;
- 3 outpatient behavioral health care facilities.

##### ***Located in Puerto Rico:***

- 3 inpatient behavioral health care facilities.

As a percentage of our consolidated net revenues, net revenues from our acute care hospitals, outpatient facilities and commercial health insurer accounted for 55% during 2020, 54% during 2019 and 53% during 2018. Net revenues from our behavioral health care facilities and commercial health insurer accounted for 45% of our consolidated net revenues during 2020, 46% during 2019 and 47% during 2018.

Our behavioral health care facilities located in the U.K. generated net revenues of approximately \$584 million in 2020, \$554 million in 2019 and \$505 million in 2018. Total assets at our U.K. behavioral health care facilities were approximately \$1.334 billion as of December 31, 2020, \$1.270 billion as of December 31, 2019 and \$1.224 billion as of December 31, 2018.

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

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

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

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

- we are subject to risks associated with public health threats and epidemics, including the health concerns relating to the COVID-19 pandemic. In January 2020, the Centers for Disease Control and Prevention (“CDC”) confirmed the spread of the disease to the United States. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. The federal government has declared COVID-19 a national emergency, as many federal and state authorities have implemented aggressive measures to “flatten the curve” of confirmed individuals diagnosed with COVID-19 in an attempt to curtail the spread of the virus and to avoid overwhelming the health care system;
- the COVID-19 pandemic has adversely impacted and is likely to further adversely impact us, our employees, our patients, our vendors and supply chain partners, and financial institutions, which could continue to have a material adverse effect on our business, results of operations and financial condition. In an effort to slow the spread of the disease, since March, 2020, at various times, most state and local governments mandated general “shelter-in-place” orders or other similar restrictions that require or strongly encourage social distancing and, face coverings, and that have closed or limited non-essential business activities. Some of these restrictions remain in place. Additionally, evidence suggests that individuals may be deciding to forego medical care delivered in traditional venues. These dynamics have manifested themselves in our hospitals in, among other ways, reduced emergency room visits, elective/scheduled procedures and acute and behavioral health patient days. While such measures are expected to assist in responding to the recent outbreak, self-quarantines, shelter-in-place orders, and suspension of voluntary procedures and surgeries have had, and will likely continue to have, an adverse impact on the operations and financial position of health care provider systems due to increased costs (including labor costs which have been pressured during the COVID-19 pandemic due to a shortage of clinicians and increased wage rates resulting from increased demand for those services), actual reduction and potential reduction in overall patient volume, and shifts in payor mix. Despite these measures, there have been waves of escalated COVID-19 cases at various times, including the fourth quarter of 2020 and into the first quarter of 2021, in many states in the U.S., including many states in which we operate hospitals. Recently, COVID-19 vaccinations have begun to be administered and while we expect the administration of vaccines will assist in easing the number of COVID-19 patients, the pace at which this is likely to occur is difficult to predict. The extent to which the COVID-19 pandemic and measures taken in response thereto impact our business, results of operations and financial condition will depend on numerous factors and future developments, most of which are beyond our control or ability to predict. The ultimate impact of the COVID-19 pandemic is highly uncertain and subject to change. We are not able to fully quantify the impact that these factors will have on our future financial results, but expect developments related to the COVID-19 pandemic to materially affect our financial performance in 2021. Even after the COVID-19 pandemic has subsided, we may continue to experience materially adverse impacts on our financial condition and our results of operations as a result of its macroeconomic impact, including any recession that has occurred or may occur in the future, and many of our known risks described in the *Risk Factors* section herein;
- the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), a stimulus package signed into law on March 27, 2020, authorizes \$100 billion in grant funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (the “PHSSEF”). These funds are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using PHSSEF funds to reimburse expenses or losses that other sources are obligated to reimburse. However, since the expenses and losses will be ultimately measured over the life of the COVID-19 pandemic, potential retrospective unfavorable adjustments in future periods, of funds recorded as revenues in prior periods, could occur. The U.S. Department of Health and Human Services (“HHS”) initially distributed \$30 billion of this funding based on each provider’s share of total Medicare fee-for-service reimbursement in 2019. Subsequently, HHS distributed \$50 billion in CARES Act funding (including the \$30 billion already distributed) would be allocated proportional to providers’ share of 2018 net patient revenue. We have received payments from these initial distributions of the PHSSEF as disclosed herein. HHS has indicated that distributions of the remaining \$50 billion will be targeted primarily to hospitals in COVID-19 high impact areas, to rural providers, safety net hospitals and certain Medicaid providers and to reimburse providers for COVID-19-related treatment of uninsured patients. We have received payments from these targeted distributions of the PHSSEF, as disclosed herein. The CARES Act also makes other forms of financial assistance available to healthcare providers, including through Medicare and Medicaid payment adjustments and an expansion of the Medicare Accelerated and Advance Payment Program, which makes available accelerated payments of Medicare funds in order to increase cash flow to providers. On April 26, 2020, CMS announced it was reevaluating and temporarily suspending the Accelerated and Advance Payment Program in light of the availability of the PHSSEF and the significant funds available through other programs. We have received accelerated payments under this program as disclosed herein. The Paycheck Protection Program and Health Care Enhancement Act (the “PPPHCE Act”), a stimulus package signed into law on April 24, 2020,

includes additional emergency appropriations for COVID-19 response, including \$75 billion to be distributed to eligible providers through the PHSSEF. A third phase of PHSSEF allocations was recently announced, under which \$24.5 billion was made available for providers who previously received, rejected or accepted PHSSEF payments. Applicants that have not yet received PHSSEF payments of 2 percent of patient revenue will receive a payment that, when combined with prior payments (if any), equals 2 percent of patient care revenue. Providers that have already received payments of approximately 2 percent of annual revenue from patient care can submit more information and may be eligible for an additional payment. On December 27, 2020, the Consolidated Appropriations Act, 2021 (“CAA”) was signed into law. The CAA appropriated an additional \$3 billion to the PHSSEF, codified flexibility for providers to calculate lost revenues, and permitted parent organizations to allocate PHSSEF targeted distributions to subsidiary organizations. The CAA also provides that not less than 85 percent of the unobligated PHSSEF amounts and any future funds recovered from health care providers should be used for additional distributions that consider financial losses and changes in operating expenses in the third or fourth quarters of 2020 and the first quarter of 2021 that are attributable to the coronavirus. The CAA provided additional funding for testing, contact tracing and vaccine administration. Providers receiving payments were required to sign terms and conditions regarding utilization of the payments. Any provider receiving funds in excess of \$10,000 in the aggregate will be required to report data elements to HHS detailing utilization of the payments. Providers will report healthcare related expenses attributable to COVID-19 that have not been reimbursed by another source, which may include general and administrative or healthcare related operating expenses. Funds may also be applied to lost revenues, represented as a negative change in year-over-year net patient care operating income. All Provider Relief Fund payments must be expended by June 30, 2021. Recipients will not be required to repay the government for funds received, provided they comply with HHS-defined terms and conditions. There is a high degree of uncertainty surrounding the implementation of the CARES Act and the PPPHCE Act, and the federal government may consider additional stimulus and relief efforts, but we are unable to predict whether additional stimulus measures will be enacted or their impact. There can be no assurance as to the total amount of financial and other types of assistance we will receive under the CARES Act and the PPPHCE Act, and it is difficult to predict the impact of such legislation on our operations or how they will affect operations of our competitors. Moreover, we are unable to assess the extent to which anticipated negative impacts on us arising from the COVID-19 pandemic will be offset by amounts or benefits received or to be received under the CARES Act and the PPPHCE Act;

- our ability to comply with the existing laws and government regulations, and/or changes in laws and government regulations;
- an increasing number of legislative initiatives have been passed into law that may result in major changes in the health care delivery system on a national or state level. Legislation has already been enacted that has eliminated the penalty for failing to maintain health coverage that was part of the original Patient Protection and Affordable Care Act (the “Legislation”). President Biden is expected to undertake executive actions that will strengthen the Legislation and may reverse the policies of the prior administration. The Trump Administration had directed the issuance of final rules (i) enabling the formation of association health plans that would be exempt from certain Legislation requirements such as the provision of essential health benefits; (iii) expanding the of short-term, limited duration health insurance, (iii) eliminating cost-sharing reduction payments to insurers that would otherwise offset deductibles and other out-of-pocket expenses for health plan enrollees at or below 250 percent of the federal poverty level; (iv) relaxing requirements for state innovation waivers that could reduce enrollment in the individual and small group markets and lead to additional enrollment in short-term, limited duration insurance and association health plans, and; (v) incentivizing the use of health reimbursement arrangements by employers to permit employees to purchase health insurance in the individual market. The uncertainty resulting from these Executive Branch policies has led to reduced Exchange enrollment in 2018, 2019 and 2020 and is expected to further worsen the individual and small group market risk pools in future years. It is also anticipated that these policies, to the extent that they remain as implements, may create additional cost and reimbursement pressures on hospitals, including ours. In addition, while attempts to repeal the entirety of the Legislation have not been successful to date, a key provision of the Legislation was repealed as part of the Tax Cuts and Jobs Act and on December 14, 2018, a federal U.S. District Court Judge in Texas ruled the entire Legislation is unconstitutional. That ruling was appealed and on December 18, 2019, the Fifth Circuit Court of Appeals voted 2-1 to strike down the Legislation individual mandate as unconstitutional and sent the case back to the U.S. District Court in Texas to determine which Legislation provisions should be stricken with the mandate or whether the entire law is unconstitutional without the individual mandate. On March 2, 2020, the U.S. Supreme Court agreed to hear, during the 2020-2021 term, two consolidated cases, filed by the State of California and the United States House of Representatives, asking the Supreme Court to review the ruling by the Fifth Circuit Court of Appeals. Oral argument was heard on November 10, 2020, and a ruling is expected in 2021. The Legislation will remain law while the case proceeds through the appeals process; however, the case creates additional uncertainty as to whether any or all of the Legislation could be struck down, which creates operational risk for the health care industry. We are unable to predict the final outcome of this matter which has caused greater uncertainty regarding the future status of the Legislation. If all or any parts of the Legislation are ultimately found to be unconstitutional, it could have a material adverse effect on our business, financial condition and results of operations. See below in *Sources of Revenue and Health Care Reform* for additional disclosure;

- under the Legislation, hospitals are required to make public a list of their standard charges, and effective January 1, 2019, CMS has required that this disclosure be in machine-readable format and include charges for all hospital items and services and average charges for diagnosis-related groups. On November 27, 2019, CMS published a final rule on “Price Transparency Requirements for Hospitals to Make Standard Charges Public.” This rule took effect on January 1, 2021 and requires all hospitals to also make public their payor-specific negotiated rates, minimum negotiated rates, maximum negotiated rates, and cash for all items and services, including individual items and services and service packages, that could be provided by a hospital to a patient. Failure to comply with these requirements may result in daily monetary penalties;
- as part of the CAA, Congress passed legislation aimed at preventing or limiting patient balance billing in certain circumstances. The CAA addresses surprise medical bills stemming from emergency services, out-of-network ancillary providers at in-network facilities, and air ambulance carriers. The legislation prohibits surprise billing when out-of-network emergency services or out-of-network services at an in-network facility are provided, unless informed consent is received. In these circumstances providers are prohibited from billing the patient for any amounts that exceed in-network cost-sharing requirements. The legislation requires HHS, as well as the Department of the Treasury, and Department of Labor to issue implementing regulations within a year of enactment;
- possible unfavorable changes in the levels and terms of reimbursement for our charges by third party payers or government based payers, including Medicare or Medicaid in the United States, and government based payers in the United Kingdom;
- our ability to enter into managed care provider agreements on acceptable terms and the ability of our competitors to do the same, including contracts with United/Sierra Healthcare in Las Vegas, Nevada. Effective January, 2020, United/Sierra Healthcare in Las Vegas, entered into an agreement with a competitor health system that was previously excluded from their contractual network in the area. As a result, we believe that our 6 acute care hospitals in the Las Vegas, Nevada market, will likely experience a decline in patient volumes. However, we have entered into an amended agreement with United/Sierra Healthcare related to our hospitals in the Las Vegas market that provide for various rate increases beginning in January, 2020. Although we estimate that the unfavorable impact of the projected declines in patient volumes should be largely offset by the favorable impact of the increased rates, we can provide no assurance that these developments, as well as the effect of COVID-19 on the Las Vegas market, will not have a material adverse impact on our future results of operations;
- the outcome of known and unknown litigation, government investigations, false claims act allegations, and liabilities and other claims asserted against us and other matters as disclosed in *Note 8 to the Consolidated Financial Statements - Commitments and Contingencies* and the effects of adverse publicity relating to such matters;
- the unfavorable impact on our business of the deterioration in national, regional and local economic and business conditions, including a worsening of unfavorable credit market conditions;
- competition from other healthcare providers (including physician owned facilities) in certain markets;
- technological and pharmaceutical improvements that increase the cost of providing, or reduce the demand for healthcare;
- our ability to attract and retain qualified personnel, nurses, physicians and other healthcare professionals and the impact on our labor expenses resulting from a shortage of nurses and other healthcare professionals;
- demographic changes;
- we experienced a cyberattack in September, 2020 that had an adverse effect on our operating results during the fourth quarter of 2020. Although we can provide no assurance or estimation related to the amount of the ultimate insurance proceeds that we may receive in connection with this incident, we believe we are entitled to recovery of the majority of the unfavorable economic impact of the cyberattack pursuant to a commercial insurance policy. However, there is a heightened risk of future cybersecurity threats, including ransomware attacks targeting healthcare providers. If successful, future cyberattacks could have a material adverse effect on our business. Any costs that we incur as a result of a data security incident or breach, including costs to update our security protocols to mitigate such an incident or breach could be significant. Any breach or failure in our operational security systems can result in loss of data or an unauthorized disclosure of or access to sensitive or confidential member or protected personal or health information and could result in significant penalties or fines, litigation, loss of customers, significant damage to our reputation and business, and other losses;
- the availability of suitable acquisition and divestiture opportunities and our ability to successfully integrate and improve our acquisitions since failure to achieve expected acquisition benefits from certain of our prior or future acquisitions could result in impairment charges for goodwill and purchased intangibles;
- the impact of severe weather conditions, including the effects of hurricanes and climate change;

- as discussed below in *Sources of Revenue*, we receive revenues from various state and county based programs, including Medicaid in all the states in which we operate (we receive Medicaid revenues in excess of \$100 million annually from each of California, Texas, Nevada, Washington, D.C., Pennsylvania, Illinois and Massachusetts); CMS-approved Medicaid supplemental programs in certain states including Texas, Mississippi, Illinois, Oklahoma, Nevada, Arkansas, California and Indiana, and; state Medicaid disproportionate share hospital payments in certain states including Texas and South Carolina. We are therefore particularly sensitive to potential reductions in Medicaid and other state based revenue programs as well as regulatory, economic, environmental and competitive changes in those states. We can provide no assurance that reductions to revenues earned pursuant to these programs, and the effect of the COVID-19 pandemic on state budgets, particularly in the above-mentioned states, will not have a material adverse effect on our future results of operations;
- our ability to continue to obtain capital on acceptable terms, including borrowed funds, to fund the future growth of our business;
- our inpatient acute care and behavioral health care facilities may experience decreasing admission and length of stay trends;
- our financial statements reflect large amounts due from various commercial and private payers and there can be no assurance that failure of the payers to remit amounts due to us will not have a material adverse effect on our future results of operations;
- in August, 2011, the Budget Control Act of 2011 (the “2011 Act”) was enacted into law. The 2011 Act imposed annual spending limits for most federal agencies and programs aimed at reducing budget deficits by \$917 billion between 2012 and 2021, according to a report released by the Congressional Budget Office. Among its other provisions, the law established a bipartisan Congressional committee, known as the Joint Select Committee on Deficit Reduction (the “Joint Committee”), which was tasked with making recommendations aimed at reducing future federal budget deficits by an additional \$1.5 trillion over 10 years. The Joint Committee was unable to reach an agreement by the November 23, 2011 deadline and, as a result, across-the-board cuts to discretionary, national defense and Medicare spending were implemented on March 1, 2013 resulting in Medicare payment reductions of up to 2% per fiscal year with a uniform percentage reduction across all Medicare programs. The Bipartisan Budget Act of 2015, enacted on November 2, 2015, continued the 2% reductions to Medicare reimbursement imposed under the 2011 Act. The CARES Act suspended payment reductions between May 1 and December 31, 2020, in exchange for extended cuts through 2030. The CAA extended the suspension of payment reductions until March 31, 2021. We cannot predict whether Congress will restructure the implemented Medicare payment reductions or what other federal budget deficit reduction initiatives may be proposed by Congress going forward;
- uninsured and self-pay patients treated at our acute care facilities unfavorably impact our ability to satisfactorily and timely collect our self-pay patient accounts;
- changes in our business strategies or development plans;
- in June, 2016, the United Kingdom affirmatively voted in a non-binding referendum in favor of the exit of the United Kingdom (“U.K.”) from the European Union (the “Brexit”) and it was approved by vote of the British legislature. On March 29, 2017, the United Kingdom triggered Article 50 of the Lisbon Treaty, formally starting negotiations regarding its exit from the European Union. On January 31, 2020, the U.K. formally exited the European Union. On December 24, 2020, the United Kingdom and the European Union reached a post-Brexit trade and cooperation agreement that created new business and security requirements and preserved the United Kingdom’s tariff- and quota-free access to the European Union member states. We do not know to what extent Brexit will ultimately impact the business and regulatory environment in the U.K., the European Union, or other countries. Any of these effects of Brexit, and others we cannot anticipate, could harm our business, financial condition and results of operations;
- fluctuations in the value of our common stock, and;
- other factors referenced herein or in our other filings with the Securities and Exchange Commission.

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

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes.

A summary of our significant accounting policies is outlined in Note 1 to the financial statements. We consider our critical accounting policies to be those that require us to make significant judgments and estimates when we prepare our financial statements, including the following:

**Revenue Recognition:** On January 1, 2018, we adopted, using the modified retrospective approach, ASU 2014-09 and ASU 2016-08, “Revenue from Contracts with Customers (Topic 606)” and “Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)”, respectively, which provides guidance for revenue recognition. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The most significant change from the adoption of the new standard relates to our estimation for the allowance for doubtful accounts. Under the previous standards, our estimate for amounts not expected to be collected based upon our historical experience, were reflected as provision for doubtful accounts, included within net revenue. Under the new standard, our estimate for amounts not expected to be collected based on historical experience will continue to be recognized as a reduction to net revenue, however, not reflected separately as provision for doubtful accounts. Under the new standard, subsequent changes in estimate of collectability due to a change in the financial status of a payer, for example a bankruptcy, will be recognized as bad debt expense in operating charges. The adoption of this ASU in 2018, and amounts recognized as bad debt expense and included in other operating expenses, did not have a material impact on our consolidated financial statements.

See *Note 10 to the Consolidated Financial Statements-Revenue Recognition*, for additional disclosure related to our revenues including a disaggregation of our consolidated net revenues by major source for each of the periods presented herein.

We report net patient service revenue at the estimated net realizable amounts from patients and third-party payers and others for services rendered. We have agreements with third-party payers that provide for payments to us at amounts different from our established rates. Payment arrangements include rates per discharge, reimbursed costs, discounted charges and per diem payments. Estimates of contractual allowances, which represent explicit price concessions under ASC 606, under managed care plans are based upon the payment terms specified in the related contractual agreements. We closely monitor our historical collection rates, as well as changes in applicable laws, rules and regulations and contract terms, to assure that provisions are made using the most accurate information available. However, due to the complexities involved in these estimations, actual payments from payers may be different from the amounts we estimate and record.

We estimate our Medicare and Medicaid revenues using the latest available financial information, patient utilization data, government provided data and in accordance with applicable Medicare and Medicaid payment rules and regulations. The laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation and as a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. Certain types of payments by the Medicare program and state Medicaid programs (e.g. Medicare Disproportionate Share Hospital, Medicare Allowable Bad Debts and Inpatient Psychiatric Services) are subject to retroactive adjustment in future periods as a result of administrative review and audit and our estimates may vary from the final settlements. Such amounts are included in accounts receivable, net, on our Consolidated Balance Sheets. The funding of both federal Medicare and state Medicaid programs are subject to legislative and regulatory changes. As such, we cannot provide any assurance that future legislation and regulations, if enacted, will not have a material impact on our future Medicare and Medicaid reimbursements. Adjustments related to the final settlement of these retrospectively determined amounts did not materially impact our results in 2020, 2019 or 2018. If it were to occur, each 1% adjustment to our estimated net Medicare revenues that are subject to retrospective review and settlement as of December 31, 2020, would change our after-tax net income by approximately \$1 million.

**Charity Care, Uninsured Discounts and Other Adjustments to Revenue:** Collection of receivables from third-party payers and patients is our primary source of cash and is critical to our operating performance. Our primary collection risks relate to uninsured patients and the portion of the bill which is the patient’s responsibility, primarily co-payments and deductibles. We estimate our revenue adjustments for implicit price concessions based on general factors such as payer mix, the aging of the receivables and historical collection experience. We routinely review accounts receivable balances in conjunction with these factors and other economic conditions which might ultimately affect the collectability of the patient accounts and make adjustments to our allowances as warranted. At our acute care hospitals, third party liability accounts are pursued until all payment and adjustments are posted to the patient account. For those accounts with a patient balance after third party liability is finalized or accounts for uninsured patients, the patient receives statements and collection letters.

Historically, a significant portion of the patients treated throughout our portfolio of acute care hospitals are uninsured patients which, in part, has resulted from patients who are employed but do not have health insurance or who have policies with relatively high deductibles. Patients treated at our hospitals for non-elective services, who have gross income of various amounts, dependent upon the state, ranging from 200% to 400% of the federal poverty guidelines, are deemed eligible for charity care. The federal poverty

guidelines are established by the federal government and are based on income and family size. Because we do not pursue collection of amounts that qualify as charity care, the transaction price is fully adjusted and there is no impact in our net revenues or in our accounts receivable, net.

A portion of the accounts receivable at our acute care facilities are comprised of Medicaid accounts that are pending approval from third-party payers but we also have smaller amounts due from other miscellaneous payers such as county indigent programs in certain states. Our patient registration process includes an interview of the patient or the patient's responsible party at the time of registration. At that time, an insurance eligibility determination is made and an insurance plan code is assigned. There are various pre-established insurance profiles in our patient accounting system which determine the expected insurance reimbursement for each patient based on the insurance plan code assigned and the services rendered. Certain patients may be classified as Medicaid pending at registration based upon a screening evaluation if we are unable to definitively determine if they are currently Medicaid eligible. When a patient is registered as Medicaid eligible or Medicaid pending, our patient accounting system records net revenues for services provided to that patient based upon the established Medicaid reimbursement rates, subject to the ultimate disposition of the patient's Medicaid eligibility. When the patient's ultimate eligibility is determined, reclassifications may occur which impacts net revenues in future periods. Although the patient's ultimate eligibility determination may result in adjustments to net revenues, these adjustments did not have a material impact on our results of operations in 2020, 2019 or 2018 since our facilities make estimates at each financial reporting period to adjust revenue based on historical collections. Under ASC 605, these estimates were reported in the provision for doubtful accounts.

We also provide discounts to uninsured patients (included in "uninsured discounts" amounts below) who do not qualify for Medicaid or charity care. Because we do not pursue collection of amounts classified as uninsured discounts, the transaction price is fully adjusted and there is no impact in our net revenues or in our net accounts receivable. In implementing the discount policy, we first attempt to qualify uninsured patients for governmental programs, charity care or any other discount program. If an uninsured patient does not qualify for these programs, the uninsured discount is applied.

#### ***Uncompensated care (charity care and uninsured discounts):***

The following table shows the amounts recorded at our acute care hospitals for charity care and uninsured discounts, based on charges at established rates, for the years ended December 31, 2020, 2019 and 2018:

	(dollar amounts in thousands)					
	2020		2019		2018	
	Amount	%	Amount	%	Amount	%
Charity care	\$ 622,668	28%	\$ 672,326	31%	\$ 761,783	40%
Uninsured discounts	1,578,470	72%	1,511,738	69%	1,132,811	60%
Total uncompensated care	\$ 2,201,138	100%	\$ 2,184,064	100%	\$ 1,894,594	100%

#### ***The estimated cost of providing uncompensated care:***

The estimated cost of providing uncompensated care, as reflected below, were based on a calculation which multiplied the percentage of operating expenses for our acute care hospitals to gross charges for those hospitals by the above-mentioned total uncompensated care amounts. The percentage of cost to gross charges is calculated based on the total operating expenses for our acute care facilities divided by gross patient service revenue for those facilities. An increase in the level of uninsured patients to our facilities and the resulting adverse trends in the adjustments to net revenues and uncompensated care provided could have a material unfavorable impact on our future operating results.

	(amounts in thousands)		
	2020	2019	2018
Estimated cost of providing charity care	\$ 73,690	\$ 77,886	\$ 94,088
Estimated cost of providing uninsured discounts related care	186,804	175,128	139,913
Estimated cost of providing uncompensated care	\$ 260,494	\$ 253,014	\$ 234,001

**Self-Insured/Other Insurance Risks:** We provide for self-insured risks including general and professional liability claims, workers' compensation claims and healthcare and dental claims. Our estimated liability for self-insured professional and general liability claims is based on a number of factors including, among other things, the number of asserted claims and reported incidents, estimates of losses for these claims based on recent and historical settlement amounts, estimate of incurred but not reported claims based on historical experience, and estimates of amounts recoverable under our commercial insurance policies. All relevant information, including our own historical experience is used in estimating the expected amount of claims. While we continuously monitor these factors, our ultimate liability for professional and general liability claims could change materially from our current estimates due to inherent uncertainties involved in making this estimate. Our estimated self-insured reserves are reviewed and changed, if necessary, at each reporting date and changes are recognized currently as additional expense or as a reduction of expense. In addition, we also: (i) own commercial health insurers headquartered in Reno, Nevada, and Puerto Rico and; (ii) maintain self-

insured employee benefits programs for employee healthcare and dental claims. The ultimate costs related to these programs/operations include expenses for claims incurred and paid in addition to an accrual for the estimated expenses incurred in connection with claims incurred but not yet reported. Given our significant insurance-related exposure, 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.

See Note 8 to the Consolidated Financial Statements-Commitments and Contingencies, for additional disclosure related to our professional and general liability, workers' compensation liability and property insurance.

**Long-Lived Assets:** We review our long-lived assets for impairment whenever events or circumstances indicate that the carrying value of these assets may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of our asset based on our estimate of its undiscounted future cash flow. If the analysis indicates that the carrying value is not recoverable from future cash flows, the asset is written down to its estimated fair value and an impairment loss is recognized. Fair values are determined based on estimated future cash flows using appropriate discount rates.

**Goodwill and Intangible Assets:** Goodwill and indefinite-lived intangible assets are reviewed for impairment at the reporting unit level on an annual basis or sooner if the indicators of impairment arise. Our judgments regarding the existence of impairment indicators are based on market conditions and operational performance of each reporting unit. We have designated October 1st as our annual impairment assessment date for our goodwill and indefinite-lived intangible assets.

We performed an impairment assessment as of October 1, 2020 which indicated no impairment of goodwill. There were also no goodwill impairments during 2019 or 2018.

Our 2019 and 2018 financial results included aggregate pre-tax provisions for asset impairments of \$98 million and \$49 million, respectively, recorded in connection with Foundations Recovery Network, L.L.C. ("Foundations"), which was acquired by us in 2015. These pre-tax provisions for asset impairments include: (i) a \$124 million impairment provision to write-off the carrying value of the Foundations' tradename intangible asset (\$75 million recorded during 2019 and \$49 million recorded during 2018), and; (ii) a \$23 million impairment provision recorded during 2019 to reduce the carrying value of real property assets of certain Foundations' facilities. Please see below in *Provision for Asset Impairment-Foundations Recovery Network* for additional information.

Future changes in the estimates used to conduct the impairment review, including profitability and market value projections, could indicate impairment in future periods potentially resulting in a write-off of a portion or all of our goodwill or indefinite-lived intangible assets.

**Income Taxes:** Deferred tax assets and liabilities are recognized for the amount of taxes payable or deductible in future years as a result of differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. We believe that future income will enable us to realize our deferred tax assets net of recorded valuation allowances relating to state and foreign net operating loss carry-forwards, foreign tax credits, and interest deduction limitations.

On December 22, 2017, the President of the United States signed into law comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 (the "TCJA-17"). The TCJA-17 made broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (2) requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries; (3) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (4) requiring current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations through the implementation of a territorial tax system; (5) creating a new limitation on deductible interest expense, and; (6) limiting certain other deductions. We provided a provisional estimate of the effects of the TCJA-17 in the fourth quarter of 2017 financial statements. In the fourth quarter of 2018, we completed our analysis to determine the effects of the TCJA-17 in accordance with Staff Accounting Bulletin No. 118 as follows:

*Reduction of U.S. federal corporate tax rate:* The TCJA-17 reduces the corporate tax rate to 21 percent, effective January 1, 2018. Deferred income taxes are based on the estimated future tax effects of differences between the financial statement carrying amounts and the tax basis of assets and liabilities under the provisions of the enacted laws. For certain of our deferred tax assets and deferred tax liabilities, we recorded a provisional decrease of \$97 million and \$127 million, respectively, with a corresponding net adjustment to deferred tax benefit of \$30 million for the year ended December 31, 2017. Upon completion of our 2017 U.S. Corporate Income Tax Return, an increase of \$1 million attributable to certain deferred tax assets and a decrease of \$5 million attributable to certain deferred tax liabilities was recorded resulting in an additional net deferred tax benefit of \$6 million.

*Deemed Repatriation Transition Tax:* The Deemed Repatriation Transition Tax ("Transition Tax") is a tax on previously untaxed accumulated and current earnings and profits ("E&P") of certain of our foreign subsidiaries. The one-time Transition Tax is based upon the amount of post-1986 E&P of the relevant subsidiaries, the amount of non-U.S. income tax paid on such earnings, as well as other factors. We originally estimated and recorded a provisional Transition Tax obligation of \$11.3 million. Upon

completion of our 2017 U.S. Corporate Income Tax Return, the final Transition Tax increased by \$100,000 for a total of \$11.4 million.

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 through the year ended December 31, 2006. We believe that adequate accruals have been provided for federal, foreign and state taxes.

See *Provision for Income Taxes and Effective Tax Rates* below for discussion of our effective tax rates during each of the last three years.

**Recent Accounting Pronouncements:** For a summary of recent accounting pronouncements, please see *Note 1 to the Consolidated Financial Statements-Accounting Standards* as included in this Report on Form 10-K for the year ended December 31, 2020.

**CARES Act and Other Governmental Grants and Medicare Accelerated Payments:**

As of December 31, 2020, we have received an aggregate of \$1.112 billion as follows:

- Approximately \$417 million of funds received from various governmental stimulus programs, most notably the PHSSEF, as provided for by the CARES Act.
  - Included in our net income attributable to UHS for the year ended December 31, 2020, was the favorable impact of approximately \$309 million resulting from the recording of approximately \$413 million of CARES Act and other grant income revenues. Approximately \$316 million of the grant income revenues were attributable to our acute care services and approximately \$97 million were attributable to our behavioral health care services.
  - As of December 31, 2020, approximately \$4 million of these funds remain in the Medicare accelerated payments and deferred CARES Act and other grants liability account in our consolidated balance sheet.
  - Approximately \$695 million of Medicare accelerated payments received pursuant to the Medicare Accelerated and Advance Payment Program (“MAAPP”). Pursuant to legislation enacted on October 1, 2020, these funds are required to be repaid to the government beginning in the second quarter of 2021 through the third quarter of 2022 through withholding of future Medicare revenues earned during those periods. There was no impact on our earnings during 2020 in connection with receipt of these funds.
    - We are planning for the early repayment of the \$695 million of Medicare accelerated payments previously received pursuant to the MAAPP. We have commenced the repayment process and anticipate that the \$695 million of funds will be repaid to the government in March or April of 2021.

Additional CARES Act grants amounting to \$187 million were received in January, 2021. There was no impact on our results of operations for the year ended December 31, 2020 in connection with receipt of these funds.

Please see *Sources of Revenue- 2019 Novel Coronavirus Disease Medicare and Medicaid Payment Related Legislation* below for additional disclosure.

**Information Technology Incident:**

As previously disclosed on September 29, 2020, we experienced an information technology security incident in the early morning hours of September 27, 2020. As a result of this cyberattack, we suspended user access to our information technology applications related to operations located in the United States. While our information technology applications were offline, patient care was delivered safely and effectively at our facilities across the country utilizing established back-up processes, including offline documentation methods. Our information technology applications were substantially restored at our acute care and behavioral health hospitals at various times in October, 2020, on a rolling/staggered basis, and our facilities generally resumed standard operating procedures at that time.

Immediately after the incident, we worked diligently with our information technology security partners to restore our information technology infrastructure and business operations as quickly as possible. In parallel, we began investigating the nature and potential impact of the security incident and engaged third-party information technology and forensic vendors to assist. No evidence of unauthorized access, copying or misuse of any patient or employee data has been identified to date.

Given the disruption to the standard operating procedures at our facilities during the period of September 27, 2020 into October, 2020, certain patient activity, including ambulance traffic and elective/scheduled procedures at our acute care hospitals, were diverted to competitor facilities. We also incurred significant incremental labor expense, both internal and external, to restore information technology operations as expeditiously as possible. Additionally, certain administrative functions such as coding and billing were delayed into December, 2020, which had a negative impact on our operating cash flows during the fourth quarter of 2020.

As a result of these factors, we estimate that this incident had an aggregate unfavorable pre-tax impact of approximately \$67 million during the year ended December 31, 2020. The substantial majority of the unfavorable impact was attributable to our acute care services and consisted primarily of lost operating income resulting from the related decrease in patient activity as well as increased revenue reserves recorded in connection with the associated billing delays. Also included were certain labor expenses, professional fees and other operating expenses incurred as a direct result of this incident and the related disruption to our operations. Although we can provide no assurance or estimation related to the receipt timing, or amount, of the proceeds that we may receive pursuant to commercial insurance coverage we have in connection with this incident, we believe we are entitled to recovery of the majority of the ultimate financial impact resulting from the cyberattack.

### **Results of Operations**

The following table summarizes our results of operations, and is used in the discussion below, for the years ended December 31, 2020, 2019 and 2018 (dollar amounts in thousands):

	Year Ended December 31,					
	2020		2019		2018	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues	\$ 11,558,897	100.0%	\$ 11,378,259	100.0%	\$ 10,772,278	100.0%
Operating charges:						
Salaries, wages and benefits	5,613,097	48.6%	5,588,893	49.1%	5,254,536	48.8%
Other operating expenses	2,672,762	23.1%	2,723,911	23.9%	2,614,687	24.3%
Supplies expense	1,288,132	11.1%	1,251,346	11.0%	1,168,654	10.8%
Depreciation and amortization	510,493	4.4%	490,392	4.3%	453,045	4.2%
Lease and rental expense	116,059	1.0%	107,809	0.9%	106,094	1.0%
Subtotal-operating expenses	<u>10,200,543</u>	<u>88.2%</u>	<u>10,162,351</u>	<u>89.3%</u>	<u>9,597,016</u>	<u>89.1%</u>
Income from operations	1,358,354	11.8%	1,215,908	10.7%	1,175,262	10.9%
Interest expense, net	106,285	0.9%	162,733	1.4%	154,956	1.4%
Other (income) expense, net	(14)	0.0%	(13,162)	-0.1%	(14,219)	-0.1%
Income before income taxes	1,252,083	10.8%	1,066,337	9.4%	1,034,525	9.6%
Provision for income taxes	299,293	2.6%	238,794	2.1%	236,642	2.2%
Net income	952,790	8.2%	827,543	7.3%	797,883	7.4%
Less: Net income attributable to noncontrolling interests	8,837	0.1%	12,689	0.1%	18,178	0.2%
Net income attributable to UHS	<u>\$ 943,953</u>	<u>8.2%</u>	<u>\$ 814,854</u>	<u>7.2%</u>	<u>\$ 779,705</u>	<u>7.2%</u>

#### **Year Ended December 31, 2020 as compared to the Year Ended December 31, 2019:**

Net revenues increased 1.6%, or \$181 million, to \$11.56 billion during 2020 as compared to \$11.38 billion during 2019. As discussed above, included in our net revenues during 2020 was approximately \$413 million of net revenues recorded in connection with various governmental stimulus programs, most notably the CARES Act.

The increase in net revenues was primarily attributable to:

- a \$216 million or 1.9% increase in net revenues generated from our acute care and behavioral health care operations owned during both periods (which we refer to as “same facility”), and;
- \$35 million of other combined net decreases including a \$13 million reduction in revenues related to provider tax programs which had no impact on net income attributable to UHS as reflected above since the amounts were offset between net revenues and other operating expenses.

Income before income taxes increased \$186 million to \$1.25 billion during 2020 as compared to \$1.07 billion during 2019. The net increase in our income before income taxes during 2020, as compared to 2019, was due to the following:

- a decrease of \$20 million at our acute care facilities, as discussed below in *Acute Care Hospital Services*, including the favorable impact of approximately \$306 million (net of amounts attributable noncontrolling interests) resulting from the

\$316 million of net revenues recorded during 2020 in connection with various governmental stimulus programs, most notably the CARES Act;

- an increase of \$24 million at our behavioral health care facilities, as discussed below in *Behavioral Health Services*, including the favorable impact of approximately \$97 million resulting from the net revenues recorded during 2020 in connection with various governmental stimulus programs, most notably the CARES Act, and excluding the impact of a \$98 million provision for asset impairment recorded 2019;
- an increase of \$98 million due to a provision for asset impairment recorded during 2019 in connection with Foundations Recovery Network, L.L.C. (see *Other Operating Results-Provision for Asset Impairment-Foundations Recovery Network* below for additional disclosure);
- an increase of \$56 million due to a decrease in interest expense due primarily to lower average outstanding borrowings and a decrease in the average cost of borrowings, as discussed below in *Other Operating Results-Interest Expense*;
- an increase of \$11 million due to an increase recorded during 2019 to the reserve previously established in connection with the settlement finalized in July, 2020 with the Department of Justice, Civil Division, and;
- \$17 million of other combined net increases.

Net income attributable to UHS increased \$129 million to \$944 million during 2020 as compared to \$815 million during 2019. This increase was attributable to:

- a \$186 million increase in income before income taxes, as discussed above;
- an increase of \$4 million due to a decrease in income attributable to noncontrolling interests, and;
- a decrease of \$60 million resulting from an increase in the provision for income taxes due primarily to: (i) the income tax provision recorded in connection with the \$186 million increase in pre-tax income; (ii) a \$20 million increase in the provision for income taxes recorded in connection with our adoption of ASU 2016-09 which increased our provision for income taxes by approximately \$7 million during 2020, as compared to a decrease of approximately \$12 million during 2019; partially offset by; (iii) a \$6 million decrease in the provision for income taxes due to the 2019 recording of the non-deductible portion of the net federal and state income taxes due on the settlement finalized in July, 2020 with the Department of Justice, Civil Division. Please see additional disclosure below in *Other Operating Results-Provision for Income Taxes and Effective Tax Rates*.

**Increase to self-insured professional and general liability reserves:**

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. As a result of unfavorable trends experienced during 2020, we recorded an increase of \$25 million to our reserves for self-insured professional and general liability claims. Approximately \$19 million of the increase to our reserves for self-insured professional and general liability claims is included in our same facility basis acute care hospitals services' results, as reflected below, and approximately \$6 million is included in our behavioral health services' results.

**Year Ended December 31, 2019 as compared to the Year Ended December 31, 2018:**

Net revenues increased 5.6%, or \$606 million, to \$11.38 billion during 2019 as compared to \$10.77 billion during 2018. The increase was primarily attributable to:

- a \$583 million or 5.5% increase in net revenues generated from our acute care and behavioral health care operations on a same facility basis, and;
- \$23 million of other combined net revenue increases due primarily to the revenues generated at 25 behavioral health facilities located in the U.K. acquired during the third quarter of 2018 in connection with our acquisition of The Danshell Group.

Income before income taxes increased \$32 million to \$1.07 billion during 2019 as compared to \$1.03 billion during 2018. The net increase in our income before income taxes during 2019, as compared to 2018, was due to the following:

- an increase of \$5 million as discussed below in Acute Care Hospital Services;
- an increase of \$34 million as discussed below in Behavioral Health Services, excluding the asset impairment charges recorded during 2019 and 2018 related to Foundations Recovery Network, LLC, as discussed below;

- a net increase of \$91 million due to a favorable change in the pre-tax increases recorded during 2019 and 2018 to the reserve established in connection with the civil aspects of the government's investigation of certain of our behavioral health care facilities (\$11 million pre-tax reserve increase recorded during 2019 as compared to a \$102 million pre-tax increase recorded during 2018);
- a net decrease of \$49 million from an increase in the asset impairment charges recorded during 2019 (\$98 million) and 2018 (\$49 million) in connection with Foundations Recovery Network, LLC which was acquired by us during 2015 (see *Other Operating Results-Provision for Asset Impairment-Foundations Recovery Network* below for additional disclosure);
- a decrease of \$8 million resulting from an increase in interest expense, as discussed below in *Other Operating Results-Interest Expense*, and;
- \$41 million of other combined net decreases.

Net income attributable to UHS increased \$35 million to \$815 million during 2019 as compared to \$780 million during 2018.

The increase consisted of:

- an increase of \$32 million in income before income taxes, as discussed above;
- an increase of \$5 million due to a decrease in the income attributable to noncontrolling interests, and;
- a decrease of \$2 million resulting from a net increase in the provision for income taxes resulting primarily from: (i) an increase in the provision for income taxes due to the \$32 million increase in pre-tax income; (ii) a \$6 million increase in the provision for income taxes recorded during 2019 resulting from the net estimated federal and state income taxes due on the portion of the reserve established in connection with the civil aspects of the government's investigation of certain of our behavioral health care facilities that is estimated to be non-deductible for income tax purposes, partially offset by; (iii) a decrease in the provision for income taxes of \$11 million resulting from our adoption of ASU 2016-09 which decreased our provision for income taxes by approximately \$12 million during 2019, as compared to a decrease of approximately \$1 million during 2018. Please see additional disclosure below in *Other Operating Results-Provision for Income Taxes and Effective Tax Rates*.

#### ***Acute Care Hospital Services***

***Year Ended December 31, 2020 as compared to the Year Ended December 31, 2019:***

##### **Acute Care Hospital Services-Same Facility Basis**

We believe that providing our results on a "Same Facility" basis (which is a non-GAAP measure), which includes the operating results for facilities and businesses operated in both the current year and prior year periods, is helpful to our investors as a measure of our operating performance. Our Same Facility results also neutralize (if applicable) the effect of items that are non-operational in nature including items such as, but not limited to, gains/losses on sales of assets and businesses, impacts of settlements, legal judgments and lawsuits, impairments of long-lived and intangible assets and other amounts that may be reflected in the current or prior year financial statements that relate to prior periods.

Our Same Facility basis results reflected on the tables below also exclude from net revenues and other operating expenses, provider tax assessments incurred in each period as discussed below *Sources of Revenue-Various State Medicaid Supplemental Payment Programs*. However, these provider tax assessments are included in net revenues and other operating expenses as reflected in the table below under *All Acute Care Hospital Services*. The provider tax assessments had no impact on the income before income taxes as reflected on the tables below since the amounts offset between net revenues and other operating expenses. To obtain a complete understanding of our financial performance, the Same Facility results should be examined in connection with our net income as determined in accordance with GAAP and as presented in the condensed consolidated financial statements and notes thereto as contained in this Annual Report on Form 10-K.

The following table summarizes the results of operations for our acute care hospital services on a same facility basis and is used in the discussions below for the years ended December 31, 2020 and 2019 (dollar amounts in thousands):

	Year Ended December 31, 2020		Year Ended December 31, 2019	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues	\$ 6,238,236	100.0%	\$ 6,054,901	100.0%
Operating charges:				
Salaries, wages and benefits	2,611,143	41.9%	2,559,682	42.3%
Other operating expenses	1,462,627	23.4%	1,365,015	22.5%
Supplies expense	1,081,154	17.3%	1,049,747	17.3%
Depreciation and amortization	318,077	5.1%	305,264	5.0%
Lease and rental expense	69,638	1.1%	60,485	1.0%
Subtotal-operating expenses	5,542,639	88.8%	5,340,193	88.2%
Income from operations	695,597	11.2%	714,708	11.8%
Interest expense, net	1,567	0.0%	1,330	0.0%
Other (income) expense, net	0	0.0%	(32)	0.0%
Income before income taxes	\$ 694,030	11.1%	\$ 713,410	11.8%

On a same facility basis during 2020, as compared to 2019, net revenues from our acute care hospital services increased \$183 million or 3.0%. Income before income taxes (and before income attributable to noncontrolling interests) decreased \$19 million, or 3%, to \$694 million or 11.1% of net revenues during 2020 as compared to \$713 million or 11.8% of net revenues during 2019.

As mentioned above, included in our acute care hospital services' revenues during 2020 was approximately \$316 million of revenues recorded in connection with funds received from various governmental stimulus programs, most notably the CARES Act. Excluding these governmental stimulus program revenues from 2020, net revenues from our acute care hospital services, on a same facility basis, decreased \$132 million or 2.2% during 2020, as compared to 2019, and income before income taxes decreased \$335 million or 47% during 2020, as compared to 2019.

During 2020, excluding the impact of the \$316 million of governmental stimulus program revenues recorded during 2020, net revenue per adjusted admission increased 14.1% while net revenue per adjusted patient day increased 2.4%, as compared to 2019. During 2020, as compared to 2019, inpatient admissions to our acute care hospitals decreased 9.9% and adjusted admissions decreased 15.2%. Patient days at these facilities increased 0.4% and adjusted patient days decreased 5.5% during 2020 as compared to 2019. The average length of inpatient stay at these facilities increased to 5.1 days during 2020, as compared to 4.6 days during 2019. The occupancy rate, based on the average available beds at these facilities, was 63% and 64% during 2020 and 2019, respectively.

As mentioned above, we estimate that the information technology security incident that occurred on September 27, 2020, had an aggregate unfavorable pre-tax impact of approximately \$67 million on our consolidated results of operations during the year ended December 31, 2020. The substantial majority of the unfavorable impact was attributable to our acute care services and consisted primarily of lost operating income resulting from the related decrease in patient activity as well as increased revenue reserves recorded in connection with the associated billing delays. Please see *Information Technology Incident* as included above for additional disclosure regarding this incident, including potential related commercial insurance recoveries.

#### **All Acute Care Hospital Services**

The following table summarizes the results of operations for all our acute care operations during 2020 and 2019. These amounts include: (i) our acute care results on a same facility basis, as indicated above; (ii) the impact of provider tax assessments which increased net revenues and other operating expenses but had no impact on income before income taxes, and; (iii) certain other amounts including, if applicable, the results of recently acquired/opened ancillary businesses. Dollar amounts below are reflected in thousands.

	Year Ended December 31, 2020		Year Ended December 31, 2019	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues	\$ 6,337,304	100.0%	\$ 6,164,560	100.0%
Operating charges:				
Salaries, wages and benefits	2,611,514	41.2%	2,559,682	41.5%
Other operating expenses	1,561,875	24.6%	1,474,674	23.9%
Supplies expense	1,081,159	17.1%	1,049,747	17.0%
Depreciation and amortization	318,124	5.0%	305,264	5.0%
Lease and rental expense	69,638	1.1%	60,485	1.0%
Subtotal-operating expenses	5,642,310	89.0%	5,449,852	88.4%
Income from operations	694,994	11.0%	714,708	11.6%
Interest expense, net	1,567	0.0%	1,330	0.0%
Other (income) expense, net	0	0.0%	(32)	0.0%
Income before income taxes	\$ 693,427	10.9%	\$ 713,410	11.6%

During 2020, as compared to 2019, net revenues from our acute care hospital services increased \$173 million or 2.8% to \$6.34 billion as compared to \$6.16 billion during 2019 due to: (i) the \$183 million, or 3.0%, increase in same facility revenues, as discussed above, and; (ii) an \$10 million reduction in provider tax assessments which had no impact on net income attributable to UHS since the amounts were offset between net revenues and other operating expenses.

Income before income taxes decreased \$20 million, or 3%, to \$693 million or 10.9% of net revenues during 2020 as compared to \$713 million or 11.6% of net revenues during 2019. The \$20 million decrease in income before income taxes from our acute care hospital services resulted from the decrease in income before income taxes at our hospitals, on a same facility basis, as discussed above.

Excluding the above-mentioned \$316 million of revenues recorded during 2020 in connection with various governmental stimulus programs, net revenues from our acute care hospital services decreased \$143 million or 2.3% during 2020, as compared to 2019, and income before income taxes decreased \$336 million or 47% during 2020, as compared to 2019.

***Year Ended December 31, 2019 as compared to the Year Ended December 31, 2018:***

**Acute Care Hospital Services-Same Facility Basis**

The following table summarizes the results of operations for our acute care hospital services on a same facility basis and is used in the discussions below for the years ended December 31, 2019 and 2018 (dollar amounts in thousands):

	Year Ended December 31, 2019		Year Ended December 31, 2018	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues	\$ 6,053,228	100.0%	\$ 5,621,338	100.0%
Operating charges:				
Salaries, wages and benefits	2,556,383	42.2%	2,366,985	42.1%
Other operating expenses	1,364,735	22.5%	1,242,521	22.1%
Supplies expense	1,048,639	17.3%	968,067	17.2%
Depreciation and amortization	304,206	5.0%	278,661	5.0%
Lease and rental expense	60,324	1.0%	57,235	1.0%
Subtotal-operating expenses	5,334,287	88.1%	4,913,469	87.4%
Income from operations	718,941	11.9%	707,869	12.6%
Interest expense, net	1,330	0.0%	1,658	0.0%
Other (income) expense, net	(32)	0.0%	(2,498)	0.0%
Income before income taxes	\$ 717,643	11.9%	\$ 708,709	12.6%

On a same facility basis during 2019, as compared to 2018, net revenues from our acute care services increased \$432 million or 7.7%. Income before income taxes increased \$9 million or 1% to \$718 million or 11.9% of net revenues during 2019 as compared to \$709 million or 12.6% of net revenues during 2018.

Inpatient admissions to our acute care hospitals owned during both years increased 4.6% during 2019, as compared to 2018, while patient days increased 5.4%. Adjusted admissions (adjusted for outpatient activity) increased 4.8% and adjusted patient days increased 5.7% during 2019, as compared to 2018. The average length of inpatient stay at these facilities was 4.6 days during 2019 and 4.5 days during 2018. The occupancy rate, based on the average available beds at these facilities, was 64% during 2019 and 62% during 2018. On a same facility basis, net revenue per adjusted admission at these facilities increased 2.5% during 2019, as compared to 2018, and net revenue per adjusted patient day increased 1.7% during 2019, as compared to 2018.

### **All Acute Care Hospital Services**

The following table summarizes the results of operations for all our acute care operations during 2019 and 2018. These amounts include: (i) our acute care results on a same facility basis, as indicated above; (ii) the impact of provider tax assessments which increased net revenues and other operating expenses but had no impact on income before income taxes, and; (iii) certain other amounts including, if applicable, the results of recently acquired/opened ancillary businesses. Dollar amounts below are reflected in thousands.

	Year Ended December 31, 2019		Year Ended December 31, 2018	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues	\$ 6,164,560	100.0%	\$ 5,719,905	100.0%
Operating charges:				
Salaries, wages and benefits	2,559,682	41.5%	2,367,014	41.4%
Other operating expenses	1,474,674	23.9%	1,341,088	23.4%
Supplies expense	1,049,747	17.0%	968,067	16.9%
Depreciation and amortization	305,264	5.0%	278,661	4.9%
Lease and rental expense	60,485	1.0%	57,235	1.0%
Subtotal-operating expenses	5,449,852	88.4%	5,012,065	87.6%
Income from operations	714,708	11.6%	707,840	12.4%
Interest expense, net	1,330	0.0%	1,658	0.0%
Other (income) expense, net	(32)	0.0%	(2,498)	0.0%
Income before income taxes	\$ 713,410	11.6%	\$ 708,680	12.4%

During 2019, as compared to 2018, net revenues generated from our acute care hospital services increased \$445 million or 7.8% to \$6.16 billion due primarily to: (i) a \$432 million, or 7.7%, increase same facility revenues, as discussed above, and; (ii) other combined net increase of \$13 million due primarily to increased provider tax assessments incurred during 2019 as compared to 2018.

Income before income taxes increased \$5 million to \$713 million or 11.6% of net revenues during 2019 as compared to \$709 million or 12.4% of net revenues during 2018. The increase resulted from the \$9 million increase in income before income taxes from our acute care hospital services, on a same facility basis, as discussed above, partially offset by \$4 million of other combined net unfavorable changes.

### ***Behavioral Health Care Services***

#### ***Year Ended December 31, 2020 as compared to the Year Ended December 31, 2019***

##### **Behavioral Health Care Services-Same Facility Basis**

Our Same Facility basis results (which is a non-GAAP measure), which include the operating results for facilities and businesses operated in both the current year and prior year period, neutralize (if applicable) the effect of items that are non-operational in nature including items such as, but not limited to, gains/losses on sales of assets and businesses, impact of the reserve established in connection with the civil aspects of the government's investigation of certain of our behavioral health care facilities, impacts of settlements, legal judgments and lawsuits, impairments of long-lived and intangible assets and other amounts that may be reflected in the current or prior year financial statements that relate to prior periods. Our Same Facility basis results reflected on the table below also excludes from net revenues and other operating expenses, provider tax assessments incurred in each period as discussed below *Sources of Revenue-Various State Medicaid Supplemental Payment Programs*. However, these provider tax assessments are included in net revenues and other operating expenses as reflected in the table below under *All Behavioral Health Care Services*. The provider tax assessments had no impact on the income before income taxes as reflected on the tables below since the amounts offset between net revenues and other operating expenses. To obtain a complete understanding of our financial performance, the Same Facility results should be examined in connection with our net income as determined in accordance with GAAP and as presented in the condensed consolidated financial statements and notes thereto as contained in this Annual Report on Form 10-K.

The following table summarizes the results of operations for our behavioral health care services, on a same facility basis, and is used in the discussions below for the years ended December 31, 2020 and 2019 (dollar amounts in thousands):

	Year Ended December 31, 2020		Year Ended December 31, 2019	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues	\$ 5,124,358	100.0%	\$ 5,092,071	100.0%
Operating charges:				
Salaries, wages and benefits	2,722,041	53.1%	2,711,813	53.3%
Other operating expenses	931,850	18.2%	952,714	18.7%
Supplies expense	204,658	4.0%	199,726	3.9%
Depreciation and amortization	176,652	3.4%	167,340	3.3%
Lease and rental expense	42,532	0.8%	42,956	0.8%
Subtotal-operating expenses	4,077,733	79.6%	4,074,549	80.0%
Income from operations	1,046,625	20.4%	1,017,522	20.0%
Interest expense, net	1,447	0.0%	1,460	0.0%
Other (income) expense, net	1,060	0.0%	404	0.0%
Income before income taxes	\$ 1,044,118	20.4%	\$ 1,015,658	19.9%

On a same facility basis during 2020, net revenues generated from our behavioral health services increased \$32 million, or 0.6%, to \$5.12 billion, from \$5.09 billion generated during 2019. Income before income taxes increased \$28 million, or 3%, to \$1.04 billion or 20.4% of net revenues during 2020, as compared to \$1.02 billion or 19.9% of net revenues during 2019.

As mentioned above, included in our behavioral health services' revenues during 2020 was approximately \$97 million of revenues recorded in connection with funds received from various governmental stimulus programs, most notably the CARES Act. Excluding these governmental stimulus program revenues from 2020, net revenues from our behavioral health services, on a same facility basis, decreased \$65 million or 1.3% during 2020, as compared to 2019, and income before income taxes decreased \$69 million or 7% during 2020, as compared to 2019.

During 2020, excluding the impact of the \$97 million of governmental stimulus program revenues, net revenue per adjusted admission increased 7.3% and net revenue per adjusted patient day increased 4.3%, as compared to 2019. On a same facility basis, inpatient admissions and adjusted admissions to our behavioral health facilities decreased 7.5% and 8.0%, respectively, during 2020 as compared to 2019. Patient days and adjusted patient days at these facilities decreased 4.8% and 5.3% during 2020, respectively, as compared to 2019. The average length of inpatient stay at these facilities was 13.7 days and 13.3 days during 2020 and 2019, respectively. The occupancy rate, based on the average available beds at these facilities, was 71% and 76% during 2020 and 2019, respectively.

#### **All Behavioral Health Care Services**

The following table summarizes the results of operations for all our behavioral health care services during 2020 and 2019. These amounts include: (i) our behavioral health care results on a same facility basis, as indicated above; (ii) the impact of provider tax assessments which increased net revenues and other operating expenses but had no impact on income before income taxes; (iii) provision for asset impairments recorded during 2019 in connection with Foundations Recovery Network, L.L.C., and; (iv) certain other amounts including the results of facilities acquired or opened during the past year as well as the results of certain facilities that were closed or restructured during the past year. Dollar amounts below are reflected in thousands.

	Year Ended December 31, 2020		Year Ended December 31, 2019	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues	\$ 5,208,722	100.0%	\$ 5,210,063	100.0%
Operating charges:				
Salaries, wages and benefits	2,727,129	52.4%	2,739,871	52.6%
Other operating expenses	1,023,733	19.7%	1,152,733	22.1%
Supplies expense	204,711	3.9%	201,114	3.9%
Depreciation and amortization	182,012	3.5%	172,697	3.3%
Lease and rental expense	45,505	0.9%	46,799	0.9%
Subtotal-operating expenses	4,183,090	80.3%	4,313,214	82.8%
Income from operations	1,025,632	19.7%	896,849	17.2%
Interest expense, net	1,599	0.0%	1,460	0.0%
Other (income) expense, net	776	0.0%	(5,576)	-0.1%
Income before income taxes	\$ 1,023,257	19.6%	\$ 900,965	17.3%

During 2020, as compared to 2019, net revenues generated from our behavioral health services decreased \$1 million due to: (i) the above-mentioned \$32 million or 0.6% increase in net revenues on a same facility basis, and; (ii) \$33 million other combined net decreases.

Income before income taxes increased \$122 million, or 14%, to \$1.02 billion or 19.6% of net revenues during 2020, as compared to \$901 million or 17.3% of net revenues during 2019. The increase in income before income taxes at our behavioral health facilities was due primarily to: (i) the above-mentioned \$28 million increase on a same facility basis, and; (ii) the \$98 million provision for asset impairment recorded during 2019 in connection with Foundations Recovery Network, L.L.C. (see *Other Operating Results-Provision for Asset Impairment-Foundations Recovery Network* below for additional disclosure).

Excluding the above-mentioned \$97 million of revenues recorded during 2020 in connection with various governmental stimulus programs, net revenues from our behavioral health services decreased \$98 million or 1.9% during 2020, as compared to 2019, and income before income taxes increased \$25 million or 3% during 2020, as compared to 2019.

#### ***Year Ended December 31, 2019 as compared to the Year Ended December 31, 2018***

##### **Behavioral Health Care Services-Same Facility Basis**

The following table summarizes the results of operations for our behavioral health care services, on a same facility basis, and is used in the discussions below for the years ended December 31, 2019 and 2018 (dollar amounts in thousands):

	Year Ended December 31, 2019		Year Ended December 31, 2018	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Net revenues	\$ 5,058,199	100.0%	\$ 4,907,002	100.0%
Operating charges:				
Salaries, wages and benefits	2,687,677	53.1%	2,577,411	52.5%
Other operating expenses	947,073	18.7%	939,220	19.1%
Supplies expense	199,578	3.9%	197,243	4.0%
Depreciation and amortization	163,963	3.2%	155,652	3.2%
Lease and rental expense	44,123	0.9%	45,673	0.9%
Subtotal-operating expenses	4,042,414	79.9%	3,915,199	79.8%
Income from operations	1,015,785	20.1%	991,803	20.2%
Interest expense, net	1,460	0.0%	1,597	0.0%
Other (income) expense, net	(380)	0.0%	2,530	0.1%
Income before income taxes	\$ 1,014,705	20.1%	\$ 987,676	20.1%

On a same facility basis during 2019, as compared to 2018, net revenues generated from our behavioral health care services increased \$151 million or 3.1% to \$5.06 billion during 2019 as compared to \$4.91 billion during 2018. Income before income taxes

increased \$27 million or 3% to \$1.01 billion or 20.1% of net revenues during 2019 as compared to \$988 million or 20.1% of net revenues during 2018.

Inpatient admissions to our behavioral health care facilities owned during both years increased 1.1% during 2019, as compared to 2018, while patient days increased 0.5%. Adjusted admissions increased 1.2% and adjusted patient days increased 0.6% during 2019, as compared to 2018. The average length of inpatient stay at these facilities were 13.1 days and 13.2 days during 2019 and 2018, respectively. The occupancy rate, based on the average available beds at these facilities, were 76% during each of 2019 and 2018. On a same facility basis, net revenue per adjusted admission at these facilities increased 2.2% during 2019, as compared to 2018, and net revenue per adjusted patient day increased 2.7% during 2019, as compared to 2018.

During 2019, as compared to longer term historical trends, admission growth slowed, in part, due to labor shortages in selected geographies which reduced our ability to fully meet the demand of patients eligible for admission.

### **All Behavioral Health Care Services**

The following table summarizes the results of operations for all our behavioral health care services during 2019 and 2018. These amounts include: (i) our behavioral health care results on a same facility basis, as indicated above; (ii) the impact of provider tax assessments which increased net revenues and other operating expenses but had no impact on income before income taxes; (iii) provision for asset impairments recorded during 2019 and 2018 in connection with Foundations Recovery Network, L.L.C., and; (iv) certain other amounts including the results of facilities acquired or opened during the past year as well as the results of certain facilities that were closed or restructured during the past year. Dollar amounts below are reflected in thousands.

	Year Ended December 31, 2019		Year Ended December 31, 2018	
	Amount	% of Net Revenues	Amount	% of Net Revenues
		100.0%		100.0%
Net revenues	\$ 5,210,063		\$ 5,038,874	
Operating charges:				
Salaries, wages and benefits	2,739,871	52.6%	2,617,337	51.9%
Other operating expenses	1,152,733	22.1%	1,091,102	21.7%
Supplies expense	201,114	3.9%	200,008	4.0%
Depreciation and amortization	172,697	3.3%	163,155	3.2%
Lease and rental expense	46,799	0.9%	48,316	1.0%
Subtotal-operating expenses	4,313,214	82.8%	4,119,918	81.8%
Income from operations	896,849	17.2%	918,956	18.2%
Interest expense, net	1,460	0.0%	1,597	0.0%
Other (income) expense, net	(5,576)	-0.1%	1,842	0.0%
Income before income taxes	\$ 900,965	17.3%	\$ 915,517	18.2%

During 2019, as compared to 2018, net revenues generated from our behavioral health care services increased \$171 million, or 3.4%, to \$5.21 billion during 2019 as compared to \$5.04 billion during 2018. The increase in net revenues was attributable to: (i) \$151 million or 3.1% increase in same facility revenues, as discussed above, and; (ii) a \$20 million other combined net increase consisting primarily of the revenues generated at the 25 behavioral health facilities acquired in the U.K. acquired during the third quarter of 2018 in connection with our acquisition of The Danshell Group.

Income before income taxes decreased \$15 million or 2% to \$901 million or 17.3% of net revenues during 2019 as compared to \$916 billion or 18.2% of net revenues during 2018. The decrease in income before income taxes at our behavioral health facilities was attributable to:

- a \$27 million increase at our behavioral health facilities on a same facility basis, as discussed above;
- a net decrease of \$49 million from the asset impairment charges recorded during 2019 (\$98 million) and 2018 (\$49 million) in connection with Foundations Recovery Network, LLC which was acquired by us during 2015 (see *Other Operating Results-Provision for Asset Impairment-Foundations Recovery Network* below for additional disclosure), and;
- other combined net increase of \$7 million including a \$6 million gain on asset disposal recording during 2019.

### ***Sources of Revenue***

**Overview:** We receive payments for services rendered from private insurers, including managed care plans, the federal government under the Medicare program, state governments under their respective Medicaid programs and directly from patients.

Hospital revenues depend upon inpatient occupancy levels, the medical and ancillary services and therapy programs ordered by physicians and provided to patients, the volume of outpatient procedures and the charges or negotiated payment rates for such services. Charges and reimbursement rates for inpatient routine services vary depending on the type of services provided (e.g., medical/surgical, intensive care or behavioral health) and the geographic location of the hospital. Inpatient occupancy levels fluctuate for various reasons, many of which are beyond our control. The percentage of patient service revenue attributable to outpatient services has generally increased in recent years, primarily as a result of advances in medical technology that allow more services to be provided on an outpatient basis, as well as increased pressure from Medicare, Medicaid and private insurers to reduce hospital stays and provide services, where possible, on a less expensive outpatient basis. We believe that our experience with respect to our increased outpatient levels mirrors the general trend occurring in the health care industry and we are unable to predict the rate of growth and resulting impact on our future revenues.

Patients are generally not responsible for any difference between customary hospital charges and amounts reimbursed for such services under Medicare, Medicaid, some private insurance plans, and managed care plans, but are responsible for services not covered by such plans, exclusions, deductibles or co-insurance features of their coverage. The amount of such exclusions, deductibles and co-insurance has generally been increasing each year. Indications from recent federal and state legislation are that this trend will continue. Collection of amounts due from individuals is typically more difficult than from governmental or business payers which unfavorably impacts the collectability of our patient accounts.

As described below in the section titled *2019 Novel Coronavirus Disease Medicare and Medicaid Payment Related Legislation*, the federal government has enacted multiple pieces of legislation to assist healthcare providers during the COVID-19 world-wide pandemic and U.S. National Emergency declaration. We have outlined those legislative changes related to Medicare and Medicaid payment and their estimated impact on our financial results, where estimates are possible.

**Sources of Revenues and Health Care Reform:** Given increasing budget deficits, the federal government and many states are currently considering additional ways to limit increases in levels of Medicare and Medicaid funding, which could also adversely affect future payments received by our hospitals. In addition, the uncertainty and fiscal pressures placed upon the federal government as a result of, among other things, impacts on state revenue and expenses resulting from the COVID-19 pandemic, economic recovery stimulus packages, responses to natural disasters, and the federal and state budget deficits in general may affect the availability of government funds to provide additional relief in the future. We are unable to predict the effect of future policy changes on our operations.

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act (the “Legislation”). Two primary goals of the Legislation are to provide for increased access to coverage for healthcare and to reduce healthcare-related expenses.

The Legislation revises reimbursement under the Medicare and Medicaid programs to emphasize the efficient delivery of high quality care and contains a number of incentives and penalties under these programs to achieve these goals. The Legislation provides for decreases in the annual market basket update for federal fiscal years 2010 through 2019, a productivity offset to the market basket update beginning October 1, 2011 for Medicare Part B reimbursable items and services and beginning October 1, 2012 for Medicare inpatient hospital services. The Legislation and subsequent revisions provide for reductions to both Medicare DSH and Medicaid DSH payments. The Medicare DSH reductions began in October, 2013 while the Medicaid DSH reductions are scheduled to begin in 2024. The Legislation implemented a value-based purchasing program, which will reward the delivery of efficient care. Conversely, certain facilities will receive reduced reimbursement for failing to meet quality parameters; such hospitals will include those with excessive readmission or hospital-acquired condition rates.

A 2012 U.S. Supreme Court ruling limited the federal government’s ability to expand health insurance coverage by holding unconstitutional sections of the Legislation that sought to withdraw federal funding for state noncompliance with certain Medicaid coverage requirements. Pursuant to that decision, the federal government may not penalize states that choose not to participate in the Medicaid expansion by reducing their existing Medicaid funding. Therefore, states can choose to expand or not to expand their Medicaid program without risking the loss of federal Medicaid funding. As a result, many states, including Texas, have not expanded their Medicaid programs without the threat of loss of federal funding. CMS has granted, and is expected to grant additional, section 1115 demonstration waivers providing for work and community engagement requirements for certain Medicaid eligible individuals. CMS has also released guidance to states interested in receiving their Medicaid funding through a block grant mechanism. It is anticipated this will lead to reductions in coverage, and likely increases in uncompensated care, in states where these demonstration waivers are granted.

On December 14, 2018, a Texas Federal District Court deemed the Legislation to be unconstitutional in its entirety. The Court concluded that the Individual Mandate is no longer permissible under Congress’s taxing power as a result of the Tax Cut and Jobs Act of 2017 (“TCJA”) reducing the individual mandate’s tax to \$0 (i.e., it no longer produces revenue, which is an essential feature of a tax), rendering the Legislation unconstitutional. The court also held that because the individual mandate is “essential” to

the Legislation and is inseverable from the rest of the law, the entire Legislation is unconstitutional. Because the court issued a declaratory judgment and did not enjoin the law, the Legislation remains in place pending its appeal. The District Court for the Northern District of Texas ruling was appealed to the U.S. Court of Appeals for the Fifth Circuit. On December 18, 2019, the Fifth Circuit Court of Appeals' three-judge panel voted 2-1 to strike down the Legislation individual mandate as unconstitutional. The Fifth Circuit Court also sent the case back to the Texas district court to determine which Legislation provisions should be stricken with the mandate or whether the entire Legislation is unconstitutional. On March 2, 2020, the U.S. Supreme Court agreed to hear, during the 2020-2021 term, two consolidated cases, filed by the State of California and the United States House of Representatives, asking the Supreme Court to review the ruling by the Fifth Circuit Court of Appeals. Oral argument was heard on November 10, 2020, and a ruling is expected in 2021. On February 10, 2021, the Department of Justice announced that it has withdrawn support for the challenge before the Supreme Court. The Legislation will remain law while the case proceeds through the appeals process; however, the case creates additional uncertainty as to whether any or all of the Legislation could be struck down, which creates operational risk for the health care industry. We are unable to predict the final outcome of this legal challenge and its financial impact on our future results of operation.

The various provisions in the Legislation that directly or indirectly affect Medicare and Medicaid reimbursement are scheduled to take effect over a number of years. The impact of the Legislation on healthcare providers will be subject to implementing regulations, interpretive guidance and possible future legislation or legal challenges. Certain Legislation provisions, such as that creating the Medicare Shared Savings Program creates uncertainty in how healthcare may be reimbursed by federal programs in the future. Thus, we cannot predict the impact of the Legislation on our future reimbursement at this time and we can provide no assurance that the Legislation will not have a material adverse effect on our future results of operations.

The Legislation also contained provisions aimed at reducing fraud and abuse in healthcare. The Legislation amends several existing laws, including the federal Anti-Kickback Statute and the False Claims Act, making it easier for government agencies and private plaintiffs to prevail in lawsuits brought against healthcare providers. While Congress had previously revised the intent requirement of the Anti-Kickback Statute to provide that a person is not required to "have actual knowledge or specific intent to commit a violation of" the Anti-Kickback Statute in order to be found in violation of such law, the Legislation also provides that any claims for items or services that violate the Anti-Kickback Statute are also considered false claims for purposes of the federal civil False Claims Act. The Legislation provides that a healthcare provider that retains an overpayment in excess of 60 days is subject to the federal civil False Claims Act. The Legislation also expands the Recovery Audit Contractor program to Medicaid. These amendments also make it easier for severe fines and penalties to be imposed on healthcare providers that violate applicable laws and regulations.

We have partnered with local physicians in the ownership of certain of our facilities. These investments have been permitted under an exception to the physician self-referral law. The Legislation permits existing physician investments in a hospital to continue under a "grandfather" clause if the arrangement satisfies certain requirements and restrictions, but physicians are prohibited from increasing the aggregate percentage of their ownership in the hospital. The Legislation also imposes certain compliance and disclosure requirements upon existing physician-owned hospitals and restricts the ability of physician-owned hospitals to expand the capacity of their facilities. As discussed below, should the Legislation be repealed in its entirety, this aspect of the Legislation would also be repealed restoring physician ownership of hospitals and expansion right to its position and practice as it existed prior to the Legislation.

The impact of the Legislation on each of our hospitals may vary. Because Legislation provisions are effective at various times over the next several years, we anticipate that many of the provisions in the Legislation may be subject to further revision. Initiatives to repeal the Legislation, in whole or in part, to delay elements of implementation or funding, and to offer amendments or supplements to modify its provisions have been persistent. The ultimate outcomes of legislative attempts to repeal or amend the Legislation and legal challenges to the Legislation are unknown. Legislation has already been enacted that eliminated the individual mandate penalty, effective January 1, 2019, related to the obligation to obtain health insurance that was part of the original Legislation. In addition, Congress previously considered legislation that would, in material part: (i) eliminate the large employer mandate to offer health insurance coverage to full-time employees; (ii) permit insurers to impose a surcharge up to 30 percent on individuals who go uninsured for more than two months and then purchase coverage; (iii) provide tax credits towards the purchase of health insurance, with a phase-out of tax credits accordingly to income level; (iv) expand health savings accounts; (v) impose a per capita cap on federal funding of state Medicaid programs, or, if elected by a state, transition federal funding to block grants, and; (vi) permit states to seek a waiver of certain federal requirements that would allow such state to define essential health benefits differently from federal standards and that would allow certain commercial health plans to take health status, including pre-existing conditions, into account in setting premiums.

In addition to legislative changes, the Legislation can be significantly impacted by executive branch actions. President Biden is expected to undertake executive actions that will strengthen the Legislation and may reverse the policies of the prior administration. The Trump Administration had directed the issuance of final rules (i) enabling the formation of health plans that would be exempt from certain Legislation essential health benefits requirements; (ii) expanding the availability of short-term, limited duration health insurance; (iii) eliminating cost-sharing reduction payments to insurers that would otherwise offset deductibles and other out-of-

pocket expenses for health plan enrollees at or below 250 percent of the federal poverty level; (iv) relaxing requirements for state innovation waivers that could reduce enrollment in the individual and small group markets and lead to additional enrollment in short-term, limited duration insurance and association health plans; (vi) incentivizing the use of health reimbursement arrangements by employers to permit employees to purchase health insurance in the individual market, and; (vii) increasing transparency of healthcare price and quality information. The uncertainty resulting from these Executive Branch policies led to reduced Exchange enrollment in 2018, 2019 and 2020 and is expected to further worsen the individual and small group market risk pools in future years. The recent and on-going COVID-19 pandemic and related U.S. National Emergency declaration may significantly increase the number of uninsured patients treated at our facilities extending beyond the most recent CBO published estimates due to increased unemployment and loss of group health plan health insurance coverage. It is also anticipated that these policies may create additional cost and reimbursement pressures on hospitals.

It remains unclear what portions of the Legislation may remain, or whether any replacement or alternative programs may be created by any future legislation. Any such future repeal or replacement may have significant impact on the reimbursement for healthcare services generally, and may create reimbursement for services competing with the services offered by our hospitals. Accordingly, there can be no assurance that the adoption of any future federal or state healthcare reform legislation will not have a negative financial impact on our hospitals, including their ability to compete with alternative healthcare services funded by such potential legislation, or for our hospitals to receive payment for services.

For additional disclosure related to our revenues including a disaggregation of our consolidated net revenues by major source for each of the periods presented herein, please see *Note 12 to the Consolidated Financial Statements-Revenue*.

**Medicare:** Medicare is a federal program that provides certain hospital and medical insurance benefits to persons aged 65 and over, some disabled persons and persons with end-stage renal disease. All of our acute care hospitals and many of our behavioral health centers are certified as providers of Medicare services by the appropriate governmental authorities. Amounts received under the Medicare program are generally significantly less than a hospital's customary charges for services provided. Since a substantial portion of our revenues will come from patients under the Medicare program, our ability to operate our business successfully in the future will depend in large measure on our ability to adapt to changes in this program.

Under the Medicare program, for inpatient services, our general acute care hospitals receive reimbursement under the inpatient prospective payment system ("IPPS"). Under the IPPS, hospitals are paid a predetermined fixed payment amount for each hospital discharge. The fixed payment amount is based upon each patient's Medicare severity diagnosis related group ("MS-DRG"). Every MS-DRG is assigned a payment rate based upon the estimated intensity of hospital resources necessary to treat the average patient with that particular diagnosis. The MS-DRG payment rates are based upon historical national average costs and do not consider the actual costs incurred by a hospital in providing care. This MS-DRG assignment also affects the predetermined capital rate paid with each MS-DRG. The MS-DRG and capital payment rates are adjusted annually by the predetermined geographic adjustment factor for the geographic region in which a particular hospital is located and are weighted based upon a statistically normal distribution of severity. While we generally will not receive payment from Medicare for inpatient services, other than the MS-DRG payment, a hospital may qualify for an "outlier" payment if a particular patient's treatment costs are extraordinarily high and exceed a specified threshold. MS-DRG rates are adjusted by an update factor each federal fiscal year, which begins on October 1. The index used to adjust the MS-DRG rates, known as the "hospital market basket index," gives consideration to the inflation experienced by hospitals in purchasing goods and services. Generally, however, the percentage increases in the MS-DRG payments have been lower than the projected increase in the cost of goods and services purchased by hospitals.

In September, 2020, CMS published its IPPS 2021 final payment rule which provides for a 2.4% market basket increase to the base Medicare MS-DRG blended rate. When statutorily mandated budget neutrality factors, annual geographic wage index updates, documenting and coding adjustments, and adjustments mandated by the Legislation are considered, without consideration for the required Medicare DSH payments changes and increase to the Medicare Outlier threshold, the overall increase in IPPS payments is approximately 1.8%. Including DSH payments and certain other adjustments, we estimate our overall increase from the final IPPS 2021 rule (covering the period of October 1, 2020 through September 30, 2021) will approximate 2.3%. This projected impact from the IPPS 2021 final rule includes an increase of approximately 0.5% to partially restore cuts made as a result of the American Taxpayer Relief Act of 2012 ("ATRA"), as required by the 21st Century Cures Act but excludes the impact of the sequestration reductions related to the 2011 Act, Bipartisan Budget Act of 2015, and Bipartisan Budget Act of 2018, as discussed below.

In the final rule, CMS will require:

- Hospitals to report certain market-based payment rate information for Medicare Advantage ("MA") organizations on their Medicare cost report for cost reporting periods ending on or after January 1, 2021, to be used in a potential change to the methodology for calculating the IPPS MS-DRG relative weights to reflect relative market-based pricing, beginning in FY 2024.
- Hospitals to report on the Medicare cost report of its median payer-specific negotiated charges with all of its MA organizations, by MS-DRG.

In August, 2019, CMS published its IPPS 2020 final payment rule which provides for a 3.0% market basket increase to the base Medicare MS-DRG blended rate. When statutorily mandated budget neutrality factors, annual geographic wage index updates, documenting and coding adjustments, and adjustments mandated by the Legislation are considered, without consideration for the required Medicare DSH payments changes and increase to the Medicare Outlier threshold, the overall increase in IPPS payments is approximately 2.8%. Including DSH payments and certain other adjustments, we estimate our overall increase from the final IPPS 2020 rule (covering the period of October 1, 2019 through September 30, 2020) will approximate 2.1%. This projected impact from the IPPS 2020 final rule includes an increase of approximately 0.5% to partially restore cuts made as a result ATRA, as required by the 21st Century Cures Act but excludes the impact of the sequestration reductions related to the 2011 Act, Bipartisan Budget Act of 2015, and Bipartisan Budget Act of 2018, as discussed below. CMS completed its full phase-in to use uncompensated care data from the 2015 Worksheet S-10 hospital cost reports to allocate approximately \$8.5 billion in the DSH Uncompensated Care Pool.

In June, 2019, the Supreme Court of the United States issued a decision favorable to hospitals impacting prior year Medicare DSH payments (*Azar v. Allina Health Services*, No. 17-1484 (U.S. Jun. 3, 2019)). In *Allina*, the hospitals challenged the Medicare DSH adjustments for federal fiscal year 2012, specifically challenging CMS's decision to include inpatient hospital days attributable to Medicare Part C enrollee patients in the numerator and denominator of the Medicare/SSI fraction used to calculate a hospital's DSH payments. This ruling addresses CMS's attempts to impose the policy espoused in its vacated 2004 rulemaking to a fiscal year in the 2004–2013 time period without using notice-and-comment rulemaking. This decision should require CMS to recalculate hospitals' DSH Medicare/SSI fractions, with Medicare Part C days excluded, for at least federal fiscal year 2012, but likely federal fiscal years 2005 through 2013. In August, 2020, CMS issued a rule that proposes to retroactively negate the effects of the aforementioned Supreme Court decision. Although we can provide no assurance that we will ultimately receive additional funds, we estimate that the favorable impact of this court ruling on certain prior year hospital Medicare DSH payments could range between \$18 million to \$28 million in the aggregate.

In August, 2018, CMS published its IPPS 2019 final payment rule which provides for a 2.9% market basket increase to the base Medicare MS-DRG blended rate. When statutorily mandated budget neutrality factors, annual geographic wage index updates, documenting and coding adjustments ACA-mandated adjustments are considered, without consideration for the decreases related to the required Medicare DSH payment changes and decrease to the Medicare Outlier threshold, the overall increase in IPPS payments is approximately 0.5%. Including the estimated increase to our DSH payments (approximating 2.1%) and certain other adjustments, we estimate our overall increase from the final IPPS 2019 rule (covering the period of October 1, 2018 through September 30, 2019) will approximate 2.7%. This projected impact from the IPPS 2019 final rule includes an increase of approximately 0.5% to partially restore cuts made as a result of the ATRA, as required by the 21st Century Cures Act but excludes the impact of the sequestration reductions related to the 2011 Act, Bipartisan Budget Act of 2015, and Bipartisan Budget Act of 2018, as discussed below. CMS continued to phase-in the use of uncompensated care data from both the 2014 and 2015 Worksheet S-10 hospital cost reports, two-third weighting as part of the proxy methodology to allocate approximately \$8 billion in the DSH Uncompensated Care Pool.

The 2011 Act included the imposition of annual spending limits for most federal agencies and programs aimed at reducing budget deficits by \$917 billion between 2012 and 2021, according to a report released by the Congressional Budget Office. Among its other provisions, the law established a bipartisan Congressional committee, known as the Joint Committee, which was responsible for developing recommendations aimed at reducing future federal budget deficits by an additional \$1.5 trillion over 10 years. The Joint Committee was unable to reach an agreement by the November 23, 2011 deadline and, as a result, across-the-board cuts to discretionary, national defense and Medicare spending were implemented on March 1, 2013 resulting in Medicare payment reductions of up to 2% per fiscal year. The Bipartisan Budget Act of 2015, enacted on November 2, 2015, and the Bipartisan Budget Act of 2019, enacted on August 2, 2019, continued the 2% reductions to Medicare reimbursement imposed under the 2011 Act through 2029. The CARES Act suspended payment reductions between May 1 and December 31, 2020, in exchange for extended cuts through 2030. The Consolidated Appropriations Act, 2021 extended the suspension of payment reductions until March 31, 2021.

Inpatient services furnished by psychiatric hospitals under the Medicare program are paid under a Psychiatric Prospective Payment System ("Psych PPS"). Medicare payments to psychiatric hospitals are based on a prospective per diem rate with adjustments to account for certain facility and patient characteristics. The Psych PPS also contains provisions for outlier payments and an adjustment to a psychiatric hospital's base payment if it maintains a full-service emergency department.

In July, 2020, CMS published its Psych PPS final rule for the federal fiscal year 2021. Under this final rule, payments to our psychiatric hospitals and units are estimated to increase by 2.2% compared to federal fiscal year 2020. This amount includes the effect of the 2.2% market basket update.

In July, 2019, CMS published its Psych PPS final rule for the federal fiscal year 2020. Under this final rule, payments to our psychiatric hospitals and units are estimated to increase by 1.7% compared to federal fiscal year 2019. This amount includes the effect of the 2.9% market basket update less a 0.75% adjustment as required by the ACA and a 0.4% productivity adjustment.

In August, 2018, CMS published its Psych PPS final rule for the federal fiscal year 2019. Under this final rule, payments to our psychiatric hospitals and units are estimated to increase by 1.35% compared to federal fiscal year 2018. This amount includes the effect of the 2.90% market basket update less a 0.75% adjustment as required by the ACA and a 0.8% productivity adjustment.

CMS's calendar year 2018 final OPPS rule, issued on November 13, 2017, substantially reduced Medicare Part B reimbursement for 340B Program drugs paid to hospitals. Beginning January 1, 2018, CMS reimbursement for certain separately payable drugs or biologicals that are acquired through the 340B Program by a hospital paid under the OPPS (and not excepted from the payment adjustment policy) is the average sales price of the drug or biological minus 22.5 percent, an effective reduction of 26.89% in payments for 340B program drugs. In December, 2018, the U.S. District Court for the District of Columbia ruled that HHS did not have statutory authority to implement the 2018 Medicare OPPS rate reduction related to hospitals that qualify for drug discounts under the federal 340B Program and granted a permanent injunction against the payment reduction. On July 31, 2020, the U.S. Court of Appeals for the D.C. Circuit reversed the District Court and held that HHS's decision to lower drug reimbursement rates for 340B hospitals rests on a reasonable interpretation of the Medicare statute. No further legal challenges are available to the plaintiffs and, as a result, we recognized \$8 million of revenues during 2020 that were previously reserved in a prior year.

In December, 2020, CMS published its OPPS final rule for 2021. The hospital market basket increase is 2.4% and there is no productivity adjustment reduction to the 2021 OPPS market basket. When other statutorily required adjustments and hospital patient service mix are considered, we estimate that our overall Medicare OPPS update for 2021 will aggregate to a net increase of 3.3% which includes a 9.2% increase to behavioral health division partial hospitalization rates.

In November, 2019, CMS published its OPPS final rule for 2020. The hospital market basket increase is 3.0%. The Medicare statute requires a productivity adjustment reduction of 0.4% to the 2020 OPPS market basket resulting in a 2020 update to OPPS payment rates by 2.6%. When other statutorily required adjustments and hospital patient service mix are considered, we estimate that our overall Medicare OPPS update for 2020 will aggregate to a net increase of 2.7% which includes a 7.7% increase to behavioral health division partial hospitalization rates. When the behavioral health division's partial hospitalization rate impact is excluded, we estimate that our Medicare 2020 OPPS payments will result in a 1.9% increase in payment levels for our acute care division, as compared to 2019. For CY 2020, CMS will use the FY 2020 hospital IPPS post-reclassified wage index for urban and rural areas as the wage index for the OPPS to determine the wage adjustments for both the OPPS payment rate and the copayment standardized amount.

On November 15, 2019, CMS finalized its Hospital Price Transparency rule that implements certain requirements under the June 24, 2019 Presidential Executive Order related to Improving Price and Quality Transparency in American Healthcare to Put Patients First. Under this final rule, effective January 1, 2021, CMS will require: (1) hospitals make public their standard charges (both gross charges and payer-specific negotiated charges) for all items and services online in a machine-readable format, and; (2) hospitals to make public standard charge data for a limited set of "shoppable services" the hospital provides in a form and manner that is more consumer friendly. A lawsuit was filed by several hospital associations, health systems, and hospitals in the U.S. District court for the District of Columbia challenging the legal authority of HHS to implement the final rule. In June, 2020, the U.S. District Court issued a decision in favor of the federal government. The Plaintiffs in the case filed a notice of appeal to the Court of Appeals for the D.C. Circuit and oral argument was heard on October 15, 2020. On December 29, 2020, the Appeals Court ruled against the Plaintiffs challenge. As a result, the price transparency rule became effective January 1, 2021. We are unable to determine the impact, if any, this final rule will have on our future results of operations.

In November, 2018, CMS published its OPPS final rule for 2019. The hospital market basket increase is 2.9%. The Medicare statute requires a productivity adjustment reduction of 0.8% and 0.75% reduction to the 2019 OPPS market basket resulting in a 2019 update to OPPS payment rates by 1.35%. When other statutorily required adjustments and hospital patient service mix are considered, we estimate that our overall Medicare OPPS update for 2019 will aggregate to a net increase of 1.1% which includes a 5.7% increase to behavioral health division partial hospitalization rates. When the behavioral health division's partial hospitalization rate impact is excluded, we estimate that our Medicare 2019 OPPS payments will result in a 0.4% increase in payment levels for our acute care hospitals, as compared to 2018.

**Medicaid:** Medicaid is a joint federal-state funded health care benefit program that is administered by the states to provide benefits to qualifying individuals. Most state Medicaid payments are made under a PPS-like system, or under programs that negotiate payment levels with individual hospitals. Amounts received under the Medicaid program are generally significantly less than a hospital's customary charges for services provided. In addition to revenues received pursuant to the Medicare program, we receive a large portion of our revenues either directly from Medicaid programs or from managed care companies managing Medicaid. All of our acute care hospitals and most of our behavioral health centers are certified as providers of Medicaid services by the appropriate governmental authorities.

We receive revenues from various state and county based programs, including Medicaid in all the states in which we operate (we receive Medicaid revenues in excess of \$100 million annually from each of California, Texas, Nevada, Washington, D.C.,

Pennsylvania, Illinois, Florida and Massachusetts); CMS-approved Medicaid supplemental programs in certain states including Texas, Mississippi, Illinois, Oklahoma, Nevada, Arkansas, California and Indiana, and; state Medicaid disproportionate share hospital payments in certain states including Texas and South Carolina. We are therefore particularly sensitive to potential reductions in Medicaid and other state based revenue programs as well as regulatory, economic, environmental and competitive changes in those states. We can provide no assurance that reductions to revenues earned pursuant to these programs, particularly in the above-mentioned states, will not have a material adverse effect on our future results of operations.

The Legislation substantially increases the federally and state-funded Medicaid insurance program, and authorizes states to establish federally subsidized non-Medicaid health plans for low-income residents not eligible for Medicaid starting in 2014. However, the Supreme Court has struck down portions of the Legislation requiring states to expand their Medicaid programs in exchange for increased federal funding. Accordingly, many states in which we operate have not expanded Medicaid coverage to individuals at 133% of the federal poverty level. Facilities in states not opting to expand Medicaid coverage under the Legislation may be additionally penalized by corresponding reductions to Medicaid disproportionate share hospital payments beginning in 2020, as discussed below. We can provide no assurance that further reductions to Medicaid revenues, particularly in the above-mentioned states, will not have a material adverse effect on our future results of operations.

On November 12, 2019, CMS issued the proposed Medicaid Fiscal Accountability Rule (“MFAR”) which CMS believed would strengthen the fiscal integrity of the Medicaid program and help ensure that state supplemental payments and financing arrangements are transparent and value-driven. On January 14, 2021, CMS issued a formal notice of withdrawal of this proposed rule.

In January, 2020, CMS announced a new opportunity to support states with greater flexibility to improve the health of their Medicaid populations. The new 1115 Waiver Block Grant Type Demonstration program, titled Healthy Adult Opportunity (“HAO”), emphasizes the concept of value-based care while granting states extensive flexibility to administer and design their programs within a defined budget. CMS believes this state opportunity will enhance the Medicaid program’s integrity through its focus on accountability for results and quality improvement, making the Medicaid program stronger for states and beneficiaries.

The HAO program will include:

- Beneficiary Protections.
- Flexibility in the Administration of Benefits.
- Transparency.
- Financing and Program Integrity
  - States participating in HAO demonstrations will need to agree to operate their program within a defined budget target, set on either a total expenses or per-enrollee basis, in a manner similar to that used in other section 1115 demonstrations.
  - To the extent states achieve savings and demonstrate no declines in access or quality, CMS will share back a portion of the federal savings for reinvestment into Medicaid.
- Limited Medicaid Population
  - The population includes adults under age 65 who are not eligible for Medicaid on the basis of disability or on their need for long term care services and supports, and who are not eligible under a state plan.
- Benefit Design and Drug Coverage
  - States have the opportunity to design a benefit package that aligns with private coverage.
  - Provide states with greater negotiating power to lower drug spending and promote value in the program.
- Managed Care and Delivery Systems
  - States will be able to use any combination of fee-for-service and managed care delivery systems and will have flexibility to alter these arrangements over the course of the demonstration
- Streamlined Application Process Transitioning 1115 Demonstrations
- Quality Strategy and Performance Assessment
  - States will be held to a high standard of accountability for producing positive health outcomes and will be subject to regular and thorough monitoring and evaluation.

We are unable to predict whether any states will opt to apply for participation in the HAO demonstration or the impact on our future results of operations.

#### ***Various State Medicaid Supplemental Payment Programs:***

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. As outlined below, 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.

Included in these Provider Tax programs are reimbursements received in connection with the Texas Uncompensated Care/Upper Payment Limit program (“UC/UPL”) and Texas Delivery System Reform Incentive Payments program (“DSRIP”). Additional disclosure related to the Texas UC/UPL and DSRIP programs is provided below.

#### *Texas Uncompensated Care/Upper Payment Limit Payments:*

Certain of our acute care hospitals located in various counties of Texas (Grayson, Hidalgo, Maverick, Potter and Webb) participate in Medicaid supplemental payment Section 1115 Waiver indigent care programs. Section 1115 Waiver Uncompensated Care (“UC”) payments replace the former Upper Payment Limit (“UPL”) payments. These hospitals also have affiliation agreements with third-party hospitals to provide free hospital and physician care to qualifying indigent residents of these counties. Our hospitals receive both supplemental payments from the Medicaid program and indigent care payments from third-party, affiliated hospitals. The supplemental payments are contingent on the county or hospital district making an Inter-Governmental Transfer (“IGT”) to the state Medicaid program while the indigent care payment is contingent on a transfer of funds from the applicable affiliated hospitals. However, the county or hospital district is prohibited from entering into an agreement to condition any IGT on the amount of any private hospital’s indigent care obligation.

On December 21, 2017, CMS approved the 1115 Waiver for the period January 1, 2018 to September 30, 2022. The Waiver continued to include UC and DSRIP payment pools with modifications and new state specific reporting deadlines that if not met by THHSC will result in material decreases in the size of the UC and DSRIP pools. For UC during the initial two years of this renewal, the UC program will remain relatively the same in size and allocation methodology. For year three of this waiver renewal, FFY 2020, and through FFY 2022, the size and distribution of the UC pool will be determined based on charity care costs reported to HHSC in accordance with Medicare cost report Worksheet S-10 principles. In September 2019, CMS approved the annual UC pool size in the amount of \$3.9 billion for demonstration years (“DYS”) 9, 10 and 11 (October 1, 2019 to September 30, 2022).

On January 15, 2021, CMS approved the 1115 Waiver renewal through September 30, 2030. The terms of the Waiver renewal require HHSC to resize the UC pool in (1) FFY 2022 (DY 11) using 2019 cost report year data and (2) in FFY 2027 (DY 16) using 2025 cost report data. Our impact of the UC pool resizing is not known.

Effective April 1, 2018, certain of our acute care hospitals located in Texas began to receive Medicaid managed care rate enhancements under the Uniform Hospital Rate Increase Program (“UHRIP”). The non-federal share component of these UHRIP rate enhancements are financed by Provider Taxes. The Texas 1115 Waiver rules require UHRIP rate enhancements be considered in the Texas UC payment methodology which results in a reduction to our UC payments. The UC amounts reported in the State Medicaid Supplemental Payment Program Table below reflect the impact of this new UHRIP program. In July 2020, THHSC announced CMS approval of an increase to UHRIP pool for the state’s 2021 fiscal year to \$2.7 billion from its current funding level of \$1.6 billion. We estimate that this UHRIP pool increase will not have a material impact on the Company financial results due to CMS approved pool allocation methodology for the SFY 2021 program.

On January 4, 2021, HHSC published a proposed rule that will apply to program periods on or after September 1, 2021, and UHRIP will be re-named the Comprehensive Hospital Increase Reimbursement Program (“CHIRP”). CHIRP will be comprised of a UHRIP component and an Average Commercial Incentive Award (“ACIA”) component. HHSC has proposed a pool size of \$5.0 billion subject to CMS approval. The Company is not able to estimate the financial impact of the program change.

On January 11, 2021, HHSC announced that CMS approved the pre-print modification that HHSC submitted for UHRIP period March 1, 2021 through August 31, 2021. CMS approved rate changes that will now increase rates for private Institutions of Mental Disease (“IMD”) for services provided to patients under age 21 or patients 65 years of age or older. We estimate that this payment policy change will increase our UHRIP reimbursement by \$10 million in FY 2021 and this amount is included the aggregated FY 2021 Medicaid Supplemental Payment projection total below.

On November 16, 2018, THHSC published a final rule effective in federal fiscal years 2018 and 2019 that changes the definition of a rural hospital for the purposes of determining Texas UC payments and the applicable UC payment reduction. The application of UC payment reduction allows the THHSC to comply with the overall statewide UC payment cap required under the special terms and condition of the approved 1115 Waiver. Two of our acute care hospitals, which have been designated as a Rural Referral Center by CMS and which are located in an urban Metropolitan Statistical Area, recorded: (i) increased UC payments/revenue for the federal fiscal year ending September 30, 2018, and; (ii) decreased UC payments/revenue for the federal fiscal year beginning October 1, 2018. The net impact of these changes had a favorable impact on our 2018 results of operations and are included in the amounts reflected below in the *State Medicaid Supplemental Payment Program* table.

**Texas Delivery System Reform Incentive Payments:**

In addition, the Texas Medicaid Section 1115 Waiver includes a DSRIP pool to incentivize hospitals and other providers to transform their service delivery practices to improve quality, health status, patient experience, coordination, and cost-effectiveness. DSRIP pool payments are incentive payments to hospitals and other providers that develop programs or strategies to enhance access to health care, increase the quality of care, the cost-effectiveness of care provided and the health of the patients and families served. In May, 2014, CMS formally approved specific DSRIP projects for certain of our hospitals for demonstration years 3 to 5 (our facilities did not materially participate in the DSRIP pool during demonstration years 1 or 2). DSRIP payments are contingent on the hospital meeting certain pre-determined milestones, metrics and clinical outcomes. Additionally, DSRIP payments are contingent on a governmental entity providing an IGT for the non-federal share component of the DSRIP payment. THHSC generally approves DSRIP reported metrics, milestones and clinical outcomes on a semi-annual basis in June and December. Under the CMS approval noted above, the Waiver renewal requires the transition of the DSRIP program to one focused on "health system performance measurement and improvement." THHSC must submit a transition plan describing "how it will further develop its delivery system reforms without DSRIP funding and/or phase out DSRIP funded activities and meet mutually agreeable milestones to demonstrate its ongoing progress." The size of the DSRIP pool will remain unchanged for the initial two years of the waiver renewal with unspecified decreases in years three and four of the renewal, FFY 2020 and 2021, respectively. In FFY 2022, DSRIP funding under the waiver is eliminated. For FFY 2020 and 2021, we estimate these changes will result in a \$3 million and \$4 million decrease in DSRIP payments, respectively. For FFY 2022, we will no longer receive DSRIP funds due to the elimination of this funding source by CMS in the Waiver renewals. In March, 2020, HHSC submitted a DSRIP Transition Plan to CMS as required by the 1115 Waiver Special Terms and Conditions #37 that outlines a transition from the current DSRIP program to a Value-Based Purchasing ("VBP") type payment model. As noted above, HHSC proposed a rule to make changes to existing UHRIP program. These proposed amendments are HHSC's efforts to comply with federal regulations that require directed-payment programs to advance goals included in the state's Medicaid managed care quality strategy and to align with the ongoing efforts to transition from the Delivery System Reform Incentive Payment program. The effective date of a new VBP payment model (if proposed by HHSC and approved by CMS) is not yet known. Similarly, details of any VBP model are still under HHSC consideration and possible development. As a result, we are unable to estimate the financial impact of this payment change.

**Summary of Amounts Related To The Above-Mentioned Various State Medicaid Supplemental Payment Programs:**

The following table summarizes the revenues, Provider Taxes and net benefit related to each of the above-mentioned Medicaid supplemental programs for the years ended December 31, 2020, 2019 and 2018. The Provider Taxes are recorded in other operating expenses on the Condensed Consolidated Statements of Income as included herein.

	(amounts in millions)		
	2020	2019	2018
<b>Texas UC/UPL:</b>			
Revenues	\$ 119	\$ 123	\$ 135
Provider Taxes	(37)	(47)	(51)
Net benefit	\$ 82	\$ 76	\$ 84
<b>Texas DSRIP:</b>			
Revenues	\$ 33	\$ 35	\$ 29
Provider Taxes	(10)	(12)	(9)
Net benefit	\$ 23	\$ 23	\$ 20
<b>Various other state programs:</b>			
Revenues	\$ 336	\$ 261	\$ 223
Provider Taxes	(138)	(135)	(119)
Net benefit	\$ 198	\$ 126	\$ 104
<b>Total all Provider Tax programs:</b>			
Revenues	\$ 488	\$ 419	\$ 387
Provider Taxes	(185)	(194)	(179)
Net benefit	\$ 303	\$ 225	\$ 208

We estimate that our aggregate net benefit from the Texas and various other state Medicaid supplemental payment programs will approximate \$262 million (net of Provider Taxes of \$216 million) during the year ending December 31, 2021. This estimate is based upon various terms and conditions that are out of our control including, but not limited to, the states'/CMS's continued approval of the programs and the applicable hospital district or county making IGTs consistent with 2020 levels. Future changes to these terms and conditions could materially reduce our net benefit derived from the programs which could have a material adverse impact on our future consolidated results of operations. In addition, Provider Taxes are governed by both federal and state laws and are subject to

future legislative changes that, if reduced from current rates in several states, could have a material adverse impact on our future consolidated results of operations. As described below in *2019 Novel Coronavirus Disease Medicare and Medicaid Payment Related Legislation*, a 6.2% increase to the Medicaid Federal Matching Assistance Percentage (“FMAP”) is included in the Families First Coronavirus Response Act. The impact of the enhanced FMAP Medicaid supplemental and DSH payments are reflected in our results for year ended December 31, 2020. We are unable to estimate the prospective financial impact of this provision at this time as our financial impact is contingent on unknown state action during future eligible federal fiscal quarters.

**Texas and South Carolina Medicaid Disproportionate Share Hospital Payments:**

Hospitals that have an unusually large number of low-income patients (i.e., those with a Medicaid utilization rate of at least one standard deviation above the mean Medicaid utilization, or having a low income patient utilization rate exceeding 25%) are eligible to receive a DSH adjustment. Congress established a national limit on DSH adjustments. Although this legislation and the resulting state broad-based provider taxes have affected the payments we receive under the Medicaid program, to date the net impact has not been materially adverse.

Upon meeting certain conditions and serving a disproportionately high share of Texas’ and South Carolina’s low income patients, five of our facilities located in Texas and one facility located in South Carolina received additional reimbursement from each state’s DSH fund. The South Carolina and Texas DSH programs were renewed for each state’s 2021 DSH fiscal year (covering the period of October 1, 2020 through September 30, 2021).

In connection with these DSH programs, included in our financial results was an aggregate of approximately \$48 million during 2020, \$50 million during 2019 and \$38 million during 2018. We expect the aggregate reimbursements to our hospitals pursuant to the Texas and South Carolina 2021 fiscal year programs to be approximately \$45 million.

The Legislation and subsequent federal legislation provides for a significant reduction in Medicaid disproportionate share payments beginning in federal fiscal year 2024 (see above in *Sources of Revenues and Health Care Reform-Medicaid Revisions* for additional disclosure related to the delay of these DSH reductions). HHS is to determine the amount of Medicaid DSH payment cuts imposed on each state based on a defined methodology. As Medicaid DSH payments to states will be cut, consequently, payments to Medicaid-participating providers, including our hospitals in Texas and South Carolina, will be reduced in the coming years. Based on the CMS final rule published in September, 2019, beginning in fiscal year 2024 (as amended by the CARES Act and the CAA), annual Medicaid DSH payments in South Carolina and Texas could be reduced by approximately 74% and 44%, respectively, from 2020 DSH payment levels.

Our behavioral health care facilities in Texas have been receiving Medicaid DSH payments since FFY 2016. As with all Medicaid DSH payments, hospitals are subject to state audits that typically occur up to three years after their receipt. DSH payments are subject to a federal Hospital Specific Limit (“HSL”) and are not fully known until the DSH audit results are concluded. In general, freestanding psychiatric hospitals tend to provide significantly less charity care than acute care hospitals and therefore are at more risk for retroactive recoupment of prior year DSH payments in excess of their respective HSL. In light of the retroactive HSL audit risk for freestanding psychiatric hospitals, we have established DSH reserves for our facilities that have been receiving funds since FFY 2016. These DSH reserves are also impacted by the resolution of federal DSH litigation related to Children’s Hospital Association of Texas v. Azar (“CHAT”), No. 17-cv-844 (D.D.C. March 2, 2018), appeal docketed, No. 18-5135 (D.C. Cir. May 9, 2018) where the calculation of HSL was being challenged. In August, 2019, DC Circuit Court of Appeals issued a unanimous decision in CHAT and reversed the judgment of the district court in favor of CMS and ordered that CMS’s “2017 Rule” (regarding Medicaid DSH Payments—Treatment of Third Party Payers in Calculating Uncompensated Care Costs) be reinstated. CMS has not issued any additional guidance post the ruling. In April 2020, the plaintiffs in the case have petitioned the Supreme Court of the United States to hear their case. Additionally, there have been separate legal challenges on this same issue in the Fifth and Eighth Circuits. On November 4, 2019, the United States Court of Appeals for the Eighth Circuit issued an opinion upholding the 2017 Rule. Missouri Hosp. Ass’n v. Azar, No. 18-1778 (8th Cir. Nov. 4, 2019) (i.e. reversing a district court order enjoining the 2017 rule). On April 20, 2020, the United States Court of Appeals of the Fifth Circuit issued a decision also upholding the 2017 Rule. Baptist Memorial Hospital v. Azar, No. 18-60592 (5th Cir. April 20, 2020). In light of these court decisions, we continue to maintain reserves in the financial statements for cumulative Medicaid DSH and UC reimbursements related to our behavioral health hospitals located in Texas that amounted to \$35 million and \$34 million as of December 31, 2020 and 2019, respectively.

**Nevada SPA:**

In Nevada, CMS approved a state plan amendment (“SPA”) in August, 2014 that implemented a hospital supplemental payment program retroactive to January 1, 2014. This SPA has been approved for additional state fiscal years including the 2021 fiscal year covering the period of July 1, 2020 through June 30, 2021.

In connection with this program, included in our financial results was approximately \$25 million during 2020, \$28 million during 2019 and \$26 million during 2018. We estimate that our reimbursements pursuant to this program will approximate \$20 million during the year ended December 31, 2021.

**California SPA:**

In California, CMS issued formal approval of the 2017-19 Hospital Fee Program in December, 2017 retroactive to January 1, 2017 through September 30, 2019. In September, 2019, the state submitted a request to renew the Hospital Fee Program for the period July 1, 2019 to December 31, 2021. On February 25, 2020, CMS approved this renewed program. These approvals include the Medicaid inpatient and outpatient fee-for-service supplemental payments and the overall provider tax structure but did not yet include the approval of the managed care rate setting payment component for certain rate periods (see table below). The managed care payment component consists of two categories of payments, “pass-through” payments and “directed” payments. The pass-through payments are similar in nature to the prior Hospital Fee Program payment method whereas the directed payment method will be based on actual concurrent hospital Medicaid managed care in-network patient volume.

**California Hospital Fee Program CMS Approval Status:**

Hospital Fee Program Component	CMS Methodology Approval Status	CMS Rate Setting Approval Status
Fee For Service Payment	Approved through December 31, 2021	Approved through December 31, 2021
Managed Care-Pass-Through Payment	Approved through December 31, 2020	Approved through September 30, 2017; Paid in advance of approval through September 30, 2019
Managed Care-Directed Payment	Approved through December 31, 2020	Approved through September 30, 2019; Paid through December 31, 2018

In connection with the existing program, included in our financial results was approximately \$63 million during 2020, \$29 million during 2019 and \$25 million during 2018. Our financial results for the year ended December 31, 2020 include a \$28 million favorable adjustment, as discussed below, of which \$11 million relates to 2020 and \$17 million relates to prior years. We estimate that our reimbursements pursuant to this program will approximate \$43 million during the year ended December 31, 2021. The aggregate impact of the California supplemental payment program, as outlined above, is included in the above *State Medicaid Supplemental Payment Program* table.

In April, 2020, the California Department of Health Care Services (“DHCS”) notified hospital providers that participate in the Medicaid managed care directed payment program that DHCS would recalculate directed payments for the period of July 1, 2017 through September 30, 2018 (“SFY 2018”) to remedy an identified data error. In August, 2020, as a follow-up to that notification, DHCS issued its corrected directed payment calculations. The updated calculation resulted in a favorable adjustment to the above program year and also resulted in increased expected supplemental payment amount for program years subsequent to the recalculated SFY 2018 rate period. The California Hospital Fee amounts noted above include our portion of the state corrected data.

**Kentucky Hospital Rate Increase Program (“HRIP”):**

In January, 2021, CMS approved the Medicaid Managed Care Hospital Rate Increase Program (“HRIP”) for state fiscal year 2021 (covering the period of July 1, 2020 to June 30, 2021). The CMS approval could increase the program statewide net benefit to eligible Kentucky hospitals to approximately \$1.1 billion from the original HRIP CMS-approved pool size of \$86 million. The increased HRIP payments are contingent on various actions occurring including the enactment of legislative authority to permit the payment of the increased HRIP pool size as well as certification of the new HRIP rates by the state actuaries and related CMS approval of the rates. Although we are unable to estimate the amount of the program change, given the material increase in the overall pool size, the program change could have a favorable impact on our operating results and would be retroactive to July 1, 2020.

**Risk Factors Related To State Supplemental Medicaid Payments:**

As outlined above, we receive substantial reimbursement from multiple states in connection with various supplemental Medicaid payment programs. The states include, but are not limited to, Texas, Mississippi, Illinois, Nevada, Arkansas, California and Indiana. Failure to renew these programs beyond their scheduled termination dates, failure of the public hospitals to provide the necessary IGTs for the states’ share of the DSH programs, failure of our hospitals that currently receive supplemental Medicaid revenues to qualify for future funds under these programs, or reductions in reimbursements, could have a material adverse effect on our future results of operations.

In April, 2016, CMS published its final Medicaid Managed Care Rule which explicitly permits but phases out the use of pass-through payments (including supplemental payments) by Medicaid Managed Care Organizations (“MCO”) to hospitals over ten years but allows for a transition of the pass-through payments into value-based payment structures, delivery system reform initiatives or payments tied to services under a MCO contract. Since we are unable to determine the financial impact of this aspect of the final rule,

we can provide no assurance that the final rule will not have a material adverse effect on our future results of operations. In November, 2018, CMS issued a proposed rule that would permit pass-through supplemental provider payments during a time-limited period when states transition populations or services from fee-for-service Medicaid to managed care.

**HITECH Act:** In July 2010, the Department of Health and Human Services (“HHS”) published final regulations implementing the health information technology (“HIT”) provisions of the American Recovery and Reinvestment Act (referred to as the “HITECH Act”). The final regulation defines the “meaningful use” of Electronic Health Records (“EHR”) and establishes the requirements for the Medicare and Medicaid EHR payment incentive programs. The final rule established an initial set of standards and certification criteria. The implementation period for these Medicare and Medicaid incentive payments started in federal fiscal year 2011 and can end as late as 2016 for Medicare and 2021 for the state Medicaid programs. State Medicaid program participation in this federally funded incentive program is voluntary but all of the states in which our eligible hospitals operate have chosen to participate. Our acute care hospitals qualified for these EHR incentive payments upon implementation of the EHR application assuming they meet the “meaningful use” criteria. The government’s ultimate goal is to promote more effective (quality) and efficient healthcare delivery through the use of technology to reduce the total cost of healthcare for all Americans and utilizing the cost savings to expand access to the healthcare system.

All of our acute care hospitals have met the applicable meaningful use criteria. However, under the HITECH Act, hospitals must continue to meet the applicable meaningful use criteria in each fiscal year or they will be subject to a market basket update reduction in a subsequent fiscal year. Failure of our acute care hospitals to continue to meet the applicable meaningful use criteria would have an adverse effect on our future net revenues and results of operations.

In the 2019 IPPS final rule, CMS overhauled the Medicare and Medicaid EHR Incentive Program to focus on interoperability, improve flexibility, relieve burden and place emphasis on measures that require the electronic exchange of health information between providers and patients. We can provide no assurance that the changes will not have a material adverse effect on our future results of operations.

**Managed Care:** A significant portion of our net patient revenues are generated from managed care companies, which include health maintenance organizations, preferred provider organizations and managed Medicare (referred to as Medicare Part C or Medicare Advantage) and Medicaid programs. In general, we expect the percentage of our business from managed care programs to continue to grow. The consequent growth in managed care networks and the resulting impact of these networks on the operating results of our facilities vary among the markets in which we operate. Typically, we receive lower payments per patient from managed care payers than we do from traditional indemnity insurers, however, during the past few years we have secured price increases from many of our commercial payers including managed care companies.

**Commercial Insurance:** Our hospitals also provide services to individuals covered by private health care insurance. Private insurance carriers typically make direct payments to hospitals or, in some cases, reimburse their policy holders, based upon the particular hospital’s established charges and the particular coverage provided in the insurance policy. Private insurance reimbursement varies among payers and states and is generally based on contracts negotiated between the hospital and the payer.

Commercial insurers are continuing efforts to limit the payments for hospital services by adopting discounted payment mechanisms, including predetermined payment or DRG-based payment systems, for more inpatient and outpatient services. To the extent that such efforts are successful and reduce the insurers’ reimbursement to hospitals and the costs of providing services to their beneficiaries, such reduced levels of reimbursement may have a negative impact on the operating results of our hospitals.

**Other Sources:** Our hospitals provide services to individuals that do not have any form of health care coverage. Such patients are evaluated, at the time of service or shortly thereafter, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid or other state assistance programs, as well as our local hospitals’ indigent and charity care policy. Patients without health care coverage who do not qualify for Medicaid or indigent care write-offs are offered substantial discounts in an effort to settle their outstanding account balances.

**Health Care Reform:** Listed below are the Medicare, Medicaid and other health care industry changes which have been, or are scheduled to be, implemented as a result of the Legislation.

#### ***Implemented Medicare Reductions and Reforms:***

- The Legislation reduced the market basket update for inpatient and outpatient hospitals and inpatient behavioral health facilities by 0.25% in each of 2010 and 2011, by 0.10% in each of 2012 and 2013, 0.30% in 2014, 0.20% in each of 2015 and 2016 and 0.75% in each of 2017, 2018 and 2019.
- The Legislation implemented certain reforms to Medicare Advantage payments, effective in 2011.

- A Medicare shared savings program, effective in 2012.
- A hospital readmissions reduction program, effective in 2012.
- A value-based purchasing program for hospitals, effective in 2012.
- A national pilot program on payment bundling, effective in 2013.
- Reduction to Medicare DSH payments, effective in 2014, as discussed above.

**Medicaid Revisions:**

- Expanded Medicaid eligibility and related special federal payments, effective in 2014.
- The Legislation (as amended by subsequent federal legislation) requires annual aggregate reductions in federal DSH funding from federal fiscal year (“FFY”) 2024 through FFY 2027. The aggregate annual reduction amounts are \$8.0 billion for FFY 2024 through FFY 2027. In December, 2019, federal legislation was enacted which delays the reduction in the Medicaid DSH allotment through May 22, 2020 and then subsequent federal legislation in March, 2020 delayed the reduction through November 30, 2020. H.R. 8319 Continuing Resolution further delayed these Medicaid DSH reductions through December 11, 2020. The Consolidated Appropriation Act, 2021 (H.R. 133) and other intervening legislation further delayed the Medicaid DSH reductions through FFY 2023.

**Health Insurance Revisions:**

- Large employer insurance reforms, effective in 2015.
- Individual insurance mandate and related federal subsidies, effective in 2014. As noted above in *Health Care Reform*, the Tax Cuts and Jobs Act enacted into law in December, 2017 eliminated the individual insurance federal mandate penalty beginning January 1, 2019.
- Federally mandated insurance coverage reforms, effective in 2010 and forward.

The Legislation seeks to increase competition among private health insurers by providing for transparent federal and state insurance exchanges. The Legislation also prohibits private insurers from adjusting insurance premiums based on health status, gender, or other specified factors. We cannot provide assurance that these provisions will not adversely affect the ability of private insurers to pay for services provided to insured patients, or that these changes will not have a negative material impact on our results of operations going forward.

**Value-Based Purchasing:**

There is a trend in the healthcare industry toward value-based purchasing of healthcare services. These value-based purchasing programs include both public reporting of quality data and preventable adverse events tied to the quality and efficiency of care provided by facilities. Governmental programs including Medicare and Medicaid currently require hospitals to report certain quality data to receive full reimbursement updates. In addition, Medicare does not reimburse for care related to certain preventable adverse events. Many large commercial payers currently require hospitals to report quality data, and several commercial payers do not reimburse hospitals for certain preventable adverse events.

The Legislation required HHS to implement a value-based purchasing program for inpatient hospital services which became effective on October 1, 2012. The Legislation requires HHS to reduce inpatient hospital payments for all discharges by a percentage beginning at 1% in FFY 2013 and increasing by 0.25% each fiscal year up to 2% in FFY 2017 and subsequent years. HHS will pool the amount collected from these reductions to fund payments to reward hospitals that meet or exceed certain quality performance standards established by HHS. HHS will determine the amount each hospital that meets or exceeds the quality performance standards will receive from the pool of dollars created by these payment reductions. In its fiscal year 2016 IPPS final rule, CMS funded the value-based purchasing program by reducing base operating DRG payment amounts to participating hospitals by 1.75%. For FFY 2017 and subsequent years, this reduction was increased to its maximum of 2%.

**Hospital Acquired Conditions:**

The Legislation prohibits the use of federal funds under the Medicaid program to reimburse providers for medical assistance provided to treat hospital acquired conditions (“HAC”). Beginning in FFY 2015, hospitals that fall into the top 25% of national risk-adjusted HAC rates for all hospitals in the previous year will receive a 1% reduction in their total Medicare payments.

**Readmission Reduction Program:**

In the Legislation, Congress also mandated implementation of the hospital readmission reduction program (“HRRP”). Hospitals with excessive readmissions for conditions designated by HHS will receive reduced payments for all inpatient discharges, not just discharges relating to the conditions subject to the excessive readmission standard. The HRRP currently assesses penalties on hospitals having excess readmission rates for heart failure, myocardial infarction, pneumonia, acute exacerbation of chronic obstructive pulmonary disease (COPD) and elective total hip arthroplasty (THA) and/or total knee arthroplasty (TKA), excluding planned readmissions, when compared to expected rates. In the fiscal year 2015 IPPS final rule, CMS added readmissions for coronary artery bypass graft (CABG) surgical procedures beginning in fiscal year 2017. To account for excess readmissions, an applicable hospital's base operating DRG payment amount is adjusted for each discharge occurring during the fiscal year. Readmissions payment adjustment factors can be no more than a 3 percent reduction.

#### **Accountable Care Organizations:**

The Legislation requires HHS to establish a Medicare Shared Savings Program that promotes accountability and coordination of care through the creation of accountable care organizations (“ACOs”). The ACO program allows providers (including hospitals), physicians and other designated professionals and suppliers to voluntarily work together to invest in infrastructure and redesign delivery processes to achieve high quality and efficient delivery of services. The program is intended to produce savings as a result of improved quality and operational efficiency. ACOs that achieve quality performance standards established by HHS will be eligible to share in a portion of the amounts saved by the Medicare program. CMS is also developing and implementing more advanced ACO payment models, such as the Next Generation ACO Model, which require ACOs to assume greater risk for attributed beneficiaries. On December 21, 2018, CMS published a final rule that, in general, requires ACO participants to take on additional risk associated with participation in the program. On April 30, 2020, CMS issued an interim final rule with comment in response to the COVID-19 national emergency permitting ACOs with current agreement periods expiring on December 31, 2020 the option to extend their existing agreement period by one year, and permitting certain ACOs to retain their participation level through 2021. It remains unclear to what extent providers will pursue federal ACO status or whether the required investment would be warranted by increased payment.

#### **Bundled Payments for Care Improvement Advanced:**

The Center for Medicare & Medicaid Innovation (“CMMI”) implemented a new, second generation voluntary episode payment model, Bundled Payments for Care Improvement Advanced (“BPCI-Advanced” or the “Program”), with the first performance period beginning October 1, 2018. BPCI-Advanced is designed to test a new iteration of bundled payments with an aim to align incentives among participating health care providers to reduce expenditures and improve quality of care for traditional Medicare beneficiaries.

During the fourth quarter of 2020, CMS restructured the FY2021 to FY2023 program and required participants to select from eight Clinical Episode Service Line Groups instead of individual clinical episodes. CMS also announced that the now voluntary program would become mandatory in 2024.

For our hospitals that participated in the program, the CMS BPCI-A reconciliation for the period October 1, 2018 through June 30, 2020 did not have a material impact on our financial results.

The ultimate success and financial impact of the BPCI-Advanced program is contingent on multiple variables so we are unable to estimate the future impact. However, given the breadth and scope of participation of our acute care hospitals in BPCI-Advanced, the impact could be significant (either favorably or unfavorably) depending on actual program results.

#### **2019 Novel Coronavirus Disease Medicare and Medicaid Payment Related Legislation**

In response to the growing threat of the 2019 Novel Coronavirus Disease (“COVID-19”), on March 13, 2020 President Trump declared a national emergency. The declaration empowered the HHS Secretary to waive certain Medicare, Medicaid and Children’s Health Insurance Program (“CHIP”) program requirements and Medicare conditions of participation under Section 1135 of the Social Security Act. Having been granted this authority by HHS, CMS issued a broad range of blanket waivers, which eased certain requirements for impacted providers, including:

- Waivers and Flexibilities for Hospitals and other Healthcare Facilities including those for physical environment requirements and certain Emergency Medical Treatment & Labor Act provisions
- Provider Enrollment Flexibilities
- Flexibility and Relief for State Medicaid Programs including those under section 1135 Waivers
- Suspension of Certain Enforcement Activities

In addition to the national emergency declaration, Congress passed and President Trump signed legislation intended to support state and local authority responses to COVID-19 as well as provide fiscal support to businesses, individuals, financial markets, hospitals and other healthcare providers. This enacted legislation includes:

- *Public Law No: 116-123 - Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 (3/06/2020)*

- The legislation provided \$8.3 billion in emergency funding for federal agencies to respond to the coronavirus outbreak.
- *Public Law No: 116-127 Families First Coronavirus Response Act (3/18/2020)*
  - The legislation provides paid sick leave, tax credits, and free COVID-19 testing; expands nutrition assistance and unemployment benefits; and increases Medicaid funding.
    - This legislation increases the Medicaid FMAP by 6.2% retroactive to the federal fiscal quarter beginning January 1, 2020 and each subsequent federal fiscal quarter for all states and U.S. territories during the declared public health emergency, in accordance with specified conditions. For example, in order to receive the increased FMAP, a state Medicaid program may not require standards for eligibility that are more restrictive than the standards that were in effect on January 1, 2020.
    - The HHS Secretary renewed the public health emergency (“PHE”) effective January 21, 2021 for ninety (90) days. As a result, states would be eligible for the enhanced FMAP through the third quarter of federal fiscal year 2021 should the PHE not be rescinded by the Secretary before the end of the ninety day period.
    - In response to this legislation, certain state Medicaid supplemental and DSH payment programs such as those in Texas and Mississippi have increased the level of provider payments or reduced the related Provider Tax amount used to fund the non-federal share of these supplemental payments. The favorable impact from these state Medicaid responses are included in the above State Medicaid Supplemental Payment and State Medicaid DSH Program noted amounts.
- *H.R. 748, the Coronavirus Aid, Relief, and Economic Security Act, (“CARES Act”)(03/27/2020)*
  - The CARES Act includes sweeping measures that provides \$2.2 trillion in emergency assistance to individuals, families, and businesses affected by the COVID-19 pandemic. Legislative provisions granting immediate funding relief are:
  - The creation of a \$175 billion Public Health and Social Services Emergency Fund (“PHSSEF”) for grants available to hospitals and other healthcare providers (as amended by H.R. 266 on April 24, 2020 which added \$75 billion to the fund).
    - This new program will provide grants intended to cover unreimbursed health care related expenses or lost revenues attributable to the public health emergency resulting from the coronavirus.
    - The new program will also reimburse hospitals at Medicare rates for uncompensated COVID-19 care for the uninsured (we have received approximately \$22 million as of December 31, 2020 in connection with this program).
    - Grants to eligible recipients will be made in multiple tranches by HHS.
      - As of December 31, 2020, we have received approximately \$417 million of funds from various governmental stimulus programs, most notably the PHSSEF as provided by the CARES Act. Our operating results for the year ended December 31, 2020 include the recognition of \$413 million in PHSSEF grant income pursuant to meeting the applicable terms and conditions of the various distribution programs as of December 31, 2020. The Consolidated Appropriations Act, 2021 (H.R. 133) enacted on December 27, 2020 includes language that provides specific instructions on: (1) the redistribution of PHSSEF grant payments by a parent company among its subsidiaries, and; (2) the calculation of lost revenue in a PHSSEF grant entitlement determination. The HHS terms and conditions for all grant recipients and specific fund distributions are located at <https://www.hhs.gov/coronavirus/cares-act-provider-relief-fund/providers/index.html>
  - Additional CARES Act grants amounting to \$187 million were received in January, 2021. There was no impact on results of operations for the year ended December 31, 2020 in connection with receipt of these funds.
  - HHS expects providers will only use Provider Relief Fund (i.e., “PHSSEF”) payments for as long as they have healthcare related expenses or lost revenue attributable to COVID-19, they are not reimbursed from other sources and other sources were not obligated to reimburse them. All Provider Relief Fund payments must be expended by no later than June 30, 2021. If providers have leftover Provider Relief Fund money that they cannot expend on permissible expenses or losses, then they will return this money to HHS. We are unable to predict if any funds received will ultimately need to be returned to HHS.
  - HHS Distributions from the PHSSEF include General Distributions to eligible healthcare providers and Targeted Distributions that focus on providers in areas particularly impacted by the COVID-19 outbreak, rural providers, providers of services with lower shares of Medicare reimbursement or who predominantly serve the Medicaid population, and providers requesting reimbursement for the treatment of uninsured Americans.

- Increase of provider funding through immediate Medicare sequester relief.
  - Suspension of the 2% Medicare sequestration offset for Medicare services provided from May 1, 2020 through December 31, 2020 and extended to March 31, 2021 by subsequent legislation (see H.R. 133 below).
  - We estimate that this provision had a favorable impact of \$30 million during 2020.
- Medicare add-on for inpatient hospital COVID-19 patients.
  - Increases the payment that would otherwise be made to a hospital for treating a Medicare patient admitted with COVID-19 by twenty percent (20%) for the duration of the COVID-19 public health emergency.
  - As of December 31, 2020, we estimate that additional payments under this provision were approximately \$16 million. These payments offset the increased expenses associated with the treatment of Medicare COVID-19 patients.
- Expansion of the Medicare Accelerated and Advance Payment Program (“MAAPP”).
  - As of December 31, 2020, we have received approximately \$695 million under MAAPP. As a result of H.R. 8319 Continuing Resolution enacted into law on October 1, 2020, hospitals that receive funds under this program are subject to the following repayment terms.
    - No repayment until one year after first receiving the loan.
    - Medicare will withhold 25% per claim for the first 11 months of repayment.
    - Medicare will withhold 50% per claim for the next 6 months of repayment.
    - After 29 months, the HHS Secretary can require the outstanding balance be paid in full and determine the percent Medicare will withhold per claim.
    - An interest rate of 4% will be assessed on loan balances outstanding after 29 months.
- Coronavirus Relief Fund.
  - Establishes a \$150 billion Coronavirus Relief Fund. The Secretary of Treasury is authorized to make payments for COVID-19 response efforts to states, tribal governments and local governments with populations of 500,000 or more. We are unable to predict whether any portion of this this state and local funding will ultimately be paid to our hospitals impacted by COVID-19. Please see *COVID-19 State and Local Grant Programs* below for additional disclosure.
- H.R 266 – The Paycheck Protection Program and Health Care Enhancement Act (4/24/2020)
  - Includes an additional \$75 billion for the PHSSEF to reimburse hospitals and health care providers for COVID-19 related expenses and lost revenue. The legislation also includes \$25 billion for necessary expenses to research, develop, validate, manufacture, purchase, administer and expand capacity for COVID-19 tests.
- Consolidated Appropriations Act, 2021 (H.R. 133) (12/27/2020)
 

The legislation includes the following highlighted provisions:

  - \$22.4 billion for testing, contract tracing, and other activities necessary to effectively monitor and suppress COVID-19.
  - \$3 billion in additional grants for hospital and health care providers to be reimbursed for health care related expenses or lost revenue directly attributable to the public health emergency resulting from coronavirus, along with direction to allocate not less than 85% of unobligated funding in the Provider Relief Fund through an application-based portal to reimburse health care providers based on “financial losses and changes in operating expenses” occurring in the third and fourth quarters of calendar year 2020, or the first quarter of calendar year 2021.
  - Provides for a one-time, one-year increase in the Medicare physician fee schedule of 3.75%.
  - Further suspends the 2% sequestration cuts for an additional three months (through March 31, 2021).
  - Eliminates Medicaid Disproportionate Share Hospital (“DSH”) payment reduction for FYs 2021, 2022 and 2023, adding DSH reductions for FYs 2026 and 2027.
  - Redefines the hospital-specific Medicaid DSH limit to generally exclude dual eligible patients from the hospital-specific DSH limit calculation beginning with FY 2022.

#### ***COVID-19 State and Local Grant Programs***

We have pursued available COVID-19 related state and local grant funding opportunities where available. State and local grants received as of December 31, 2020 include an aggregate of approximately \$13 million received in connection with certain of

our hospitals located in Washington, D.C., Massachusetts and California. We are unable to predict the aggregate amount of state and local grant opportunities that we will ultimately secure.

In addition to statutory and regulatory changes to the Medicare program and each of the state Medicaid programs, our operations and reimbursement may be affected by administrative rulings, new or novel interpretations and determinations of existing laws and regulations, post-payment audits, requirements for utilization review and new governmental funding restrictions, all of which may materially increase or decrease program payments as well as affect the cost of providing services and the timing of payments to our facilities. The final determination of amounts we receive under the Medicare and Medicaid programs often takes many years, because of audits by the program representatives, providers' rights of appeal and the application of numerous technical reimbursement provisions. We believe that we have made adequate provisions for such potential adjustments. Nevertheless, until final adjustments are made, certain issues remain unresolved and previously determined allowances could become either inadequate or more than ultimately required.

Finally, we expect continued third-party efforts to aggressively manage reimbursement levels and cost controls. Reductions in reimbursement amounts received from third-party payers could have a material adverse effect on our financial position and our results.

## **Other Operating Results**

### ***Interest Expense***

Reflected below are the components of our interest expense which amounted to \$106 million during 2020, \$163 million during 2019 and \$155 million during 2018 (amounts in thousands):

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Revolving credit & demand notes (a.)	\$ 2,248	\$ 3,066	\$ 12,240
\$300 million, 3.75% Senior Notes due 2019 (b.)	—	—	10,156
\$700 million, 4.75% Senior Notes due 2022 (c.)	23,932	32,280	32,280
\$400 million, 5.00% Senior Notes due 2026 (d.)	20,000	20,000	20,000
\$800 million, 2.65% Senior Notes due 2030 (e.)	5,849	—	—
Term loan facility A (a.)	38,467	73,005	63,021
Term loan facility B (a.)	11,892	20,274	3,511
Accounts receivable securitization program (f.)	3,752	12,471	11,785
<b>Subtotal-revolving credit, demand notes, Senior Notes, term loan facility and accounts receivable securitization program</b>	<b>106,140</b>	<b>161,096</b>	<b>152,993</b>
Interest rate swap (income)/expense, net	—	(3,400)	(6,726)
Amortization of financing fees	4,938	5,118	9,143
Other combined interest expense	2,268	3,754	3,343
Capitalized interest on major projects	(4,257)	(3,366)	(2,266)
Interest income	(2,804)	(469)	(1,531)
<b>Interest expense, net</b>	<b>\$ 106,285</b>	<b>\$ 162,733</b>	<b>\$ 154,956</b>

- (a.) In October, 2018, we entered into a sixth amendment to our credit agreement dated November 15, 2010 to, among other things: (i) increase the aggregate amount of the revolving commitments by \$200 million to \$1 billion; (ii) increase the aggregate amount of the term loan facility A by approximately \$290 million to \$2 billion, and; (iii) extend the maturity date of the credit agreement from August 7, 2019 to October 23, 2023. On October 31, 2018, we added a seven-year, Tranche B term loan facility in the aggregate amount of \$500 million pursuant to our credit agreement. The Trance B term loan matures on October 31, 2025.

The credit agreement, as amended in October, 2018, consists of: (i) an \$1 billion revolving credit facility with no outstanding borrowings as of December 31, 2020; (ii) a term loan A facility with \$1.9 billion of outstanding borrowings as of December 31, 2020, and; (iii) a term loan B facility with \$490 million of outstanding borrowings as of December 31, 2020.

- (b.) On November 26, 2018 we redeemed the \$300 million aggregate principal, 3.75% Senior Notes due 2019. The 2019 Notes were redeemed for an aggregate price equal to 100.485% of the principal amount (premium of approximately \$1 million) plus accrued interest to the redemption date.
- (c.) In September, 2020, we redeemed the entire \$700 million aggregate principal amount of our previously outstanding 4.75% Senior Secured Notes that were scheduled to mature in 2022 ("2022 Notes") at a cash redemption price equal to the sum of:

(i) 100% of the aggregate principal amount of the 2022 Notes redeemed, and; (ii) accrued and unpaid interest on the 2022 Notes to the redemption date.

(d.) In June, 2016, we completed the offering of \$400 million aggregate principal amount of 5.00% Senior Notes due in 2026.

(e.) In September, 2020, we completed the offering of \$800 million aggregate principal amount of 2.65% Senior Notes due in 2030. The net proceeds of this offering were primarily used to redeem all of the \$700 million, 2022 Notes as discussed above.

(f.) In April, 2018, we amended our accounts receivable securitization program, which was scheduled to expire in December, 2018. Pursuant to the amendment, the term has been extended through April 26, 2021, and the borrowing limit has been increased to \$450 million from \$440 million. As of December 31, 2020, we had \$225 million of borrowings outstanding pursuant to this program.

Interest expense decreased \$56 million during 2020 to \$106 million as compared to \$163 million during 2019. The decrease was due primarily to a net \$55 million decrease in aggregate interest expense on our revolving credit, demand notes, senior notes, term loan A and B facilities and accounts receivable securitization program resulting from a decrease in our aggregate average cost of borrowings pursuant to these facilities (2.8% during 2020 and 4.0% during 2019), as well as a decrease in the aggregate average outstanding borrowings (\$3.70 billion during 2020 and \$3.99 billion during 2019).

Interest expense increased \$8 million during 2019 to \$163 million as compared to \$155 million during 2018. The increase was due primarily to an increase in our aggregate average cost of borrowings pursuant to our revolving credit, demand notes, senior notes, term loan A and B facilities and accounts receivable securitization program facilities. The average cost of borrowings on these facilities increased to 4.0% during 2019, as compared to 3.8% during 2018, on average outstanding borrowings of approximately \$4.0 billion during each year.

The average effective interest rate, including amortization of deferred financing costs, original issue discount and designated interest rate swap expense/income, on borrowings outstanding under our revolving credit, demand notes, senior notes, term loan A and B facilities and accounts receivable securitization program, which amounted to approximately \$3.7 billion during 2020 and \$4.0 billion during each of 2019 and 2018, were 3.0% during 2020, 4.0% during 2019 and 3.8% during 2018.

#### ***Costs Related to Early Extinguishment of Debt***

In connection with financing transactions completed during 2020 and 2018, our results of operations for each year include pre-tax charges of \$1 million in 2020 and \$4 million in 2018, incurred for the costs related to the extinguishment of debt. These charges, which were included in other operating expenses, consisted of the following: (ii) during 2020, write-off of deferred charges (\$3 million), partially offset by the recording of the unamortized bond premium (\$2 million), related to the above-mentioned redemption, in September, 2020, of the \$700 million aggregate principal amount of our previously outstanding 4.75% senior secured notes that were scheduled to mature in 2022, and; (ii) during 2018, write-off of deferred charges (\$3 million) as well as the make-whole premium paid (\$1 million) on the early redemption of the \$300 million, 3.75% senior notes which were scheduled to mature in 2019.

#### ***Provision for Asset Impairment-Foundations Recovery Network:***

Our financial results for the years ended December 31, 2019 and 2018 include pre-tax provisions for asset impairments of approximately \$98 million and \$49 million, respectively, recorded in connection with Foundations Recovery Network, L.L.C. ("Foundations"), which was acquired by us in 2015.

The pre-tax provision for asset impairment recording during 2019 includes: (i) a \$75 million impairment provision to write-off the carrying value of the Foundations' tradename intangible asset, and; (ii) a \$23 million impairment provision to reduce the carrying value of real property assets of certain Foundations' facilities. The \$49 million pre-tax provision for asset impairment recorded during 2018 reduced the carrying value of a tradename intangible asset to approximately \$75 million from its original value of approximately \$124 million.

The provision for asset impairment recorded during 2019, which is included in other operating expenses in our consolidated statements of income, was recorded after evaluation of the estimated fair value of the Foundations' tradename as well as certain related real property assets. The provision for asset impairment was impacted by the following: (i) decisions made by management during 2019 to cancel the opening of future planned de novo facilities; (ii) reductions in projected future patient volumes, revenues and cash flows resulting from continued operating trends and financial results experienced by existing facilities that significantly lagged expectations, and; (iii) competitive pressures experienced in certain markets that were deemed to be permanent.

The provision for asset impairment recorded during 2018, which is also included in other operating expenses, was recorded after an evaluation, at that time, of the estimated fair value of the Foundations' tradename for its existing facilities, consisting of 4 inpatient and 12 outpatient facilities as of December 31, 2018, as well as estimated planned de novos. The 2018 asset impairment charge was

impacted by the following: (i) the lost future revenue and cash flows resulting from the permanent closure of a Foundations' inpatient facility located in Malibu, California that was severely damaged in the California wildfires during the fourth quarter of 2018; (ii) reduction in growth rates of projected future patient volumes, revenues and operating cash flows based upon pressures on reimbursement rates experienced from certain payers and competitive pressures experienced in certain markets, and; (iii) revisions made to the number and timing of planned de novo facilities.

#### **Provision for Income Taxes and Effective Tax Rates**

The effective tax rates, as calculated by dividing the provision for income taxes by income before income taxes, were as follows for each of the years ended December 31, 2020, 2019 and 2018 (dollar amounts in thousands):

	<b>2020</b>	<b>2019</b>	<b>2018</b>
Provision for income taxes	\$ 299,293	\$ 238,794	\$ 236,642
Income before income taxes	1,252,083	1,066,337	1,034,525
Effective tax rate	<u>23.9%</u>	<u>22.4%</u>	<u>22.9%</u>

The provision for income taxes increased \$60 million and the effective tax rate increased 1.5% during 2020, as compared to 2019, due primarily to: (i) the income tax provision recorded in connection with the \$186 million increase in pre-tax income, as discussed above in *Results of Operations*; (ii) a \$20 million increase in the provision for income taxes recorded in connection with our adoption of ASU 2016-09 which increased our provision for income taxes by approximately \$7 million during 2020, as compared to a decrease of approximately \$12 million during 2019; partially offset by; (iii) a \$6 million decrease in the provision for income taxes due the 2019 recording of the non-deductible portion of the net federal and state income taxes due on the settlement finalized in July, 2020 with the Department of Justice, Civil Division.

The provision for income taxes increased \$2 million and the effective tax rate decreased 0.5% during 2019, as compared 2018, due primarily to: (i) an increase resulting from the provision for income taxes recorded on the \$32 million increase in pre-tax income, as discussed above in *Results of Operations*; (ii) a decrease of \$11 million resulting from our adoption of ASU 2016-09 which decreased our provision for income taxes by approximately \$12 million during 2019, as compared to a decrease of approximately \$1 million during 2018; (iii) a \$4 million decrease resulting from a favorable adjustment recorded during 2019 related to a change in state tax law, partially offset by; (iv) a \$6 million increase recorded during 2019 resulting from the above-mentioned net estimated federal and state income taxes due on the portion of the DOJ Reserve that is estimated to be non-deductible for income tax purposes.

#### **Effects of Inflation and Seasonality**

**Seasonality**—Our acute care services business is typically seasonal, with higher patient volumes and net patient service revenue in the first and fourth quarters of the year. This seasonality occurs because, generally, more people become ill during the winter months, which results in significant increases in the number of patients treated in our hospitals during those months.

**Inflation**—Inflation has not had a material impact on our results of operations over the last three years. However, since the healthcare industry is very labor intensive and salaries and benefits are subject to inflationary pressures, as are supply and other costs, we cannot predict the impact that future economic conditions may have on our ability to contain future expense increases. Our ability to pass on increased costs associated with providing healthcare to Medicare and Medicaid patients is limited due to various federal, state and local laws which have been enacted that, in certain cases, limit our ability to increase prices. We believe, however, that through adherence to cost containment policies, labor management and reasonable price increases, the effects of inflation on future operating margins should be manageable.

## **Liquidity**

**Year ended December 31, 2020 as compared to December 31, 2019:**

### **Net cash provided by operating activities**

Net cash provided by operating activities was \$2.360 billion during 2020 as compared to \$1.438 billion during 2019. The net increase of \$922 million was primarily attributable to the following:

- a favorable change of \$699 million resulting primarily from the \$695 million of Medicare accelerated payments received during 2020;
- a favorable change of \$176 million due to the 2020 payment deferral of the employer's share of Social Security taxes, as provided for by the CARES Act;
- an unfavorable change of \$104 million in accounts receivable due, in part, to the coding and billing delays experienced during the fourth quarter of 2020 resulting from the information technology incident discussed herein;
- a favorable change of \$55 million resulting from an increase in net income plus/minus depreciation and amortization expense, stock-based compensation, provision for asset impairment, net gains/losses on sales of assets and businesses and costs related to extinguishment of debt;
- a favorable change of \$38 million in accrued insurance expense, net of commercial premiums paid;
- a favorable change of \$35 million in accrued and deferred income taxes, and;
- \$23 million of other combined net favorable changes.

**Days sales outstanding (“DSO”):** Our DSO are calculated by dividing our net revenue by the number of days in the year. The result is divided into the accounts receivable balance at the end of the year. Our DSO were 55 days at December 31, 2020, 50 days at December 31, 2019 and 51 days at December 31, 2018.

### **Net cash used in investing activities**

Net cash used in investing activities was \$803 million during 2020 and \$688 million during 2019.

**2020:**

The \$803 million of net cash used in investing activities during 2020 consisted of:

- \$731 million spent on capital expenditures including capital expenditures for equipment, renovations and new projects at various existing facilities;
- \$52 million spent to acquire businesses and property, consisting primarily of the real estate assets of an acute care hospital located in Las Vegas, Nevada;
- \$22 million spent in connection with net cash outflows from forward exchange contracts that hedge our investment in the U.K. against movements in exchange rates;
- \$8 million of proceeds received from sales of assets and businesses;
- \$3 million spent on the purchase and implementation of information technology applications, and;
- \$3 million spent to fund investments in various joint-ventures;

**2019:**

The \$688 million of net cash used in investing activities during 2019 consisted of:

- \$634 million spent on capital expenditures including capital expenditures for equipment, renovations and new projects at various existing facilities;
- \$21 million spent on the purchase and implementation of information technology applications;
- \$20 million spent in connection with net cash outflows from forward exchange contracts that hedge our investment in the U.K. against movements in exchange rates;

- \$15 million spent to fund investments in various joint-ventures;
- \$9 million of proceeds received from sales of assets and businesses, and;
- \$8 million spent to acquire businesses and property.

***Net cash used in financing activities***

Net cash used in financing activities was \$385 million during 2020 and \$845 million during 2019.

**2020:**

The \$385 million of net cash used in financing activities during 2020 consisted of the following:

- spent \$963 million on net repayment of debt as follows: (i) \$700 million to redeem our previously outstanding 4.75% senior secured notes which were scheduled to mature in 2022; (ii) \$175 million related to our accounts receivable securitization program; (iii) \$50 million related to our term loan A facility; (iv) \$31 million related to our short-term, on-demand credit facility; (v) \$5 million related to our term loan B facility, and; (vi) \$2 million related to other debt facilities;
- generated \$802 million of proceeds related to new borrowings as follows: (i) \$798 million of proceeds (net of discount) received in connection with the issuance in September, 2020, of the \$800 million, 2.65% senior secured notes which are scheduled to mature in 2030, and; (ii) \$4 million related to other debt facilities.
- spent \$207 million to repurchase shares of our Class B Common Stock in connection with: (i) open market purchases pursuant to our \$2.7 billion stock repurchase program, which was suspended in April, 2020 for the remainder of 2020 as a result of the COVID-19 pandemic (\$197 million), and; (ii) income tax withholding obligations related to stock-based compensation programs (\$10 million);
- spent \$20 million to pay profit distributions related to noncontrolling interests in majority owned businesses;
- received \$18 million in capital contributions from minority members in majority owned businesses;
- spent \$17 million to pay a cash dividend of \$.20 per share during the first quarter of 2020 (quarterly dividends were suspended during the remainder of 2020 as a result of the COVID-19 pandemic);
- generated \$12 million from the issuance of shares of our Class B Common Stock pursuant to the terms of employee stock purchase plans, and;
- spent \$10 million to pay financing costs incurred in connection with the \$800 million, 2.65% senior secured notes which were issued during the third quarter of 2020.

**2019:**

The \$845 million of net cash used in financing activities during 2019 consisted of the following:

- spent \$57 million on net repayment of debt as follows: (i) \$50 million related to our term loan A facility; (ii) \$5 million related to our term loan B facility, and; (iii) \$2 million related to other debt facilities;
- generated \$39 million of proceeds related to new borrowings as follows: (i) \$25 million pursuant to a short-term, on-demand credit facility; (ii) \$10 million pursuant to our accounts receivable securitization program, and; (iii) \$4 million related to other debt facilities.
- spent \$771 million to repurchase shares of our Class B Common Stock in connection with: (i) open market purchases pursuant to our \$2.7 billion stock repurchase program (\$723 million), and; (ii) income tax withholding obligations related to stock-based compensation programs (\$48 million);
- spent \$53 million to pay quarterly cash dividends of \$.20 per share in each of September and December of 2019 and \$.10 per share in each of March and June of 2019;
- spent \$16 million to pay profit distributions related to noncontrolling interests in majority owned businesses;
- generated \$11 million from the issuance of shares of our Class B Common Stock pursuant to the terms of employee stock purchase plans, and;
- received \$1 million in capital contributions from minority members in majority owned businesses.

**Year ended December 31, 2019 as compared to December 31, 2018:**

**Net cash provided by operating activities**

Net cash provided by operating activities was \$1.438 billion during 2019 as compared to \$1.275 billion during 2018. The net increase of \$164 million was primarily attributable to the following:

- a favorable change of \$110 million resulting from an increase in net income plus/minus depreciation and amortization expense, stock-based compensation, provision for asset impairment, net gains on sales of assets and costs related to extinguishment of debt;
- a favorable change of \$29 million in accrued and deferred income taxes, and;
- \$25 million of other combined net favorable changes.

**Net cash used in investing activities**

Net cash used in investing activities was \$688 million during 2019 and \$747 million during 2018. The factors contributing to the \$688 million of net cash used in investing activities during 2019 are detailed above.

*2018:*

The \$747 million of net cash used in investing activities during 2018 consisted of:

- \$665 million spent on capital expenditures including capital expenditures for equipment, renovations and new projects at various existing facilities;
- \$110 million spent to acquire businesses and property consisting primarily of the acquisition of: (i) The Danshell Group, consisting of 25 behavioral health facilities located in the U.K. (acquired during the third quarter of 2018), and; (ii) a 109-bed behavioral health care facility located in Gulfport, Mississippi (acquired during the first quarter of 2018);
- \$66 million received in connection with net cash inflows from forward exchange contracts that hedge our investment in the U.K. against movements in exchange rates;
- \$36 million spent on the purchase and implementation of information technology applications;
- \$15 million spent to fund construction costs of a new behavioral health care facility, that is jointly owned by us and a third-party, that was completed and opened during the third quarter of 2018, and;
- \$13 million received in connection with the sale of a business and property including The Limes, an 18-bed facility located in the U.K.

**Net cash used in financing activities**

Net cash used in financing activities was \$845 million during 2019 and \$492 million during 2018. The factors contributing to the \$845 million of net cash used in financing activities during 2019 are detailed above.

*2018:*

The \$492 million of net cash used in financing activities during 2018 consisted of the following:

- spent \$830 million on net repayment of debt as follows: (i) \$67 million related to our term loan A facility; (ii) \$403 million related to our revolving credit facility; (iii) \$300 million related to the early redemption of our 3.75% bonds that were scheduled to mature in 2019; (iv) \$29 million related to our accounts receivable securitization program; (v) \$29 million related to our short-term, on-demand credit facility, and; (vi) \$2 million related to other debt facilities;
- generated \$791 million of proceeds related to new borrowings pursuant to our term loan A facility (\$291 million) and our term loan B facility (\$500 million);
- spent \$397 million to repurchase shares of our Class B Common Stock in connection with: (i) open market purchases pursuant to our stock repurchase program (\$384 million), and; (ii) income tax withholding obligations related to stock-based compensation programs (\$13 million);
- spent \$37 million to pay quarterly cash dividends of \$.10 per share;
- spent \$14 million in financing costs;
- spent \$15 million to pay profit distributions related to noncontrolling interests in majority owned businesses, and;

- generated \$10 million from the issuance of shares of our Class B Common Stock pursuant to the terms of employee stock purchase plans.

#### ***2021 Expected Capital Expenditures:***

During 2021, we expect to spend approximately \$850 million to \$1.0 billion on capital expenditures which includes expenditures for capital equipment, construction of new facilities, and renovations and expansions at existing hospitals. We believe that our capital expenditure program is adequate to expand, improve and equip our existing hospitals. We expect to finance all capital expenditures and acquisitions with internally generated funds and/or additional funds, as discussed below.

#### **Capital Resources:**

##### ***Cash and Cash Equivalents***

As of December 31, 2020, we had approximately \$1.22 billion of cash and cash equivalents consisting primarily of short-term cash accounts on which interest is being earned at various annual rates ranging from 0.20% to 0.25%.

##### ***Credit Facilities and Outstanding Debt Securities***

On October 23, 2018, we entered into a Sixth Amendment (the “Sixth Amendment”) to our credit agreement dated as of November 15, 2010, as amended on March 15, 2011, September 21, 2012, May 16, 2013, August 7, 2014 and June 7, 2016, among UHS, as borrower, the several banks and other financial institutions from time to time parties thereto, as lenders, JPMorgan Chase Bank, N.A., as administrative agent, and the other agents party thereto (the “Senior Credit Agreement”).

The Sixth Amendment to the Senior Credit Agreement, among other things: (i) increased the aggregate amount of the revolving credit facility to \$1 billion (increase of \$200 million over the \$800 million previous commitment); (ii) increased the aggregate amount of the tranche A term loan commitments to \$2 billion (increase of approximately \$290 million over the \$1.71 billion of outstanding borrowings prior to the amendment), and; (iii) extended the maturity date of the revolving credit and tranche A term loan facilities to October 23, 2023 from August 7, 2019.

On October 31, 2018, we added a seven-year tranche B term loan facility in the aggregate principal amount of \$500 million pursuant to the Senior Credit Agreement. The tranche B term loan matures on October 31, 2025. We used the proceeds to repay borrowings under the revolving credit facility, the Securitization (as defined below), to redeem our \$300 million, 3.75% Senior Notes that were scheduled to mature in 2019 and for general corporate purposes.

As of December 31, 2020, we had no borrowings outstanding pursuant to our \$1 billion revolving credit facility and we had \$997 million of available borrowing capacity net of \$3 million of outstanding letters of credit.

Pursuant to the terms of the Sixth Amendment, the tranche A term loan, which had \$1.900 billion of borrowings outstanding as of December 31, 2020, provided for eight installment payments of \$12.5 million per quarter which commenced in March of 2019 and continued through December of 2020. Payments of \$25 million per quarter are scheduled, commencing in March of 2021 until maturity in October of 2023, when all outstanding amounts will be due.

The tranche B term loan, which had \$490 million of borrowings outstanding as of December 31, 2020, provides for installment payments of \$1.25 million per quarter, which commenced on March 31, 2019 and are scheduled to continue until maturity in October of 2025, when all outstanding amounts will be due.

Borrowings under the Senior Credit Agreement bear interest at our election at either (1) the ABR rate which is defined as the rate per annum equal to 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 0.375% to 0.625% for revolving credit and term loan A borrowings and 0.75% for tranche B borrowings, or (2) the one, two, three or six month LIBOR rate (at our election), plus an applicable margin based upon our consolidated leverage ratio at the end of each quarter ranging from 1.375% to 1.625% for revolving credit and term loan A borrowings and 1.75% for the tranche B term loan. As of December 31, 2020, the applicable margins were 0.375% for ABR-based loans and 1.375% for LIBOR-based loans under the revolving credit and term loan A facilities. The revolving credit facility includes a \$125 million sub-limit for letters of credit. The Senior Credit Agreement is secured by certain assets of the Company and our material subsidiaries (which generally excludes asset classes such as substantially all of the patient-related accounts receivable of our acute care hospitals, and certain real estate assets and assets held in joint-ventures with third parties) and is guaranteed by our material subsidiaries.

The Senior Credit Agreement includes a material adverse change clause that must be represented at each draw. The Senior 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. We are in compliance with all required covenants as of December 31, 2020 and December 31, 2019.

In April, 2018, we entered into the sixth amendment to our accounts receivable securitization program (“Securitization”) dated as of October 27, 2010 with a group of conduit lenders, liquidity banks, and PNC Bank, National Association, as administrative agent, which provides for borrowings outstanding from time to time by certain of our subsidiaries in exchange for undivided security interests in their respective accounts receivable. The sixth amendment, among other things, extended the term of the Securitization program through April 26, 2021 and increased the borrowing capacity to \$450 million (from \$440 million previously). In July, 2020, we entered into the seventh amendment to the Securitization which temporarily waived the minimum borrowing requirement through September 30, 2020. Pursuant to the terms of our Securitization program, 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 December 31, 2020, we had \$225 million of outstanding borrowings pursuant to the terms of the Securitization (which are included in current maturities of long-term debt at December 31, 2020) and \$225 million of available borrowing capacity.

As of December 31, 2020, we had combined aggregate principal of \$1.2 billion from the following senior secured notes:

- \$800 million aggregate principal amount of 2.65% senior secured notes due in October, 2030 (“2030 Notes”) which were issued on September 21, 2020.
- \$400 million aggregate principal amount of 5.00% senior secured notes due in June, 2026 (“2026 Notes”) which were issued on June 3, 2016.

Interest on the 2026 Notes is payable on June 1 and December 1 until the maturity date of June 1, 2026. Interest on the 2030 Notes payable on April 15 and October 15, commencing April 15, 2021, until the maturity date of October 15, 2030. The 2026 Notes and 2030 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 2026 Notes and 2030 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.

The 2030 Notes are guaranteed (the “*Guarantees*”) on a senior secured basis by all of our existing and future direct and indirect subsidiaries (the “*Subsidiary Guarantors*”) that guarantee our Senior Credit Agreement, dated as of November 15, 2010, as amended, restated or supplemented from time to time, or other first lien obligations or any junior lien obligations. The 2030 Notes and the *Guarantees* are secured by first-priority liens, subject to permitted liens, on certain of the Company’s and the Subsidiary Guarantors’ assets now owned or acquired in the future by the Company or the Subsidiary Guarantors (other than real property, accounts receivable sold pursuant to the Company’s Existing Receivables Facility (as defined in the Indenture pursuant to which the 2030 Notes were issued (the “*Indenture*”)), and certain other excluded assets). The Company’s obligations with respect to the 2030 Notes, the obligations of the Subsidiary Guarantors under the *Guarantees*, and the performance of all of the Company’s and the Subsidiary Guarantors’ other obligations under the Indenture are secured equally and ratably with the Company’s and the Subsidiary Guarantors’ obligations under the Senior Credit Agreement and the Company’s 2026 Notes by a perfected first-priority security interest, subject to permitted liens, in the collateral owned by the Company and its Subsidiary Guarantors, whether now owned or hereafter acquired. However, the liens on the collateral securing the 2030 Notes and the *Guarantees* will be released if: (i) the 2030 Notes have investment grade ratings; (ii) no default has occurred and is continuing, and; (iii) the liens on the collateral securing all first lien obligations (including the Senior Credit Agreement and the 2026 Notes) and any junior lien obligations are released or the collateral under the Senior Credit Agreement, any other first lien obligations and any junior lien obligations is released or no longer required to be pledged. The liens on any collateral securing the 2030 Notes and the *Guarantees* will also be released if the liens on that collateral securing the Senior Credit Agreement, other first lien obligations and any junior lien obligations are released.

In connection with the issuance of the 2030 Notes, the Company, the Subsidiary Guarantors and the representatives of the several initial purchasers, entered into a Registration Rights Agreement (the “*Registration Rights Agreement*”), whereby the Company and the Subsidiary Guarantors have agreed, at their expense, to use commercially reasonable best efforts to: (i) cause to be filed a registration statement enabling the holders to exchange the 2030 Notes and the *Guarantees* for registered senior secured notes issued by the Company and guaranteed by the then Subsidiary Guarantors under the Indenture (the “*Exchange Securities*”), containing terms identical to those of the 2030 Notes (except that the Exchange Securities will not be subject to restrictions on transfer or to any increase in annual interest rate for failure to comply with the Registration Rights Agreement); (ii) cause the registration statement to become effective; (iii) complete the exchange offer not later than 60 days after such effective date and in any event on or prior to a target registration date of March 21, 2023, and; (iv) file a shelf registration statement for the resale of the 2030 Notes if the exchange offer cannot be effected within the time periods listed above. The interest rate on the 2030 Notes will increase and additional interest thereon will be payable if the Company does not comply with its obligations under the Registration Rights Agreement.

On September 28, 2020, we redeemed the entire \$700 million aggregate principal amount of our previously outstanding 4.75% Senior Secured Notes due 2022 (the “2022 Notes”), at a cash redemption price equal to the sum of: (i) 100% of the aggregate principal amount of the 2022 Notes redeemed, and; (ii) accrued and unpaid interest on the 2022 Notes to the redemption date. Included in our financial results for the three and nine-month periods ended September 30, 2020, was a loss on extinguishment of debt of approximately \$1 million recorded in connection with the redemption of the 2022 Notes.

At December 31, 2020, the carrying value and fair value of our debt were each approximately \$3.9 billion. At December 31, 2019, the carrying value and fair value of our debt were each approximately \$4.0 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.

Our total debt as a percentage of total capitalization was approximately 38% at December 31, 2020 and 42% at December 31, 2019.

We expect to finance all capital expenditures and acquisitions and pay dividends and potentially repurchase shares of our common stock utilizing internally generated and additional funds. Additional funds may be obtained through: (i) borrowings under our existing revolving credit facility, which has \$997 million of available borrowing capacity as of December 31, 2020, or through refinancing the existing Senior Credit Agreement; (ii) the issuance of other long-term debt, and/or; (iii) the issuance of equity. We believe that our operating cash flows, cash and cash equivalents, as well as access to the capital markets, provide us with sufficient capital resources to fund our operating, investing and financing requirements for the next twelve months, including the repayment or refinancing of our above-mentioned Securitization which is scheduled to mature in April, 2021. However, in the event we need to access the capital markets or other sources of financing, there can be no assurance that we will be able to obtain financing on acceptable terms or within an acceptable time. Our inability to obtain financing on terms acceptable to us could have a material unfavorable impact on our results of operations, financial condition and liquidity.

#### ***Contractual Obligations and Off-Balance Sheet Arrangements***

As of December 31, 2020 we were party to certain off balance sheet arrangements consisting of standby letters of credit and surety bonds which totaled \$158 million consisting of: (i) \$149 million related to our self-insurance programs, and; (ii) \$9 million of other debt and public utility guarantees.

Obligations under operating leases for real property, real property master leases and equipment amount to \$442 million as of December 31, 2020. The real property master leases are leases for buildings on or near hospital property for which we guarantee a certain level of rental income. We sublease space in these buildings and any amounts received from these subleases are offset against the expense. In addition, we lease four hospital facilities from Universal Health Realty Trust (the “Trust”) with two hospital terms expiring in 2021, one in 2026, and one (which commenced in December, 2020) in 2040. These leases contain various 5-year renewal options. We also lease two free-standing emergency departments and space in certain medical office buildings which are owned by the Trust. In addition, we lease the real property of certain other facilities from non-related parties as indicated in *Item 2. Properties*, as included herein.

The following represents the scheduled maturities of our contractual obligations as of December 31, 2020:

	<b>Payments Due by Period (dollars in thousands)</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>2-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
Long-term debt obligations (a)	\$ 3,856,251	\$ 331,998	\$ 1,812,666	\$ 476,926	\$ 1,234,661
Estimated future interest payments on debt outstanding as of December 31, 2020 (b)	517,912	94,142	162,442	107,847	153,481
Construction commitments (c)	94,525	66,439	28,086	0	0
Purchase and other obligations (d)	348,907	55,002	120,386	55,714	117,805
Operating leases (e)	442,368	72,722	118,581	87,963	163,102
Estimated future payments for defined benefit pension plan, and other retirement plan (f)	180,517	17,577	16,045	18,567	128,328
Health and dental unpaid claims (g)	90,639	90,639	0	0	0
<b>Total contractual cash obligations</b>	<b>\$ 5,531,119</b>	<b>\$ 728,519</b>	<b>\$ 2,258,206</b>	<b>\$ 747,017</b>	<b>\$ 1,797,377</b>

(a) Reflects borrowings outstanding, after unamortized financing costs, as of December 31, 2020 as discussed in *Note 4 to the Consolidated Financial Statements*.

- (b) Assumes that all debt outstanding as of December 31, 2020, including borrowings under our Credit Agreement and accounts receivable securitization program, remain outstanding until the final maturity of the debt agreements at the same interest rates (some of which are floating) which were in effect as of December 31, 2020. We have the right to repay borrowings upon short notice and without penalty, pursuant to the terms of the Credit Agreement and accounts receivable securitization program.
- (c) Our share of the remaining estimated construction cost of five behavioral health care facilities that are under construction and scheduled to be completed at various times in 2021, 2022 and 2023. We are required to build these facilities pursuant to joint-venture agreements with third parties. In addition, we had various other projects under construction as of December 31, 2020. Because we can terminate substantially all of the construction contracts related to the various other projects at any time without paying a termination fee, these costs are excluded from the table above.
- (d) Consists of: (i) \$27 million related to long-term contracts with third-parties consisting primarily of certain revenue cycle data processing services for our acute care facilities; (ii) \$218 million related to the future expected costs to be paid to a third-party vendor in connection with the ongoing operation of an electronic health records application and purchase and implementation of a revenue cycle and other applications for our acute care facilities; (iii) and \$29 million for other software applications, and; (iv) \$75 million in healthcare infrastructure in Washington D.C. in connection with various agreements with the District of Columbia, as discussed below.
- (e) Reflects our future minimum operating lease payment obligations related to our operating lease agreements outstanding as of December 31, 2020 as discussed in *Note 7 to the Consolidated Financial Statements*. Some of the lease agreements provide us with the option to renew the lease and our future lease obligations would change if we exercised these renewal options. In connection with these operating lease commitments, our consolidated balance sheet as of December 31, 2020 includes right of use assets amounting to \$337 million and aggregate operating lease liabilities of \$338 million (\$60 million included in current liabilities and \$278 million included in noncurrent liabilities).
- (f) Consists of \$159 million of estimated future payments related to our non-contributory, defined benefit pension plan (estimated through 2078), as disclosed in *Note 8 to the Consolidated Financial Statements*, and \$22 million of estimated future payments related to other retirement plan liabilities (\$18 million of liabilities recorded in other non-current liabilities as of December 31, 2020 in connection with these retirement plans).
- (g) Consists of accrued and unpaid estimated claims expense incurred in connection with our commercial health insurers and self-insured employee benefit plans.

As of December 31, 2020, the total accrual for our professional and general liability claims was \$264 million, of which \$74 million is included in other current liabilities and \$190 million is included in other non-current liabilities. We exclude the \$264 million for professional and general liability claims from the contractual obligations table because there are no significant contractual obligations associated with these liabilities and because of the uncertainty of the dollar amounts to be ultimately paid as well as the timing of such payments. Please see *Self-Insured/Other Insurance Risks* above for additional disclosure related to our professional and general liability claims and reserves.

During 2020, we entered into a various agreements with the District of Columbia (the “District”) related to the development, leasing and operation of an acute care hospital and certain other facilities/structures on land owned by the District (“District Facilities”). The agreements contemplate that we will serve as manager for development and construction of the District Facilities on behalf of the District, with a projected aggregate cost of approximately \$375 million which will be entirely funded by the District. Construction of the District Facilities is expected to be completed by 2024. Upon completion of the District Facilities, we will lease the District Facilities for a nominal rental amount for a period of 75 years and are obligated to operate the District Facilities during the lease term. We have certain lease termination rights in connection with the District Facilities beginning on the tenth anniversary of the lease commencement date for various and decreasing amounts as provided for in the agreements. Additionally, any time after the 10th anniversary of the lease term, we have a right to purchase the District Facilities for a price equal to the greater of fair market value of the District Facilities or the amount necessary to defease the bonds issued by the District to fund the construction of the District Facilities. The lease agreement also entitles the District to participation rent should certain specified earnings before interest, taxes, depreciation and amortization thresholds be achieved by the acute care hospital. Additionally, we have committed to expend no less than \$75 million, over a projected 13-year period, in healthcare infrastructure including expenditures related to the District Facilities as well as other healthcare related expenditures in certain specified areas of Washington, D.C. This financial commitment is included in “Purchase and other obligations” as reflected on the contractual obligations table above. Pursuant to the agreements, the District is entitled to certain termination fees and other amounts as specified in the agreements in the event we, within certain specified periods of time, cease to operate the acute care hospital or there is a transfer of control of us or our subsidiary operating the hospital.

#### **ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk**

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 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. From time to time, 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 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. When applicable, we assess the effectiveness of our hedge instruments on a quarterly basis. Although we do not anticipate nonperformance by our counterparties to interest rate swap agreements, the counterparties expose us to credit risk in the event of nonperformance. We do not hold or issue derivative financial instruments for trading purposes.

During 2015, we entered into nine forward starting interest rate swaps whereby we paid a fixed rate on a total notional amount of \$1.0 billion and received one-month LIBOR. The average fixed rate payable on these swaps, all of which matured on April 15, 2019, was 1.31%.

When applicable, we measure our interest rate swaps at fair value on a recurring basis. The fair value of our interest rate swaps is based on quotes from our counterparties. 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 table below presents information about our long-term financial instruments that are sensitive to changes in interest rates as of December 31, 2020. For debt obligations, the table presents principal cash flows and related weighted-average interest rates by contractual maturity dates.

**Maturity Date, Fiscal Year Ending December 31**  
**(dollar amounts in thousands)**

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>Thereafter</u>	<u>Total</u>
<b>Long-term debt:</b>							
Fixed rate:							
Debt	\$ 2,081	\$ 2,587	\$ 2,918	\$ 3,284	\$ 2,371	\$ 1,234,661	\$ 1,247,902
Average interest rates	3.7%	3.6%	3.6%	3.6%	3.6%	3.2%	3.6%
Variable rate:							
Debt	\$ 329,917	\$ 105,000	1,702,161	5,000	466,271	0	\$ 2,608,349
Average interest rates	1.6%	1.6%	1.6%	1.9%	1.9%	0.0%	1.7%

As calculated based upon our variable rate debt outstanding as of December 31, 2020 that is subject to interest rate fluctuations, each 1% change in interest rates would impact our pre-tax income by approximately \$26 million.

#### **ITEM 8. Financial Statements and Supplementary Data**

Our Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Changes in Equity, Consolidated Statements of Cash Flows and Consolidated Statements of Comprehensive Income, together with the reports of PricewaterhouseCoopers LLP, independent registered public accounting firm, are included elsewhere herein. Reference is made to the “Index to Financial Statements and Financial Statement Schedule.”

#### **ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**ITEM 9A. Controls and Procedures.**

As of December 31, 2020, under the supervision and with the participation of our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), we performed an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) or Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended. Based on this evaluation, the CEO and CFO have concluded that our disclosure controls and procedures are effective to ensure that material information is recorded, processed, summarized and reported by management on a timely basis in order to comply with our disclosure obligations under the Securities Exchange Act of 1934, as amended, and the SEC rules thereunder.

***Changes in Internal Control Over Financial Reporting***

There have been no changes in our internal control over financial reporting or in other factors during the fourth quarter of 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***Management’s Report on Internal Control Over Financial Reporting***

Management is responsible for establishing and maintaining an adequate system of internal control over our financial reporting. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the criteria on *Internal Control—Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on its assessment, management has concluded that we maintained effective internal control over financial reporting as of December 31, 2020, based on criteria in *Internal Control—Integrated Framework (2013)*, issued by the COSO. The effectiveness of the Company’s internal control over financial reporting as of December 31, 2020 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm as stated in its report which appears herein.

**ITEM 9B Other Information**

None.

### **PART III**

#### **ITEM 10. *Directors, Executive Officers and Corporate Governance***

There is hereby incorporated by reference the information to appear under the captions “Election of Directors”, “Section 16(a) Beneficial Ownership Reporting Compliance” and “Corporate Governance” in our Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after December 31, 2020. See also “Executive Officers of the Registrant” appearing in Item 1 hereof.

#### **ITEM 11. *Executive Compensation***

There is hereby incorporated by reference the information to appear under the caption “Executive Compensation” in our Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after December 31, 2020.

#### **ITEM 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

There is hereby incorporated by reference the information to appear under the caption “Security Ownership of Certain Beneficial Owners and Management” and “Executive Compensation” in our Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after December 31, 2020.

#### **ITEM 13. *Certain Relationships and Related Transactions, and Director Independence***

There is hereby incorporated by reference the information to appear under the captions “Certain Relationships and Related Transactions” and “Corporate Governance” in our Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after December 31, 2020.

#### **ITEM 14. *Principal Accountant Fees and Services.***

There is hereby incorporated by reference the information to appear under the caption “Relationship with Independent Auditors” in our Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after December 31, 2020.

## PART IV

### ITEM 15. Exhibits and Financial Statement Schedules

#### (a) Documents filed as part of this report:

##### (1) Financial Statements:

See "Index to Financial Statements and Financial Statement Schedule."

##### (2) Financial Statement Schedules:

See "Index to Financial Statements and Financial Statement Schedule."

##### (3) Exhibits:

No.	Description
3.1	Registrant's Restated Certificate of Incorporation, and Amendments thereto, previously filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, are incorporated herein by reference (P).
3.2	Bylaws of Registrant, as amended, previously filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987, is incorporated herein by reference (P).
3.3	<a href="#">Amendment to the Registrant's Restated Certificate of Incorporation previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K dated July 3, 2001 is incorporated herein by reference.</a>
4.1	<a href="#">Indenture, dated as of June 3, 2016, between the Company, the subsidiary guarantors party thereto, MUFG Union Bank, N.A., as trustee, and JPMorgan Chase Bank, N.A., as collateral agent, previously filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated June 8, 2016, is incorporated herein by reference.</a>
4.2	<a href="#">Additional Authorized Representative Joinder Agreement, dated as of June 3, 2016, among the Company, the subsidiary guarantors party thereto and JPMorgan Chase Bank, N.A., as collateral agent, previously filed as Exhibit 4.3 to the Company's Current Report on Form 8-K dated June 8, 2016, is incorporated herein by reference.</a>
4.3	<a href="#">Description of Securities of the Registrant previously filed as Exhibit 4.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019, is incorporated herein by reference.</a>
4.4	<a href="#">Indenture, dated as of September 21, 2020, by and among the Company, the Subsidiary Guarantors party thereto, MUFG Union Bank, N.A., as trustee, and JPMorgan Chase Bank, N.A., as collateral agent, previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated September 21, 2020, is incorporated herein by reference.</a>
4.5	<a href="#">Additional Authorized Representative Joinder Agreement, dated as of September 21, 2020, among the Company, the Subsidiary Guarantors party thereto, JPMorgan Chase Bank, N.A., as collateral agent, the Authorized Representatives specified therein and MUFG Union Bank, N.A., as trustee, as an Additional Authorized Representative, previously filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated September 21, 2020, is incorporated herein by reference.</a>
4.6	<a href="#">Registration Rights Agreement, dated as of September 21, 2020, by and among the Company, the Subsidiary Guarantors party thereto, and J.P. Morgan Securities LLC, BofA Securities, Inc. and Goldman Sachs &amp; Co. LLC, as representatives of the several Initial Purchasers, previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 21, 2020, is incorporated herein by reference.</a>
10.1	<a href="#">Agreement, dated December 2, 2020, to renew Advisory Agreement dated as of December 24, 1986, and amended and restated effective as of January 1, 2019 between Universal Health Realty Income Trust and UHS of Delaware, Inc.</a>
10.2	<a href="#">Agreement, dated as of December 4, 2019, to renew Advisory Agreement, dated as of December 24, 1986, and amended and restated effective as of January 1, 2019 between Universal Health Realty Income Trust and UHS of Delaware, Inc., previously filed as Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2018, is incorporated herein by reference.</a>
10.3	Form of Leases, including Form of Master Lease Document for Leases, between certain subsidiaries of the Company and Universal Health Realty Income Trust, filed as Exhibit 10.3 to Amendment No. 3 of the Registration Statement on Form S-11 and Form S-2 of Registrant and Universal Health Realty Income Trust (Registration No. 33-7872), is incorporated herein by reference (P).

<u>No.</u>	<u>Description</u>
10.4	Corporate Guaranty of Obligations of Subsidiaries Pursuant to Leases and Contract of Acquisition, dated December 24, 1986, issued by the Company in favor of Universal Health Realty Income Trust, previously filed as Exhibit 10.5 to the Company's Current Report on Form 8-K dated December 24, 1986, is incorporated herein by reference (P).
10.5	<a href="#"><u>Universal Health Services, Inc. Executive Retirement Income Plan dated January 1, 1993, previously filed as Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, is incorporated herein by reference.</u></a>
10.6	<a href="#"><u>Universal Health Services, Inc. Supplemental Executive Retirement Income Plan effective as of June 1, 2018, dated as of June 18, 2018, previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019, is incorporated herein by reference.</u></a>
10.7	Asset Purchase Agreement dated as of February 6, 1996, among Amarillo Hospital District, UHS of Amarillo, Inc. and Universal Health Services, Inc., previously filed as Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, is incorporated herein by reference (P).
10.8	Agreement of Limited Partnership of District Hospital Partners, L.P. (a District of Columbia limited partnership) by and among UHS of D.C., Inc. and The George Washington University, previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarters ended March 30, 1997, and June 30, 1997, is incorporated herein by reference (P).
10.9	Contribution Agreement between The George Washington University (a congressionally chartered institution in the District of Columbia) and District Hospital Partners, L.P. (a District of Columbia limited partnership), previously filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, is incorporated herein by reference (P).
10.10*	<a href="#"><u>Amended and Restated Universal Health Services, Inc. Supplemental Deferred Compensation Plan dated as of January 1, 2002, previously filed as Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, is incorporated herein by reference.</u></a>
10.11*	<a href="#"><u>Universal Health Services, Inc. Employee Stock Purchase Plan, previously filed as Exhibit 4.1 to the Company's Registration Statement on Form S-8 (File No. 333-122188), dated January 21, 2005 is incorporated herein by reference.</u></a>
10.12*	<a href="#"><u>Universal Health Services, Inc. Third Amended and Restated 2005 Stock Incentive Plan as Amended, previously filed as Exhibit 99.1 to the Company's Registration Statement on Form S-8 (File No.333-218359), dated May 31, 2017, is incorporated herein by reference.</u></a>
10.13*	<a href="#"><u>Form of Stock Option Agreement, previously filed as Exhibit 10.4 to the Company's Current Report on Form 8-K, dated June 8, 2005, is incorporated herein by reference.</u></a>
10.14*	<a href="#"><u>Form of Stock Option Agreement for Non-Employee Directors, previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K, dated October 3, 2005, is incorporated herein by reference.</u></a>
10.15	<a href="#"><u>Amendment No. 1 to the Master Lease Document, between certain subsidiaries of Universal Health Services, Inc. and Universal Health Realty Income Trust, dated April 24, 2006, previously filed as Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, is incorporated herein by reference.</u></a>
10.16*	<a href="#"><u>Amended and Restated Universal Health Services, Inc. 2010 Employees' Restricted Stock Purchase Plan, previously filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on August 7, 2015, is incorporated herein by reference.</u></a>
10.17*	<a href="#"><u>Universal Health Services, Inc. 2010 Executive Incentive Plan, previously filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on August 7, 2015, is incorporated herein by reference.</u></a>
10.18	<a href="#"><u>Omnibus Amendment to Receivables Sale Agreements, dated as of October 27, 2010, previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 2, 2010, is incorporated herein by reference.</u></a>

<u>No.</u>	<u>Description</u>
10.19	<a href="#">Amended and Restated Credit and Security Agreement, dated as of October 27, 2010, previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated November 2, 2010, is incorporated herein by reference.</a>
10.20	<a href="#">Second Amendment to Amended and Restated Credit and Security Agreement, dated as of October 25, 2013, previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 30, 2013, is incorporated herein by reference.</a>
10.21	<a href="#">Third Amendment to Amended and Restated Credit and Security Agreement, dated as of August 1, 2014, previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 4, 2014, is incorporated herein by reference.</a>
10.22	<a href="#">Fourth Amendment to Amended and Restated Credit and Security Agreement, dated as of December 22, 2015, previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 22, 2015, is incorporated herein by reference.</a>
10.23	<a href="#">Fifth Amendment to Amended and Restated Credit and Security Agreement, dated as of July 7, 2017, previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 7, 2017, is incorporated herein by reference.</a>
10.24	<a href="#">Sixth Amendment to Amended and Restated Credit and Security Agreement, dated as of April 26, 2018, previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 27, 2018, is incorporated herein by reference.</a>
10.25	<a href="#">Assignment and Assumption Agreement, dated as of October 27, 2010, previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K dated November 2, 2010, is incorporated herein by reference.</a>
10.26	<a href="#">Credit Agreement, dated as of November 15, 2010, by and among Universal Health Services, Inc., JPMorgan Chase Bank, N.A. and the various financial institutions as are or may become parties thereto, as Lenders, SunTrust Bank, The Royal Bank of Scotland, Plc, Bank of Tokyo-Mitsubishi UFJ Trust Company and Credit Agricole Corporate and Investment Bank, as co-documentation agents, Deutsche Bank Securities Inc. and Bank of America N.A. as co-syndication agents, and JPMorgan Chase Bank, N.A., as administrative agent for the Lenders and as collateral agent for the secured parties, previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 17, 2010, is incorporated herein by reference.</a>
10.27	<a href="#">First Amendment, dated as of March 15, 2011, to the Credit Agreement, dated as of November 15, 2010, by and among Universal Health Services, Inc., JPMorgan Chase Bank, N.A. and the various financial institutions as are or may become parties thereto, as Lenders, certain banks as co-documentation agents, and as co-syndication agents, and JPMorgan Chase Bank, N.A., as administrative agent for the Lenders and as collateral agent for the secured parties, previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 15, 2011, is incorporated herein by reference.</a>
10.28	<a href="#">Credit Agreement, dated as of November 15, 2010 and amended and restated as of September 21, 2012, by and among Universal Health Services, Inc. (the borrower), the several lenders from time to time parties thereto, Credit Agricole Corporate and Investment Bank, Mizuho Corporate Bank LTD., Royal Bank of Canada and The Royal Bank of Scotland PLC (as co-documentation agents), Bank of Tokyo-Mitsubishi UFJ Trust Company, Bank of America N.A. and SunTrust Bank (as co-syndication agents), and JPMorgan Chase Bank, N.A. (as administrative agent), previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 26, 2012, is incorporated herein by reference.</a>
10.29	<a href="#">Second Amendment, dated as of September 21, 2012, to the Credit Agreement, dated as of November 15, 2010 (as amended from time to time), among Universal Health Services, Inc., a Delaware corporation, the several banks and other financial institutions from time to time parties thereto, JPMorgan Chase Bank, N.A., as administrative agent and the other agents party thereto, previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated September 26, 2012, is incorporated herein by reference.</a>
10.30	<a href="#">Third Amendment, dated as of May 16, 2013, to the Credit Agreement, dated as of November 15, 2010, as amended from time to time, among Universal Health Services, Inc., a Delaware corporation, the several banks and other financial institutions from time to time parties thereto, JPMorgan Chase Bank, N.A., as administrative agent and the other agents party thereto, previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 17, 2013, is incorporated herein by reference.</a>

<u>No.</u>	<u>Description</u>
10.31	<a href="#"><u>Fourth Amendment, dated as of August 7, 2014, to the Credit Agreement, dated as of November 15, 2010, as previously amended from time to time, by and among Universal Health Services, Inc., the several banks and other financial institutions from time to time parties thereto, JPMorgan Chase Bank, N.A., as administrative agent and the other agents party thereto, previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 12, 2014, is incorporated herein by reference.</u></a>
10.32	<a href="#"><u>Fifth Amendment to the Credit Agreement, dated as of November 15, 2010, as amended on March 15, 2011, September 21, 2012, May 16, 2013 and August 7, 2014, among the Company, as borrower, the several banks and other financial institutions from time to time parties thereto, as lenders, JPMorgan Chase Bank, N.A., as administrative agent, and the other agents party thereto, previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 8, 2016, is incorporated herein by reference.</u></a>
10.33	<a href="#"><u>Sixth Amendment, dated as of October 23, 2018, to the Credit Agreement, dated as of November 15, 2010, as amended on March 15, 2011, September 21, 2012, May 16, 2013, August 7, 2014 and June 7, 2016, among the Company, as borrower, the several banks and other financial institutions from time to time parties thereto, as lenders, JPMorgan Chase Bank, N.A., as administrative agent, and the other agents party thereto, previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 24, 2018, is incorporated herein by reference.</u></a>
10.34	<a href="#"><u>Increased Facility Activation Notice – Incremental Term Loans, dated as of October 31, 2018, to the Credit Agreement, dated as of November 15, 2010, as amended on March 15, 2011, September 21, 2012, May 16, 2013, August 7, 2014, June 7, 2016 and October 23, 2018, among the Company, as borrower, the several banks and other financial institutions from time to time parties thereto, as lenders, JPMorgan Chase Bank, N.A., as administrative agent, and the other agents party thereto, previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 2, 2018, is incorporated herein by reference.</u></a>
10.35	<a href="#"><u>Credit Agreement, dated as of November 15, 2010 and amended and restated as of August 7, 2014, by and among Universal Health Services, Inc., the several banks and other financial institutions from time to time parties thereto, JPMorgan Chase Bank, N.A., as administrative agent and the other agents party thereto, previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated August 12, 2014, is incorporated herein by reference.</u></a>
10.36*	<a href="#"><u>Form of Supplemental Life Insurance Plan and Agreement Part A: Alan B. Miller 1998 Dual Life Insurance Trust (effective December 9, 2010, by and between Universal Health Services, Inc., a Delaware corporation (the "Company"), and Anthony Pantaleoni as Trustee), previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 10, 2010, is incorporated herein by reference.</u></a>
10.37*	<a href="#"><u>Form of Supplemental Life Insurance Plan and Agreement Part B: Alan B. Miller 2002 Trust (effective December 9, 2010, by and between Universal Health Services, Inc., a Delaware corporation (the "Company"), and Anthony Pantaleoni as Trustee), previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated December 10, 2010, is incorporated herein by reference.</u></a>
10.38*	<a href="#"><u>Universal Health Services, Inc. Termination, Assignment and Release Agreement (effective December 9, 2010, by and between Universal Health Services, Inc., a Delaware corporation (the "Company"), Anthony Pantaleoni as Trustee of the Alan B. Miller 1998 Dual Life Insurance Trust, and Alan B. Miller, Executive), previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K dated December 10, 2010, is incorporated herein by reference.</u></a>
10.39*	<a href="#"><u>Universal Health Services, Inc. Termination, Assignment and Release Agreement (effective December 9, 2010, by and between Universal Health Services, Inc., a Delaware corporation (the "Company"), Anthony Pantaleoni as Trustee of the Alan B. Miller 2002 Trust, and Alan B. Miller, Executive), previously filed as Exhibit 10.4 to the Company's Current Report on Form 8-K dated December 10, 2010, is incorporated herein by reference.</u></a>
10.40	<a href="#"><u>Collateral Agreement, dated as of August 7, 2014, among Universal Health Services, Inc., the subsidiary guarantors party thereto, MUFG Union Bank, N.A., as 2014 Trustee, The Bank of New York Mellon Trust Company, N.A., as 2006 Trustee, and JPMorgan Chase Bank, N.A., as collateral agent, previously filed as Exhibit 10.4 to the Company's Current Report on Form 8-K dated August 12, 2014, is incorporated herein by reference.</u></a>
10.41	<a href="#"><u>Universal Health Services, Inc. 2020 Omnibus Stock and Incentive Plan, previously filed as Exhibit 99.1 to the Company's Registration Statement on Form S-8 (File No. 333-238880) dated June 2, 2020, is incorporated herein by reference.</u></a>
10.42	<a href="#"><u>Form of Stock Option Award Agreement under the Universal Health Services, Inc. 2020 Omnibus Stock and Incentive Plan, previously filed as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on August 7, 2020, is incorporated herein by reference.</u></a>

<u>No.</u>	<u>Description</u>
10.43	<a href="#">Form of Restricted Stock Award Agreement under the Universal Health Services, Inc. 2020 Omnibus Stock and Incentive Plan, previously filed as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q filed on August 7, 2020, is incorporated herein by reference.</a>
10.44	<a href="#">Form of Restricted Stock Unit Award Agreement under the Universal Health Services, Inc. 2020 Omnibus Stock and Incentive Plan, previously filed as Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q filed on August 7, 2020, is incorporated herein by reference.</a>
10.45	<a href="#">Settlement Agreement among: (i) the United States of America, acting through the United States Department of Justice and on behalf of the Office of Inspector General (OIG-HHS) of the Department of Health and Human Services (HHS); the Defense Health Agency (DHA), acting on behalf of the TRICARE Program; the Office of Personnel Management (OPM), which administers the Federal Employees Health Benefits Program (FEHBP); and the United States Department of Veteran Affairs (VA) (collectively, the United States); (ii) Universal Health Services, Inc. ("UHS, Inc.") and UHS of Delaware, Inc. ("UHS of Delaware, Inc."), acting on behalf of the entities listed on Exhibits A and B, (collectively the "Defendants" or "UHS"); and (iii) various individuals (collectively, the "Relators"), previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 10, 2020, is incorporated herein by reference.</a>
10.46	<a href="#">Form of Settlement Agreement between various states and Universal Health Services, Inc. and UHS of Delaware, Inc., acting on behalf of the entities listed on Exhibits A and B, previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated July 10, 2020, is incorporated herein by reference.</a>
10.47	<a href="#">Corporate Integrity Agreement between the Office of Inspector General of the Department of Health and Human Services and Universal Health Services, Inc. and UHS of Delaware, Inc., previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K dated July 10, 2020, is incorporated herein by reference.</a>
10.48*	<a href="#">Employment Agreement between Universal Health Services, Inc. and Marc D. Miller dated as of December 23, 2020, previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 23, 2020, is incorporated herein by reference.</a>
10.49*	<a href="#">Employment Agreement between Universal Health Services, Inc. and Alan B. Miller dated as of December 23, 2020, previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated December 23, 2020, is incorporated herein by reference.</a>
11	<a href="#">Statement regarding computation of per share earnings is set forth in Note 1 of the Notes to the Consolidated Financial Statements.</a>
21	<a href="#">Subsidiaries of Registrant.</a>
23.1	<a href="#">Consent of Independent Registered Public Accounting Firm-PricewaterhouseCoopers LLP.</a>
31.1	<a href="#">Certification from the Company's Chief Executive Officer Pursuant to Rule 13a-14(a)/15(d)-14(a) of the Securities Exchange Act of 1934.</a>
31.2	<a href="#">Certification from the Company's Chief Financial Officer Pursuant to Rule 13a-14(a)/15(d)-14(a) of the Securities Exchange Act of 1934.</a>
32.1	<a href="#">Certification from the Company's Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2	<a href="#">Certification from the Company's Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document

<u>No.</u>	<u>Description</u>
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)
*	Management contract or compensatory plan or arrangement.

Exhibits, other than those incorporated by reference, have been included in copies of this Annual Report filed with the Securities and Exchange Commission. Stockholders of the Company will be provided with copies of those exhibits upon written request to the Company.

**ITEM 16. *Form 10-K Summary***

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNIVERSAL HEALTH SERVICES, INC.

By: /s/ MARC D. MILLER  
Marc D. Miller  
Chief Executive Officer

February 25, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
<u>/s/ ALAN B. MILLER</u> <u>Alan B. Miller</u>	Executive Chairman of the Board	February 25, 2021
<u>/s/ MARC D. MILLER</u> <u>Marc D. Miller</u>	Director, Chief Executive Officer and President (Principal Executive Officer)	February 25, 2021
<u>/s/ LAWRENCE S. GIBBS</u> <u>Lawrence S. Gibbs</u>	Director	February 25, 2021
<u>/s/ EILEEN C. McDONNELL</u> <u>Eileen C. McDonnell</u>	Director	February 25, 2021
<u>/s/ WARREN J. NIMETZ</u> <u>Warren J. Nimetz</u>	Director	February 25, 2021
<u>/s/ MARIA SINGER</u> <u>Maria Singer</u>	Director	February 25, 2021
<u>/s/ ELLIOTT J. SUSSMAN M.D.</u> <u>Elliot J. Sussman M.D.</u>	Director	February 25, 2021
<u>/s/ STEVE FILTON</u> <u>Steve Filton</u>	Executive Vice President, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	February 25, 2021

**UNIVERSAL HEALTH SERVICES, INC.**  
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**AND FINANCIAL STATEMENT SCHEDULE**

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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Universal Health Services, Inc.

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Universal Health Services, Inc. and its subsidiaries (the “Company”) as of December 31, 2020 and 2019, and the related consolidated statements of income, of comprehensive income, of changes in equity and of cash flows for each of the three years in the period ended December 31, 2020, including the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### ***Change in Accounting Principle***

As discussed in Note 7 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

### ***Basis for Opinions***

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### ***Definition and Limitations of Internal Control over Financial Reporting***

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

#### **Critical Audit Matters**

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

##### *Valuation of accounts receivable*

As described in Notes 1, 10 and 12 to the consolidated financial statements, the Company's Acute Care Hospital Services and Behavioral Health Care Services operating segments report net patient service revenue at the estimated net realizable amounts from patients and third-party payers and others for services rendered. The Company has agreements with third-party payers that provide for payments to the Company at amounts different from established rates. Payment arrangements include rates per discharge, reimbursed costs, discounted charges and per diem payments. Estimates of contractual allowances, which represent explicit price concessions, under managed care plans are based upon the payment terms specified in the related contractual agreements. Management estimates Medicare and Medicaid revenues using the latest available financial information, patient utilization data, government provided data and in accordance with applicable Medicare and Medicaid payment rules and regulations. Management monitors the historical collection rates, as well as changes in applicable laws, rules and regulations and contract terms, to assure that provisions are made using the most accurate information available. In addition to explicit price concessions, management estimates revenue adjustments for implicit price concessions based on general factors such as payer mix, the aging of the receivables and historical collection experience. Management routinely reviews accounts receivable balances in conjunction with these factors and other economic conditions which might ultimately affect the collectability of the patient accounts and make adjustments to the allowances as warranted. As of December 31, 2020, the net accounts receivable balance was \$1.7 billion.

The principal considerations for our determination that performing procedures relating to the valuation of accounts receivable is a critical audit matter are the significant judgment by management in estimating net accounts receivable, specifically as it relates to developing the estimate for explicit and implicit price concessions, which in turn led to significant auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence obtained related to the estimation of price concessions.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the valuation of accounts receivable, including controls over management's valuation approach, assumptions and data used to estimate the explicit and implicit price concessions. These procedures also included, among others, (i) testing management's process for developing the estimate for price concessions, as well as the relevance of the historical billing and collection data as an input to the valuation approach; (ii) testing the accuracy of a sample of revenue transactions and a sample of cash collections from the historical billing data and historical collection data used in management's estimation of price concessions; (iii) evaluating the historical accuracy of management's process for developing the estimate of the amount which will ultimately be collected by comparing actual cash collections to the previously recorded net accounts receivable balance; and (iv) for the Acute Care Hospital Services operating segment, developing an independent expectation of the net accounts receivable balance. Developing an independent expectation involved calculating the percentage of cash collections as compared to the recorded net accounts receivable balance as of the end of the prior year, applying those calculated percentages to the recorded accounts receivable balance as of December 31, 2020, and comparing the calculated balance to management's estimate of the Acute Care Hospital Services net accounts receivable balance.

/s/ PricewaterhouseCoopers LLP  
Philadelphia, Pennsylvania  
February 25, 2021  
We have served as the Company's auditor since 2007.

**UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Year Ended December 31,		
	2020	2019	2018
(in thousands, except per share data)			
Net revenues	\$ 11,558,897	\$ 11,378,259	\$ 10,772,278
Operating charges:			
Salaries, wages and benefits	5,613,097	5,588,893	5,254,536
Other operating expenses	2,672,762	2,723,911	2,614,687
Supplies expense	1,288,132	1,251,346	1,168,654
Depreciation and amortization	510,493	490,392	453,045
Lease and rental expense	116,059	107,809	106,094
	<u>10,200,543</u>	<u>10,162,351</u>	<u>9,597,016</u>
Income from operations	1,358,354	1,215,908	1,175,262
Interest expense, net	106,285	162,733	154,956
Other (income) expense, net	(14)	(13,162)	(14,219)
Income before income taxes	1,252,083	1,066,337	1,034,525
Provision for income taxes	299,293	238,794	236,642
Net income	952,790	827,543	797,883
Less: Net income attributable to noncontrolling interests	8,837	12,689	18,178
Net income attributable to UHS	<u>\$ 943,953</u>	<u>\$ 814,854</u>	<u>\$ 779,705</u>
Basic earnings per share attributable to UHS	<u>\$ 11.06</u>	<u>\$ 9.16</u>	<u>\$ 8.35</u>
Diluted earnings per share attributable to UHS	<u>\$ 10.99</u>	<u>\$ 9.13</u>	<u>\$ 8.31</u>
Weighted average number of common shares—basic	85,061	88,762	93,276
Add: Other share equivalents	526	278	474
Weighted average number of common shares and equivalents—diluted	<u>85,587</u>	<u>89,040</u>	<u>93,750</u>

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

**UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Year Ended December 31,		
	2020	2019	2018
Net income	\$ 952,790	\$ 827,543	\$ 797,883
Other comprehensive income (loss):		(Dollar amounts in thousands)	
Unrealized derivative losses on cash flow hedges	0	(3,925)	(2,805)
Minimum pension liability	4,428	8,503	(6,892)
Foreign currency translation adjustment	13,619	27,886	9,718
Other	0	0	4,398
Other comprehensive income before tax	18,047	32,464	4,419
Income tax expense related to items of other comprehensive income	1,820	4,813	8,905
Total other comprehensive income (loss), net of tax	16,227	27,651	(4,486)
Comprehensive income	969,017	855,194	793,397
Less: Comprehensive income attributable to noncontrolling interests	8,837	12,689	18,178
Comprehensive income attributable to UHS	<u>\$ 960,180</u>	<u>\$ 842,505</u>	<u>\$ 775,219</u>

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

**UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2020	2019
	(Dollar amounts in thousands)	
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,224,490	\$ 61,268
Accounts receivable, net	1,728,928	1,560,847
Supplies	190,417	159,889
Other current assets	138,034	133,930
Total current assets	<u>3,281,869</u>	<u>1,915,934</u>
<b>Property and Equipment</b>		
Land	665,000	613,842
Buildings and improvements	6,030,183	5,646,508
Equipment	2,607,692	2,430,463
Property under capital lease	75,611	38,582
	<u>9,378,486</u>	<u>8,729,395</u>
Accumulated depreciation	(4,512,764)	(4,089,679)
	<u>4,865,722</u>	<u>4,639,716</u>
Construction-in-progress	507,402	376,982
	<u>5,373,124</u>	<u>5,016,698</u>
<b>Other assets:</b>		
Goodwill	3,882,715	3,869,760
Deferred income taxes	22,689	16,189
Right of use assets-operating leases	336,513	326,518
Deferred charges	4,985	6,373
Other	574,984	516,778
	<u>4,821,886</u>	<u>4,735,618</u>
<b>Total Assets</b>	<b>\$ 13,476,879</b>	<b>\$ 11,668,250</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Current maturities of long-term debt	\$ 331,998	\$ 87,550
Accounts payable	570,523	446,957
Accrued liabilities		
Compensation and related benefits	410,165	380,117
Interest	9,458	19,486
Taxes other than income	152,227	71,605
Legal reserves	12,625	144,509
Operating lease liabilities	59,796	56,442
Medicare accelerated payments and deferred CARES Act and other grants	376,151	0
Other	513,673	354,209
Current federal and state income taxes	44,423	2,515
Total current liabilities	<u>2,481,039</u>	<u>1,563,390</u>
Other noncurrent liabilities	458,549	329,932
Medicare accelerated payments and deferred CARES Act noncurrent	322,617	0
Operating lease liabilities noncurrent	278,303	270,076
Long-term debt	3,524,253	3,896,577
Deferred income taxes	5,582	25,071
Commitments and contingencies (Note 8)		
Redeemable noncontrolling interest	4,569	4,333
<b>Equity:</b>		
Class A Common Stock, voting, \$.01 par value; authorized 12,000,000 shares: issued and outstanding 6,577,100 shares in 2020 and 6,577,100 shares in 2019	66	66
Class B Common Stock, limited voting, \$.01 par value; authorized 150,000,000 shares: issued and outstanding 77,805,530 shares in 2020 and 79,449,349 shares in 2019	778	794
Class C Common Stock, voting, \$.01 par value; authorized 1,200,000 shares: issued and outstanding 661,688 shares in 2020 and 661,688 shares in 2019	7	7
Class D Common Stock, limited voting, \$.01 par value; authorized 5,000,000 shares: issued and outstanding 18,251 shares in 2020 and 18,491 shares in 2019	0	0
Cumulative dividends	(479,503)	(462,159)
Retained earnings	6,747,678	5,933,504
Accumulated other comprehensive income	48,120	31,893
Universal Health Services, Inc. common stockholders' equity	6,317,146	5,504,105
Noncontrolling interest	84,821	74,766
Total Equity	<u>6,401,967</u>	<u>5,578,871</u>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 13,476,879</b>	<b>\$ 11,668,250</b>

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

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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**For the Years Ended December 31, 2020, 2019 and 2018**

**(in thousands)**

<b>Redeemable Noncontrolling Interest</b>	<b>Class A Common</b>	<b>Class B Common</b>	<b>Class C Common</b>	<b>Class D Common</b>	<b>Cumulative Dividends</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>UHS Common Stockholders' Equity</b>	<b>Noncontrolling Interest</b>	<b>Total</b>
Balance, January 1, 2018	\$ 6,702	\$ 66	\$ 869	\$ 7	\$ 0	\$ (371,814)	\$ 5,353,209	\$ 7,177	\$ 4,989,514	\$ 61,922 \$ 5,051,436
Cumulative-effect adjustment due to adoption of ASU 2016-01 (net of income tax effect of \$1,045)							(3,353)	3,353	—	—
Common Stock										
Issued/(converted) including tax benefits from exercise of stock options	—	—	6	—	—	—	11,882	—	11,888	— 11,888
Repurchased	—	—	(34)	—	—	—	(413,968)	—	(414,002)	— (414,002)
Restricted share- based compensation expense	—	—	—	—	—	2,924	—	2,924	— 2,924	
Dividends paid	—	—	—	—	(37,342)	—	—	(37,342)	—	(37,342)
Stock option expense	—	—	—	—	—	61,061	—	61,061	—	61,061
Distributions to noncontrolling interests	(2,500)	—	—	—	—	—	—	—	(12,095)	(12,095)
Other	—	—	—	—	—	—	—	—	8,616	8,616
Comprehensive income:										
Net income to UHS / noncontrolling interests	90	—	—	—	—	779,705	—	779,705	18,088	797,793
Reclassification due to adoption of ASU 2018-02	—	—	—	—	—	1,802	(1,802)	—	—	—
Foreign currency translation adjustments (net of income tax effect of \$6,824)	—	—	—	—	—	—	2,894	2,894	—	2,894
Unrealized derivative gains on cash flow hedges (net of income tax effect of \$667)	—	—	—	—	—	—	(2,138)	(2,138)	—	(2,138)
Minimum pension liability (net of income tax effect of \$1,650)	—	—	—	—	—	—	(5,242)	(5,242)	—	(5,242)
Subtotal - comprehensive income	90	—	—	—	—	778,154	(2,935)	775,219	18,088	793,307
Balance, December 31, 2018	\$ 4,292	\$ 66	\$ 841	\$ 7	\$ (409,156)	\$ 5,793,262	\$ 4,242	\$ 5,389,262	\$ 76,531	\$ 5,465,793

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

**UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY—(Continued)**  
**For the Years Ended December 31, 2020, 2019 and 2018**  
(in thousands)

Redeemable Noncontrolling Interest	Class A Common	Class B Common	Class C Common	Class D Common	Cumulative Dividends	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	UHS Common Stockholders' Equity	Noncontrolling Interest	Total
Common Stock										
Issued/(converted) including tax benefits from exercise of stock options	—	—	10	—	—	—	10,930	—	10,940	—
Repurchased	—	—	(57)	—	—	—	(753,870)	—	(753,927)	—
Restricted share- based compensation expense	—	—	—	—	—	—	8,222	—	8,222	—
Dividends paid	—	—	—	—	—	(53,003)	—	—	(53,003)	—
Stock option expense	—	—	—	—	—	—	60,106	—	60,106	—
Distributions to noncontrolling interests	(500)	—	—	—	—	—	—	—	(15,359)	(15,359)
Other	—	—	—	—	—	—	—	—	1,446	1,446
Comprehensive income:										
Net income to UHS / noncontrolling interests	541	—	—	—	—	—	814,854	—	814,854	12,148
Foreign currency translation adjustments (net of income tax effect of \$3,693)	—	—	—	—	—	—	24,193	24,193	—	24,193
Unrealized derivative gains on cash flow hedges (net of income tax effect of \$928)	—	—	—	—	—	—	(2,997)	(2,997)	—	(2,997)
Minimum pension liability (net of income tax effect of \$2,048)	—	—	—	—	—	—	6,455	6,455	—	6,455
Subtotal - comprehensive income	541	—	—	—	—	—	814,854	27,651	842,505	12,148
Balance, December 31, 2019	\$ 4,333	\$ 66	\$ 794	\$ 7	—	\$ (462,159)	\$ 5,933,504	\$ 31,893	\$ 5,504,105	\$ 74,766
										\$ 5,578,871

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

**UNIVERSAL HEALTH SERVICES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY—(Continued)**  
**For the Years Ended December 31, 2020, 2019 and 2018**  
(in thousands)

Redeemable Noncontrolling Interest	Class A Common	Class B Common	Class C Common	Class D Common	Cumulative Dividends	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	UHS Common Stockholders' Equity	Noncontrolling Interest	Total
Common Stock										
Issued/(converted) including tax benefits from exercise of stock options	—	—	4	—	—	—	12,754	—	12,758	—
Repurchased	—	—	(20)	—	—	—	(206,699)	—	(206,719)	—
Restricted share- based compensation expense	—	—	—	—	—	—	9,505	—	9,505	—
Dividends paid	—	—	—	—	—	(17,344)	—	—	(17,344)	—
Stock option expense	—	—	—	—	—	—	54,661	—	54,661	—
Distributions to noncontrolling interests	(500)	—	—	—	—	—	—	—	(19,305)	(19,305)
Purchase of ownership interests by minority members	—	—	—	—	—	—	—	—	17,959	17,959
Other	—	—	—	—	—	—	—	—	3,300	3,300
Comprehensive income:										
Net income to UHS / noncontrolling interests	736	—	—	—	—	—	943,953	—	943,953	8,101
Foreign currency translation adjustments (net of income tax effect of \$749)	—	—	—	—	—	—	12,870	12,870	—	12,870
Unrealized derivative gains on cash flow hedges (net of income tax effect of \$928)	—	—	—	—	—	—	—	—	—	—
Minimum pension liability (net of income tax effect of \$1,071)	—	—	—	—	—	—	3,357	3,357	—	3,357
Subtotal - comprehensive income	736	—	—	—	—	—	943,953	16,227	960,180	8,101
Balance, December 31, 2020	<u>\$ 4,569</u>	<u>\$ 66</u>	<u>\$ 778</u>	<u>\$ 7</u>	<u>\$ —</u>	<u>\$ (479,503)</u>	<u>\$ 6,747,678</u>	<u>\$ 48,120</u>	<u>\$ 6,317,146</u>	<u>\$ 84,821</u>
										<u>\$ 6,401,967</u>

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

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

	<b>Year Ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
	(Amounts in thousands)		
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ 952,790	\$ 827,543	\$ 797,883
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Depreciation & amortization	510,493	490,392	453,076
Loss (Gain) on sales of assets and businesses, net of losses	1,957	(7,540)	(2,513)
Stock-based compensation expense	65,837	69,431	66,581
Costs related to extinguishment of debt	1,365	0	2,727
Provision for asset impairment	0	97,631	49,310
<i>Changes in assets &amp; liabilities, net of effects from acquisitions and dispositions:</i>			
Accounts receivable	(145,901)	(42,056)	(42,239)
Accrued interest	(10,028)	209	(4,478)
Accrued and deferred income taxes	9,593	(25,194)	(54,052)
Other working capital accounts	124,545	39,664	24,696
Medicare accelerated payments and deferred CARES Act and other grants	698,768	0	0
Other assets and deferred charges	(4,555)	(27,205)	(31,429)
Other	109,167	7,703	(1,536)
Accrued insurance expense, net of commercial premiums paid	159,223	105,672	92,863
Payments made in settlement of self-insurance claims	(113,085)	(97,781)	(76,147)
Net cash provided by operating activities	<u>2,360,169</u>	<u>1,438,469</u>	<u>1,274,742</u>
<b>Cash Flows from Investing Activities:</b>			
Property and equipment additions, net of disposals	(731,307)	(634,095)	(664,962)
Acquisition of property and businesses	(52,009)	(8,005)	(110,464)
(Outflows) Inflows from foreign exchange contracts that hedge our net U.K. investment	(21,740)	(19,763)	66,151
Proceeds received from sales of assets and businesses	8,168	9,450	13,502
Costs incurred for purchase and implementation of information technology applications	(2,902)	(21,418)	(36,243)
Decrease (Increase) in capital reserves of commercial insurance subsidiary	(100)	0	100
Investment in, and advances to, joint venture and other	(2,672)	(14,579)	(15,331)
Net cash used in investing activities	<u>(802,562)</u>	<u>(688,410)</u>	<u>(747,247)</u>
<b>Cash Flows from Financing Activities:</b>			
Reduction of long-term debt	(962,567)	(57,142)	(830,496)
Additional borrowings	801,599	39,220	791,247
Financing costs	(10,300)	0	(13,787)
Repurchase of common shares	(206,719)	(770,504)	(397,425)
Dividends paid	(17,344)	(53,003)	(37,342)
Issuance of common stock	12,318	10,806	10,196
Profit distributions to noncontrolling interests	(19,805)	(15,859)	(14,595)
Purchase of ownership interests by minority member	17,959	1,446	0
Net cash used in financing activities	<u>(384,859)</u>	<u>(845,036)</u>	<u>(492,202)</u>
Effect of exchange rate changes on cash and cash equivalents	739	959	(2,905)
Increase (Decrease) in cash and cash equivalents	1,173,487	(94,018)	32,388
Cash, cash equivalents and restricted cash, beginning of period	105,667	199,685	167,297
Cash, cash equivalents and restricted cash, end of period	<u>\$ 1,279,154</u>	<u>\$ 105,667</u>	<u>\$ 199,685</u>
<b>Supplemental Disclosures of Cash Flow Information:</b>			
Interest paid	\$ 112,598	\$ 157,406	\$ 150,293
Income taxes paid, net of refunds	<u>\$ 286,247</u>	<u>\$ 260,622</u>	<u>\$ 293,837</u>
Noncash purchases of property and equipment	<u>\$ 74,854</u>	<u>\$ 63,514</u>	<u>\$ 77,674</u>

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

## **1) BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The more significant accounting policies follow:

**Principles of Consolidation:** The consolidated financial statements include the accounts of our majority-owned subsidiaries and partnerships controlled by us or our subsidiaries as the managing general partner. All intercompany accounts and transactions have been eliminated.

**Revenue Recognition:** On January 1, 2018, we adopted, using the modified retrospective approach, ASU 2014-09 and ASU 2016-08, "Revenue from Contracts with Customers (Topic 606)" and "Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)", respectively, which provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The most significant change from the adoption of the new standard relates to our estimation for the allowance for doubtful accounts. Under the previous standards, our estimate for amounts not expected to be collected based upon our historical experience, were reflected as provision for doubtful accounts, included within net revenue. Under the new standard, our estimate for amounts not expected to be collected based on historical experience will continue to be recognized as a reduction to net revenue, however, not reflected separately as provision for doubtful accounts. Under the new standard, subsequent changes in estimate of collectability due to a change in the financial status of a payer, for example a bankruptcy, will be recognized as bad debt expense in operating charges. The adoption of this ASU in 2018, and amounts recognized as bad debt expense and included in other operating expenses, did not have a material impact on our consolidated financial statements.

See Note 10-*Revenue Recognition*, for additional disclosure related to our revenues including a disaggregation of our consolidated net revenues by major source for each of the periods presented herein.

We report net patient service revenue at the estimated net realizable amounts from patients and third-party payers and others for services rendered. We have agreements with third-party payers that provide for payments to us at amounts different from our established rates. Payment arrangements include rates per discharge, reimbursed costs, discounted charges and per diem payments. Estimates of contractual allowances, which represent explicit price concessions under ASC 606, under managed care plans are based upon the payment terms specified in the related contractual agreements. We closely monitor our historical collection rates, as well as changes in applicable laws, rules and regulations and contract terms, to assure that provisions are made using the most accurate information available. However, due to the complexities involved in these estimations, actual payments from payers may be different from the amounts we estimate and record.

We estimate our Medicare and Medicaid revenues using the latest available financial information, patient utilization data, government provided data and in accordance with applicable Medicare and Medicaid payment rules and regulations. The laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation and as a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. Certain types of payments by the Medicare program and state Medicaid programs (e.g. Medicare Disproportionate Share Hospital, Medicare Allowable Bad Debts and Inpatient Psychiatric Services) are subject to retroactive adjustment in future periods as a result of administrative review and audit and our estimates may vary from the final settlements. Such amounts are included in accounts receivable, net, on our Consolidated Balance Sheets. The funding of both federal Medicare and state Medicaid programs are subject to legislative and regulatory changes. As such, we cannot provide any assurance that future legislation and regulations, if enacted, will not have a material impact on our future Medicare and Medicaid reimbursements. Adjustments related to the final settlement of these retrospectively determined amounts did not materially impact our results in 2020, 2019 or 2018. If it were to occur, each 1% adjustment to our estimated net Medicare revenues that are subject to retrospective review and settlement as of December 31, 2020, would change our after-tax net income by approximately \$1 million.

**Charity Care, Uninsured Discounts and Other Adjustments to Revenue:** Collection of receivables from third-party payers and patients is our primary source of cash and is critical to our operating performance. Our primary collection risks relate to uninsured patients and the portion of the bill which is the patient's responsibility, primarily co-payments and deductibles. We estimate our revenue adjustments for implicit price concessions based on general factors such as payer mix, the aging of the receivables and historical collection experience. We routinely review accounts receivable balances in conjunction with these factors and other economic conditions which might ultimately affect the collectability of the patient accounts and make adjustments to our allowances

as warranted. At our acute care hospitals, third party liability accounts are pursued until all payment and adjustments are posted to the patient account. For those accounts with a patient balance after third party liability is finalized or accounts for uninsured patients, the patient receives statements and collection letters.

Historically, a significant portion of the patients treated throughout our portfolio of acute care hospitals are uninsured patients which, in part, has resulted from patients who are employed but do not have health insurance or who have policies with relatively high deductibles. Patients treated at our hospitals for non-elective services, who have gross income of various amounts, dependent upon the state, ranging from 200% to 400% of the federal poverty guidelines, are deemed eligible for charity care. The federal poverty guidelines are established by the federal government and are based on income and family size. Because we do not pursue collection of amounts that qualify as charity care, the transaction price is fully adjusted and there is no impact in our net revenues or in our accounts receivable, net.

A portion of the accounts receivable at our acute care facilities are comprised of Medicaid accounts that are pending approval from third-party payers but we also have smaller amounts due from other miscellaneous payers such as county indigent programs in certain states. Our patient registration process includes an interview of the patient or the patient's responsible party at the time of registration. At that time, an insurance eligibility determination is made and an insurance plan code is assigned. There are various pre-established insurance profiles in our patient accounting system which determine the expected insurance reimbursement for each patient based on the insurance plan code assigned and the services rendered. Certain patients may be classified as Medicaid pending at registration based upon a screening evaluation if we are unable to definitively determine if they are currently Medicaid eligible. When a patient is registered as Medicaid eligible or Medicaid pending, our patient accounting system records net revenues for services provided to that patient based upon the established Medicaid reimbursement rates, subject to the ultimate disposition of the patient's Medicaid eligibility. When the patient's ultimate eligibility is determined, reclassifications may occur which impacts net revenues in future periods. Although the patient's ultimate eligibility determination may result in adjustments to net revenues, these adjustments do not have a material impact on our results of operations in 2020, 2019 or 2018 since our facilities make estimates at each financial reporting period to adjust revenue based on historical collections.

We also provide discounts to uninsured patients (included in "uninsured discounts" amounts below) who do not qualify for Medicaid or charity care. Because we do not pursue collection of amounts classified as uninsured discounts, the transaction price is fully adjusted and there is no impact in our net revenues or in our net accounts receivable. In implementing the discount policy, we first attempt to qualify uninsured patients for governmental programs, charity care or any other discount program. If an uninsured patient does not qualify for these programs, the uninsured discount is applied.

*Uncompensated care (charity care and uninsured discounts):*

The following table shows the amounts recorded at our acute care hospitals for charity care and uninsured discounts, based on charges at established rates, for the years ended December 31, 2020, 2019 and 2018:

	(dollar amounts in thousands)					
	2020		2019		2018	
	Amount	%	Amount	%	Amount	%
Charity care	\$ 622,668	28%	\$ 672,326	31%	\$ 761,783	40%
Uninsured discounts	1,578,470	72%	1,511,738	69%	1,132,811	60%
Total uncompensated care	\$ 2,201,138	100%	\$ 2,184,064	100%	\$ 1,894,594	100%

*The estimated cost of providing uncompensated care:*

The estimated cost of providing uncompensated care, as reflected below, were based on a calculation which multiplied the percentage of operating expenses for our acute care hospitals to gross charges for those hospitals by the above-mentioned total uncompensated care amounts. The percentage of cost to gross charges is calculated based on the total operating expenses for our acute care facilities divided by gross patient service revenue for those facilities. An increase in the level of uninsured patients to our facilities and the resulting adverse trends in the adjustments to net revenues and uncompensated care provided could have a material unfavorable impact on our future operating results.

	(amounts in thousands)		
	2020	2019	2018
Estimated cost of providing charity care	\$ 73,690	\$ 77,886	\$ 94,088
Estimated cost of providing uninsured discounts related care	186,804	175,128	139,913
Estimated cost of providing uncompensated care	\$ 260,494	\$ 253,014	\$ 234,001

**Concentration of Revenues:** Our six acute care hospitals in the Las Vegas, Nevada market contributed, on a combined basis, 15% in 2020, 16% in 2019 and 15% in 2018 of our consolidated net revenues.

**Cash, Cash Equivalents and Restricted Cash:** We consider all highly liquid investments purchased with maturities of three months or less to be cash equivalents.

Cash, cash equivalents, and restricted cash as reported in the consolidated statements of cash flows are presented separately on our consolidated balance sheets as follow:

	(amounts in thousands)		
	2020	2019	2018
Cash and cash equivalents	\$ 1,224,490	\$ 61,268	\$ 105,220
Restricted cash (a)	54,664	44,399	94,465
Total cash, cash equivalents and restricted cash	\$ 1,279,154	\$ 105,667	\$ 199,685

(a) Restricted cash is included in other assets on the accompanying consolidated balance sheet and consists of statutorily required capital reserves related to our commercial insurance subsidiary.

The fair value of our restricted cash was computed based upon quotes received from financial institutions. We consider these to be "level 1" in the fair value hierarchy as outlined in the authoritative guidance for disclosures in connection with financial securities.

**Property and Equipment:** Property and equipment are stated at cost. Expenditures for renewals and improvements are charged to the property accounts. Replacements, maintenance and repairs which do not improve or extend the life of the respective asset are expensed as incurred. We remove the cost and the related accumulated depreciation from the accounts for assets sold or retired and the resulting gains or losses are included in the results of operations. Construction-in-progress includes both construction projects and equipment not yet placed into service.

See *Provision for Asset Impairment-Foundations Recovery Network*, in *Other Assets and Intangible Assets* below, for additional disclosure related to a provision for asset impairment recorded during 2019 to reduce the carrying value of real property assets of certain Foundations Recovery Network, L.L.C. facilities.

While in progress, we capitalized interest on major construction projects and the development and implementation of information technology applications amounting to \$4.3 million during 2020, \$3.4 million during 2019 and \$2.3 million during 2018.

Depreciation is provided on the straight-line method over the estimated useful lives of buildings and improvements (twenty to forty years) and equipment (three to fifteen years). Depreciation expense was \$478.8 million during 2020, \$455.6 million during 2019 and \$410.0 million during 2018.

**Long-Lived Assets:** We review our long-lived assets, including intangible assets, for impairment whenever events or circumstances indicate that the carrying value of these assets may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of our asset based on our estimate of its undiscounted future cash flow. If the analysis indicates that the carrying value is not recoverable from future cash flows, the asset is written down to its estimated fair value and an impairment loss is recognized. Fair values are determined based on estimated future cash flows using appropriate discount rates.

**Goodwill:** Goodwill is reviewed for impairment at the reporting unit level on an annual basis or sooner if the indicators of impairment arise. Our judgments regarding the existence of impairment indicators are based on market conditions and operational performance of each reporting unit. We have designated October 1<sup>st</sup> as our annual impairment assessment date and performed quantitative impairment assessments as of October 1, 2020 which indicated no impairment of goodwill. There were also no goodwill impairments during 2019 or 2018. Future changes in the estimates used to conduct the impairment reviews, including profitability and market value projections, could indicate impairment in future periods potentially resulting in a write-off of a portion or all of our goodwill.

Changes in the carrying amount of goodwill for the two years ended December 31, 2020 were as follows (in thousands):

	Acute Care Services	Behavioral Health Services	Total Consolidated
Balance, January 1, 2019	\$ 442,462	\$ 3,402,166	\$ 3,844,628
Goodwill acquired during the period	5,926	0	5,926
Goodwill divested during the period	0	0	0
Adjustments to goodwill (a)	27	19,179	19,206
Balance, December 31, 2019	<u>448,415</u>	<u>3,421,345</u>	<u>3,869,760</u>
Goodwill acquired during the period	127	0	127
Goodwill divested during the period	0	0	0
Adjustments to goodwill (a)	(1,521)	14,349	12,828
Balance, December 31, 2020	<u>\$ 447,021</u>	<u>\$ 3,435,694</u>	<u>\$ 3,882,715</u>

- (a) The increases in the Behavioral Health Services' goodwill consists primarily of foreign currency translation adjustments.

**Other Assets and Intangible Assets:** Other assets consist primarily of amounts related to: (i) intangible assets acquired in connection with our acquisitions of Cambian Group, PLC's adult services' division during 2015, Ascend Health Corporation during 2012 and Psychiatric Solutions, Inc. during 2010; (ii) prepaid fees for various software and other applications used by our hospitals; (iii) costs incurred in connection with the purchase and implementation of an electronic health records application for each of our acute care facilities; (iv) statutorily required capital reserves related to our commercial insurance subsidiary (\$73 million and \$62 million as of December 31, 2020 and 2019, respectively); (v) deposits; (vi) investments in various businesses, including Universal Health Realty Income Trust (\$5 million and \$6 million as of December 31, 2020 and 2019, respectively) and Premier, Inc. (\$78 million and \$70 million as of December 31, 2020 and 2019, respectively); (vii) the invested assets related to a deferred compensation plan that is held by an independent trustee in a rabbi-trust and that has a related payable included in other noncurrent liabilities, and; (viii) other miscellaneous assets.

Intangible assets are reviewed for impairment on an annual basis or sooner if the indicators of impairment arise. Our judgments regarding the existence of impairment indicators are based on market conditions and operational performance of each asset. We have designated October 1<sup>st</sup> as our annual impairment assessment date and performed impairment assessments as of October 1, 2020 which indicated no impairment of other and intangible assets. During 2019 and 2018, we recorded provisions for asset impairments related to Foundations Recovery Network, L.L.C., as discussed below.

#### **Provision for Asset Impairment-Foundations Recovery Network:**

Our financial results for the years ended December 31, 2019 and 2018 include pre-tax provisions for asset impairments of approximately \$98 million and \$49 million, respectively, recorded in connection with Foundations Recovery Network, L.L.C. ("Foundations"), which was acquired by us in 2015.

The pre-tax provision for asset impairment recording during 2019 includes: (i) a \$75 million impairment provision to write-off the carrying value of the Foundations' tradename intangible asset, and; (ii) a \$23 million impairment provision to reduce the carrying value of real property assets of certain Foundations' facilities. The \$49 million pre-tax provision for asset impairment recorded during 2018 reduced the carrying value of a tradename intangible asset to approximately \$75 million from its original value of approximately \$124 million.

The provision for asset impairment recorded during 2019, which is included in other operating expenses in our consolidated statements of income, was recorded after evaluation of the estimated fair value of the Foundations' tradename as well as certain related real property assets. The provision for asset impairment was impacted by the following: (i) decisions made by management during 2019 to cancel the opening of future planned de novo facilities; (ii) reductions in projected future patient volumes, revenues and cash flows resulting from continued operating trends and financial results experienced by existing facilities that significantly lagged expectations, and; (iii) competitive pressures experienced in certain markets that were deemed to be permanent.

The provision for asset impairment recorded during 2018, which is also included in other operating expenses, was recorded after an evaluation, at that time, of the estimated fair value of the Foundations' tradename for its existing facilities, consisting of 4 inpatient and 12 outpatient facilities as of December 31, 2018, as well as estimated planned de novos. The 2018 asset impairment charge was impacted by the following: (i) the lost future revenue and cash flows resulting from the permanent closure of a Foundations' inpatient facility located in Malibu, California that was severely damaged in the California wildfires during the fourth quarter of 2018; (ii) reduction in growth rates of projected future patient volumes, revenues and operating cash flows based upon pressures on reimbursement rates experienced from certain payers and competitive pressures experienced in certain markets, and; (iii) revisions made to the number and timing of planned de novo facilities.

The following table shows the amounts recorded as net intangible assets for the years ended December 31, 2020 and 2019:

	(amounts in thousands)	
	2020	2019
Medicare licenses	\$ 57,226	\$ 57,226
Certificates of need	8,253	8,267
Contract relationships and other (net of \$52,804 and \$50,273 of accumulated amortization for 2020 and 2019, respectively)	17,107	18,164
<b>Net Intangible Assets</b>	<b>\$ 82,586</b>	<b>\$ 83,657</b>

**Supplies:** Supplies, which consist primarily of medical supplies, are stated at the lower of cost (first-in, first-out basis) or market.

**Self-Insured/Other Insurance Risks:** We provide for self-insured risks, primarily general and professional liability claims and workers' compensation claims. Our estimated liability for self-insured professional and general liability claims is based on a number of factors including, among other things, the number of asserted claims and reported incidents, estimates of losses for these claims based on recent and historical settlement amounts, estimate of incurred but not reported claims based on historical experience, and estimates of amounts recoverable under our commercial insurance policies. All relevant information, including our own historical experience is used in estimating the expected amount of claims. While we continuously monitor these factors, our ultimate liability for professional and general liability claims could change materially from our current estimates due to inherent uncertainties involved in making this estimate. Our estimated self-insured reserves are reviewed and changed, if necessary, at each reporting date and changes are recognized currently as additional expense or as a reduction of expense. See Note 8 - *Commitments and Contingencies* for discussion of adjustments to our prior year reserves for claims related to our self-insured general and professional liability and workers' compensation liability.

In addition, we also: (i) own commercial health insurers headquartered in Nevada and Puerto Rico, and; (ii) maintain self-insured employee benefits programs for employee healthcare and dental claims. The ultimate costs related to these programs/operations include expenses for claims incurred and paid in addition to an accrual for the estimated expenses incurred in connection with claims incurred but not yet reported. Given our significant insurance-related exposure, 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.

**Income Taxes:** Deferred tax assets and liabilities are recognized for the amount of taxes payable or deductible in future years as a result of differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. We believe that future income will enable us to realize our deferred tax assets net of recorded valuation allowances relating to state net operating loss carry-forwards.

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. See Note 6 - *Income Taxes*, for additional disclosure.

**Other Noncurrent Liabilities:** Other noncurrent liabilities include the long-term portion of our professional and general liability, workers' compensation reserves, pension and deferred compensation liabilities, payment deferral of the employer's share of Social Security taxes as provided for by the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), and liabilities incurred in connection with split-dollar life insurance agreements on the lives of our chief executive officer and his wife.

**Redeemable Noncontrolling Interests and Noncontrolling Interest:** As of December 31, 2020, outside owners held noncontrolling, minority ownership interests of: (i) 20% in an acute care facility located in Washington, D.C.; (ii) approximately 11% in an acute care facility located in Texas; (iii) 20%, 30% and 20% in three behavioral health care facilities located in Pennsylvania, Ohio and Washington, respectively, and; (iv) approximately 5% in an acute care facility located in Nevada. The noncontrolling interest and redeemable noncontrolling interest balances of \$85 million and \$5 million, respectively, as of December 31, 2020, consist primarily of the third-party ownership interests in these hospitals.

In connection with the two behavioral health care facilities located in Pennsylvania and Ohio, the minority ownership interests of which are reflected as redeemable noncontrolling interests on our Consolidated Balance Sheet, the outside owners have "put options" to put their 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.

**Accumulated Other Comprehensive Income:** The accumulated other comprehensive income ("AOCI") component of stockholders' equity includes: net unrealized gains and losses on effective cash flow hedges, foreign currency translation adjustments and the net minimum pension liability of a non-contributory defined benefit pension plan which covers employees at one of our subsidiaries. See Note 11 - *Pension Plan* for additional disclosure regarding the defined benefit pension plan.

The amounts recognized in AOCI for the two years ended December 31, 2020 were as follows (in thousands):

	<b>Net Unrealized Gains (Losses) on Effective Cash Flow Hedges</b>	<b>Foreign Currency Translation Adjustment</b>	<b>Minimum Pension Liability</b>	<b>Total AOCI</b>
Balance, January 1, 2019, net of income tax	\$ 2,980	\$ 15,375	\$ (14,113)	\$ 4,242
2019 activity:				
Pretax amount	(3,925)	27,886	8,503	32,464
Income tax effect	928	(3,693)	(2,048)	(4,813)
Change, net of income tax	(2,997)	24,193	6,455	27,651
Balance, January 1, 2020, net of income tax	(17)	39,568	(7,658)	31,893
2020 activity:				
Pretax amount	0	13,619	4,428	18,047
Income tax effect	0	(749)	(1,071)	(1,820)
Change, net of income tax	0	12,870	3,357	16,227
Balance, December 31, 2020, net of income tax	\$ (17)	\$ 52,438	\$ (4,301)	\$ 48,120

**Accounting for Derivative Financial Investments and Hedging Activities and Foreign Currency Forward Exchange Contracts:** 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. From time to time, 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 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.

In August 2017, the FASB issued new guidance on hedge accounting (ASU 2017-12) that is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. The new guidance amends the presentation and disclosure requirements, and changes how companies assess effectiveness. We adopted this guidance as of January 1, 2019 and applied to all existing hedges as of the adoption date. As of December 31, 2020 we have no cash flow hedges.

We use forward exchange contracts to hedge our net investment in foreign operations against movements in exchange rates. The effective portion of the unrealized gains or losses on these contracts is recorded in foreign currency translation adjustment within accumulated other comprehensive income and remains there until either the sale or liquidation of the subsidiary. In conjunction with the January 1, 2019 adoption of ASU 2017-12, "Targeted Improvements to Accounting for Hedging Activities", we reclassified our presentation of the net cash inflows or outflows, which were received or paid in connection with foreign exchange contracts that hedge our net investment in foreign operations against movements in exchange rates, to investing cash flows on the consolidated statements of cash flows.

**Stock-Based Compensation:** We have a number of stock-based employee compensation plans. Pursuant to the FASB's guidance, we expense the grant-date fair value of stock options and other equity-based compensation pursuant to the straight-line method over the stated vesting period of the award using the Black-Scholes option-pricing model.

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.

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

The following table sets forth the computation of basic and diluted earnings per share, for the periods indicated:

	Twelve Months Ended December 31.		
	2020	2019	2018
<b>Basic and diluted:</b>			
Net Income	\$ 952,790	\$ 827,543	\$ 797,883
Less: Net income attributable to noncontrolling interest	(8,837)	(12,689)	(18,178)
Less: Net income attributable to unvested restricted share grants	(2,981)	(2,028)	(1,091)
<b>Net income attributable to UHS—basic and diluted</b>	<b>\$ 940,972</b>	<b>\$ 812,826</b>	<b>\$ 778,614</b>
Basic earnings per share attributable to UHS:			
Weighted average number of common shares—basic	85,061	88,762	93,276
Total basic earnings per share	\$ 11.06	\$ 9.16	\$ 8.35
Diluted earnings per share attributable to UHS:			
Weighted average number of common shares	85,061	88,762	93,276
Net effect of dilutive stock options and grants based on the treasury stock method	526	278	474
Weighted average number of common shares and equivalents—diluted	85,587	89,040	93,750
<b>Total diluted earnings per share</b>	<b>\$ 10.99</b>	<b>\$ 9.13</b>	<b>\$ 8.31</b>

The “Net effect of dilutive stock options and grants based on the treasury stock method”, for all years presented above, excludes certain outstanding stock options applicable to each year since the effect would have been anti-dilutive. The excluded weighted-average stock options totaled approximately 6.4 million during 2020, 5.5 million during 2019 and 7.9 million during 2018.

**Fair Value of Financial Instruments:** The fair values of our debt and investments are based on quoted market prices. The fair values of other long-term debt, including capital lease obligations, are estimated by discounting cash flows using period-end interest rates and market conditions for instruments with similar maturities and credit quality. The carrying amounts reported in the balance sheet for cash, accounts receivable, accounts payable, and short-term borrowings approximates their fair values due to the short-term nature of these instruments. Accordingly, these items have been excluded from the fair value disclosures included elsewhere in these notes to consolidated financial statements.

**Use of Estimates:** The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Mergers and Acquisitions:** The acquisition method of accounting for business combinations requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values with limited exceptions. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Any excess of the purchase price (consideration transferred) over the estimated fair values of net assets acquired is recorded as goodwill. Transaction costs and costs to restructure the acquired company are expensed as incurred. The fair value of intangible assets, including Medicare licenses, certificates of need, tradenames and certain contracts, is based on significant judgments made by our management, and accordingly, for significant items we typically obtain assistance from third party valuation specialists.

**GPO Agreement/Minority Ownership Interest:** During 2013, we entered into a new group purchasing organization agreement (“GPO”) with Premier, Inc. (“Premier”), a healthcare performance improvement alliance, and acquired a minority interest in the GPO for a nominal amount. During the fourth quarter of 2013, in connection with the completion of an initial public offering of the stock of Premier, we received cash proceeds for the sale of a portion of our ownership interest in the GPO, which were recorded as deferred income, on a pro rata basis, as a reduction to our supplies expense over the initial expected life of the GPO agreement. Also in connection with this GPO agreement, we received shares of restricted stock in Premier which vest ratably over a seven-year period (2014 through 2020), contingent upon our continued participation and minority ownership interest in the GPO. We recognize the fair value of this restricted stock, as a reduction to our supplies expense, in our consolidated statements of income, on a pro rata basis, over the vesting period. During the third quarter of 2020, we entered into an agreement with Premier pursuant to the terms of which, among other things, our ownership interest in Premier was converted into shares of Class A Common Stock of Premier. We have elected to retain a portion of the previously vested shares of Premier, the value of which is included in other assets on our consolidated balance sheet. Based upon the closing price of Premier’s stock on each respective date, the market value of our shares of Premier on which the restrictions have lapsed was \$78 million and \$70 million as of December 31, 2020 and 2019, respectively. The \$8 million increase in market value at December 31, 2020, as compared to December 31, 2019, consists of \$12 million of additional vested shares and \$4

million of decrease in market value. In connection with our 2018 adoption of ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities", since our vested shares of Premier are held for investment and classified as available for sale, the change in market value of these shares are recorded as an unrealized gain and included in "Other (income) expense, net" on our consolidated statements of income. Additionally, during 2020, Premier paid cash dividends of \$848,000 which is included in "Other (income) expense, net" in our condensed consolidated statements of income. Prior to 2018, changes in the market value of our vested Premier stock were recorded to other comprehensive income/loss on our consolidated balance sheet.

**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 the Texas Uncompensated Care and Upper Payment Limit program, the Texas Delivery System Reform Incentive program, and various other state programs, we earned revenues (before Provider Taxes) of approximately \$488 million during 2020, \$419 million during 2019 and \$387 million during 2018. These revenues were offset by Provider Taxes of approximately \$185 million during 2020, \$194 million during 2019 and \$179 million during 2018, which are recorded in other operating expenses on the Consolidated Statements of Income as included herein. The aggregate net benefit from these programs was \$303 million during 2020, \$225 million during 2019 and \$208 million during 2018. The aggregate net benefit pursuant to these programs is earned from multiple states and therefore no particular state's portion is individually material to our consolidated financial statements. In addition, under various disproportionate share hospital payment programs and the Nevada state plan amendment program, we earned revenues of \$73 million in 2020, \$78 million in 2019 and \$64 million in 2018.

**CARES Act and Other Governmental Grants and Medicare Accelerated Payments:** As of December 31, 2020, we have received an aggregate of \$1.112 billion of funds consisting of: (i) \$417 million received pursuant to various governmental stimulus programs, most notably the Public Health and Social Services Emergency Fund (the "PHSSEF") as provided for by the CARES Act, of which approximately \$413 million were recorded as net revenues during 2020 and approximately \$4 million remain in the Medicare accelerated payments and deferred CARES Act and other grants liability account in our consolidated balance sheet, and; (ii) \$695 million of Medicare accelerated payments received pursuant to the Medicare Accelerated and Advance Payment Program ("MAAPP").

Pursuant to legislation enacted on October 1, 2020, the \$695 million of Medicare accelerated payments received pursuant to the MAAPP are required to be repaid to the government beginning in the second quarter of 2021 through the third quarter of 2022 through withholding of future Medicare revenues earned during those periods. \$372 million is included in the Medicare accelerated payments and deferred CARES Act and other grant liability account in our consolidated balance sheet and \$323 million is included in the Medicare accelerated payments noncurrent account in our consolidated balance sheet. There was no impact on our earnings during 2020 in connection with receipt of the MAAPP funds.

**Recent Accounting Standards:** In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses," which introduced new guidance for an approach based on expected losses to estimate credit losses on certain types of financial instruments. Instruments in scope include loans, held-to-maturity debt securities, and net investments in leases as well as reinsurance and trade receivables. In November 2018, the FASB issued ASU 2018-19, which clarifies that operating lease receivables are outside the scope of the new standard. The standard was effective for us in fiscal years beginning after December 15, 2019. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In January, 2017, the FASB issued ASU No. 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment" ("ASU 2017-04"), which removes the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 was effective for the annual and interim periods beginning January 1, 2020 with early adoption permitted, and applied prospectively. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, Intangibles- Goodwill and Other- Internal Use Software (Topic 350): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract, ("ASU 2018-15"), which requires customers in a cloud computing arrangement (i.e., hosting arrangement) that is a service contract to follow the internal use software guidance in ASC 350-40 to determine which implementation costs to capitalize or expense. ASU 2018-15 was effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The ASU is intended to provide temporary optional expedients and exceptions to the US GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from LIBOR and other interbank offered rates to alternative reference rates. This guidance was effective beginning on March 12, 2020, and the Company may

elect to apply the amendments prospectively through December 31, 2022. The Company is currently evaluating the impact this guidance may have on our consolidated financial statements.

From time to time, new accounting guidance is issued by the FASB or other standard setting bodies that is adopted by the Company as of the effective date or, in some cases where early adoption is permitted, in advance of the effective date. The Company has assessed the recently issued guidance that is not yet effective and, unless otherwise indicated above, believes the new guidance will not have a material impact on our results of operations, cash flows or financial position.

**Foreign Currency Translation:** Assets and liabilities of our U.K. subsidiaries are denominated in pound sterling and translated into U.S. dollars at: (i) the rates of exchange at the balance sheet date, and; (ii) average rates of exchange prevailing during the year for revenues and expenses. The currency translation adjustments are reported as a component of accumulated other comprehensive income. See Note 3 - *Financial Instruments, Foreign Currency Forward Exchange Contracts* for additional disclosure.

## 2) ACQUISITIONS AND DIVESTITURES

### **Year ended December 31, 2020:**

#### *2020 Acquisitions of Assets and Businesses:*

During 2020, we spent \$52 million on the acquisition of businesses and property, consisting primarily of the real estate assets of an acute care hospital located in Las Vegas, Nevada. The hospital is currently being renovated and scheduled to open during 2021.

#### *2020 Divestiture of Assets and Businesses:*

During 2020, we received \$8 million from the sale of assets and businesses.

### **Year ended December 31, 2019:**

#### *2019 Acquisitions of Assets and Businesses:*

During 2019, we spent \$8 million to acquire various businesses and properties.

#### *2019 Divestiture of Assets:*

During 2019, we received \$9 million from the sales of various assets.

### **Year ended December 31, 2018:**

#### *2018 Acquisitions of Assets and Businesses:*

During 2018 we spent \$110 million primarily to acquire:

- The Danshell Group, consisting of 25 behavioral health facilities located in the U.K. (acquired during the third quarter of 2018), and;
- a 109-bed behavioral health care facility located in Gulfport, Mississippi (acquired during the first quarter of 2018).

The aggregate net purchase price of the facilities, which were acquired to enhance and expand our existing operations in the U.S. and the U.K., was allocated to assets and liabilities based on their preliminary estimated fair values as follows:

	Amount (000s)
Working capital, net	\$ (3,988)
Property & equipment	59,520
Goodwill	45,090
Other assets	8,409
Income tax assets, net of deferred tax liabilities	1,749
Other	(316)
Cash paid in 2018 for acquisitions	<u>\$ 110,464</u>

Goodwill of the facilities acquired during each of the last 3 years is computed, pursuant to the residual method, by deducting the fair value of the acquired assets and liabilities from the total purchase price. The factors that contribute to the recognition of goodwill, which may also influence the purchase price, include the following for each of the acquired facilities: (i) the historical cash flows and income levels; (ii) the reputations in their respective markets; (iii) the nature of the respective operations, and; (iv) the future

cash flows and income growth projections. The vast majority of the goodwill resulting from these transactions is not deductible for federal income tax purposes (see Note 6 - *Income Taxes*).

#### *2018 Divestiture of Assets and Businesses:*

During 2018, we received \$13 million in connection with the sale of a business and property including The Limes, an 18-bed facility located in the UK.

### **3) FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENT**

#### *Fair Value Hedges:*

During 2020, 2019 and 2018, we had no fair value hedges outstanding.

#### *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 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. From time to time, 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 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. When applicable, we assess the effectiveness of our hedge instruments on a quarterly basis. Although we do not anticipate nonperformance by our counterparties to interest rate swap agreements, the counterparties expose us to credit risk in the event of nonperformance. We do not hold or issue derivative financial instruments for trading purposes.

During 2015, we entered into nine forward starting interest rate swaps whereby we paid a fixed rate on a total notional amount of \$1.0 billion and received one-month LIBOR. The average fixed rate payable on these swaps, all of which matured on April 15, 2019, was 1.31%. As of December 31, 2020 we have no interest rate swaps.

When applicable, we measure our interest rate swaps at fair value on a recurring basis. The fair value of our interest rate swaps is based on quotes from our counterparties. 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.

#### *Foreign Currency Forward Exchange Contracts:*

In August 2017, the FASB issued new guidance on hedge accounting (ASU 2017-12) that is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. The new guidance amends the presentation and disclosure requirements, and changes how companies assess effectiveness. We adopted this guidance as of January 1, 2019 and applied to all existing hedges as of the adoption date.

We use forward exchange contracts to hedge our net investment in foreign operations against movements in exchange rates. The effective portion of the unrealized gains or losses on these contracts is recorded in foreign currency translation adjustment within accumulated other comprehensive income and remains there until either the sale or liquidation of the subsidiary. In conjunction with the January 1, 2019 adoption of ASU 2017-12, "Targeted Improvements to Accounting for Hedging Activities", we reclassified our presentation of the net cash inflows or outflows, which were received or paid in connection with foreign exchange contracts that hedge our net investment in foreign operations against movements in exchange rates, to investing cash flows on the consolidated statements of cash flows. As previously disclosed within our footnotes, these cash flows were formerly reported as operating activities. Prior

period amounts have been reclassified from net cash provided by operating activities to net cash used in investing activities to conform with the current year presentation on the consolidated statements of cash flows. In connection with these forward exchange contracts, we recorded net cash outflows of \$22 million during 2020, net cash outflows of \$20 million during 2019 and net cash inflow of \$66 million during 2018.

#### **Derivatives Hedging Relationships:**

The following table presents the effects of our interest rate swap agreements and our foreign currency foreign exchange contracts on our results of operations for the three years ended December 31 (in thousands):

Gain/(Loss) recognized in AOCI			
	December 31, 2020	December 31, 2019	December 31, 2018
<b>Cash Flow Hedge relationships</b>			
Interest rate swap agreements (a)	\$ 0	\$ (3,925)	\$ (2,805)
<b>Net Investment Hedge relationships</b>			
Foreign currency foreign exchange contracts	\$ (22,097)	\$ (18,328)	\$ 75,059

(a) The amount of gain reclassified out of AOCI into interest expense, net was \$3.4 million and \$6.7 million during 2019 and 2018, respectively.

No other gains or losses were recognized in income related to derivatives in Subtopic 815-20.

#### **Fair Value Measurement**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The following fair value hierarchy classifies the inputs to valuation techniques used to measure fair value into one of three levels:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These included quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The following tables present the assets and liabilities recorded at fair value on a recurring basis:

(in thousands)	Balance at December 31, 2020	Location	Basis of Fair Value Measurement		
			Level 1	Level 2	Level 3
<b><u>Assets:</u></b>					
Term Deposits	\$ 540,000	Cash and cash equivalents	\$ 540,000		
Money market mutual funds	37,100	Cash and cash equivalents	37,100		
Money market mutual funds	70,995	Other assets	70,995		
Certificates of deposit	2,300	Other assets		2,300	
Available for sale securities	78,367	Other assets	78,367		
Deferred compensation assets	42,044	Other assets	42,044		
Foreign currency exchange contracts	9,987	Other current assets		9,987	
	<u>\$ 780,793</u>		<u>\$ 228,506</u>	<u>\$ 552,287</u>	<u>-</u>
<b><u>Liabilities:</u></b>					
Deferred compensation liability	\$ 42,044	Other noncurrent liabilities	\$ 42,044		
	<u>\$ 42,044</u>		<u>\$ 42,044</u>	<u>-</u>	<u>-</u>

(in thousands)	Balance at December 31, 2019	Location	Basis of Fair Value Measurement		
			Level 1	Level 2	Level 3
<b><u>Assets:</u></b>					
Money market mutual funds	\$ 60,175	Other assets	\$ 60,175		
Certificates of deposit	2,200	Other assets		2,200	
Available for sale securities	70,478	Other assets	70,478		
Deferred compensation assets	35,510	Other assets	35,510		
Foreign currency exchange contracts	10,343	Other current assets		10,343	
	<u>\$ 178,706</u>		<u>\$ 166,163</u>	<u>\$ 12,543</u>	<u>-</u>
<b><u>Liabilities:</u></b>					
Deferred compensation liability	\$ 35,510	Other noncurrent liabilities	\$ 35,510		
	<u>\$ 35,510</u>		<u>\$ 35,510</u>	<u>-</u>	<u>-</u>

The fair value of our money market mutual funds, certificates of deposit and available for sale securities are computed based upon quoted market prices in active market. The fair value of deferred compensation assets and offsetting liability are computed based on market prices in an active market held in a rabbi trust. The fair value of our interest rate swaps are based on quotes from our counter parties. The fair value of our foreign currency exchange contracts is valued using quoted forward exchange rates and spot rates at the reporting date.

As of December 31, 2020, in addition to the \$577 million reflected above in cash and cash equivalents, we have approximately \$581 million of other cash accounts that earn interest at variable rates ranging from .20% to .25%.

#### 4) LONG-TERM DEBT

A summary of long-term debt follows:

	December 31,	
	2020	2019
	(amounts in thousands)	
<b>Long-term debt:</b>		
Notes payable and Mortgages payable (including obligations under capitalized leases of \$52,905 in 2020 and \$17,818 in 2019) and term loans with varying maturities through 2050; weighted average interest rates of 6.8% in 2020 and 8.0% in 2019 (see Note 7 regarding capitalized leases)	\$ 61,638	\$ 22,634
Revolving credit and on-demand credit facility	—	30,900
Term Loan A	1,900,000	1,950,000
Term Loan B	490,000	495,000
Accounts receivable securitization program	225,000	400,000
4.75% Senior Secured Notes redeemed in 2020, including unamortized premium of \$2,490 in 2019 and net of unamortized discount of \$70 in 2019	—	702,420
5.00% Senior Secured Notes due 2026	400,000	400,000
2.65% Senior Secured Notes due 2030, net of unamortized discount of \$2,193 in 2020	797,806	—
Total debt before unamortized financing costs	3,874,444	4,000,954
Less-Unamortized financing costs	(18,193)	(16,827)
Total debt after unamortized financing costs	3,856,251	3,984,127
Less-Amounts due within one year (net of unamortized financing costs)	(331,998)	(87,550)
<b>Long-term debt</b>	<b>\$ 3,524,253</b>	<b>\$ 3,896,577</b>

#### Credit Facilities and Outstanding Debt Securities

On October 23, 2018, we entered into a Sixth Amendment (the “Sixth Amendment”) to our credit agreement dated as of November 15, 2010, as amended on March 15, 2011, September 21, 2012, May 16, 2013, August 7, 2014 and June 7, 2016, among UHS, as borrower, the several banks and other financial institutions from time to time parties thereto, as lenders, JPMorgan Chase Bank, N.A., as administrative agent, and the other agents party thereto (the “Senior Credit Agreement”).

The Sixth Amendment to the Senior Credit Agreement, among other things: (i) increased the aggregate amount of the revolving credit facility to \$1 billion (increase of \$200 million over the \$800 million previous commitment); (ii) increased the aggregate amount of the tranche A term loan commitments to \$2 billion (increase of approximately \$290 million over the \$1.71 billion of outstanding borrowings prior to the amendment), and; (iii) extended the maturity date of the revolving credit and tranche A term loan facilities to October 23, 2023 from August 7, 2019.

On October 31, 2018, we added a seven-year tranche B term loan facility in the aggregate principal amount of \$500 million pursuant to the Senior Credit Agreement. The tranche B term loan matures on October 31, 2025. We used the proceeds to repay borrowings under the revolving credit facility, the Securitization (as defined below), to redeem our \$300 million, 3.75% Senior Notes that were scheduled to mature in 2019 and for general corporate purposes.

As of December 31, 2020, we had no borrowings outstanding pursuant to our \$1 billion revolving credit facility and we had \$997 million of available borrowing capacity net of \$3 million of outstanding letters of credit.

Pursuant to the terms of the Sixth Amendment, the tranche A term loan, which had \$1.900 billion of borrowings outstanding as of December 31, 2020, provided for eight installment payments of \$12.5 million per quarter which commenced in March of 2019 and continued through December of 2020. Payments of \$25 million per quarter are scheduled, commencing in March of 2021 until maturity in October of 2023, when all outstanding amounts will be due.

The tranche B term loan, which had \$490 million of borrowings outstanding as of December 31, 2020, provides for installment payments of \$1.25 million per quarter, which commenced on March 31, 2019 and are scheduled to continue until maturity in October of 2025, when all outstanding amounts will be due.

Borrowings under the Senior Credit Agreement bear interest at our election at either (1) the ABR rate which is defined as the rate per annum equal to 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 0.375% to 0.625% for revolving credit and term loan A borrowings and 0.75% for tranche B borrowings, or (2) the one, two, three or six month LIBOR rate (at our election), plus an applicable margin based upon our consolidated leverage ratio at the end of each quarter ranging from 1.375% to 1.625% for revolving credit and term loan A borrowings and 1.75% for the tranche B term loan. As of December 31, 2020, the applicable margins were 0.375% for ABR-based loans and 1.375% for LIBOR-based loans under the revolving credit and term loan A facilities. The revolving credit facility includes a \$125 million sub-limit for letters of

credit. The Senior Credit Agreement is secured by certain assets of the Company and our material subsidiaries (which generally excludes asset classes such as substantially all of the patient-related accounts receivable of our acute care hospitals, and certain real estate assets and assets held in joint-ventures with third parties) and is guaranteed by our material subsidiaries.

The Senior Credit Agreement includes a material adverse change clause that must be represented at each draw. The Senior 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. We are in compliance with all required covenants as of December 31, 2020 and December 31, 2019.

In April, 2018, we entered into the sixth amendment to our accounts receivable securitization program (“Securitization”) dated as of October 27, 2010 with a group of conduit lenders, liquidity banks, and PNC Bank, National Association, as administrative agent, which provides for borrowings outstanding from time to time by certain of our subsidiaries in exchange for undivided security interests in their respective accounts receivable. The sixth amendment, among other things, extended the term of the Securitization program through April 26, 2021 and increased the borrowing capacity to \$450 million (from \$440 million previously). In July, 2020, we entered into the seventh amendment to the Securitization which temporarily waived the minimum borrowing requirement through September 30, 2020. Pursuant to the terms of our Securitization program, 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 December 31, 2020, we had \$225 million of outstanding borrowings pursuant to the terms of the Securitization (which are included in current maturities of long-term debt at December 31, 2020) and \$225 million of available borrowing capacity. We believe that our operating cash flows, cash and cash equivalents, as well as access to the capital markets, provides us with sufficient capital resources to fund our operating, investing and financing requirements over the next twelve months, including repayment or refinancing of our Securitization which is scheduled to mature in April, 2021.

As of December 31, 2020, we had combined aggregate principal of \$1.2 billion from the following senior secured notes:

- \$800 million aggregate principal amount of 2.65% senior secured notes due in October, 2030 (“2030 Notes”) which were issued on September 21, 2020.
- \$400 million aggregate principal amount of 5.00% senior secured notes due in June, 2026 (“2026 Notes”) which were issued on June 3, 2016.

Interest on the 2026 Notes is payable on June 1 and December 1 until the maturity date of June 1, 2026. Interest on the 2030 Notes payable on April 15 and October 15, commencing April 15, 2021, until the maturity date of October 15, 2030. The 2026 Notes and 2030 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 2026 Notes and 2030 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.

The 2030 Notes are guaranteed (the “*Guarantees*”) on a senior secured basis by all of our existing and future direct and indirect subsidiaries (the “*Subsidiary Guarantors*”) that guarantee our Senior Credit Agreement, dated as of November 15, 2010, as amended, restated or supplemented from time to time, or other first lien obligations or any junior lien obligations. The 2030 Notes and the *Guarantees* are secured by first-priority liens, subject to permitted liens, on certain of the Company’s and the *Subsidiary Guarantors*’ assets now owned or acquired in the future by the Company or the *Subsidiary Guarantors* (other than real property, accounts receivable sold pursuant to the Company’s Existing Receivables Facility (as defined in the Indenture pursuant to which the 2030 Notes were issued (the “*Indenture*”)), and certain other excluded assets). The Company’s obligations with respect to the 2030 Notes, the obligations of the *Subsidiary Guarantors* under the *Guarantees*, and the performance of all of the Company’s and the *Subsidiary Guarantors*’ other obligations under the *Indenture* are secured equally and ratably with the Company’s and the *Subsidiary Guarantors*’ obligations under the Senior Credit Agreement and the Company’s 2026 Notes by a perfected first-priority security interest, subject to permitted liens, in the collateral owned by the Company and its *Subsidiary Guarantors*, whether now owned or hereafter acquired. However, the liens on the collateral securing the 2030 Notes and the *Guarantees* will be released if: (i) the 2030 Notes have investment grade ratings; (ii) no default has occurred and is continuing, and; (iii) the liens on the collateral securing all first lien obligations (including the Senior Credit Agreement and the 2026 Notes) and any junior lien obligations are released or the collateral under the Senior Credit Agreement, any other first lien obligations and any junior lien obligations is released or no longer required to be pledged. The liens on any collateral securing the 2030 Notes and the *Guarantees* will also be released if the liens on that collateral securing the Senior Credit Agreement, other first lien obligations and any junior lien obligations are released.

In connection with the issuance of the 2030 Notes, the Company, the Subsidiary Guarantors and the representatives of the several initial purchasers, entered into a Registration Rights Agreement (the “*Registration Rights Agreement*”), whereby the Company and the Subsidiary Guarantors have agreed, at their expense, to use commercially reasonable best efforts to: (i) cause to be filed a registration statement enabling the holders to exchange the 2030 Notes and the Guarantees for registered senior secured notes issued by the Company and guaranteed by the then Subsidiary Guarantors under the Indenture (the “*Exchange Securities*”), containing terms identical to those of the 2030 Notes (except that the Exchange Securities will not be subject to restrictions on transfer or to any increase in annual interest rate for failure to comply with the Registration Rights Agreement); (ii) cause the registration statement to become effective; (iii) complete the exchange offer not later than 60 days after such effective date and in any event on or prior to a target registration date of March 21, 2023, and; (iv) file a shelf registration statement for the resale of the 2030 Notes if the exchange offer cannot be effected within the time periods listed above. The interest rate on the 2030 Notes will increase and additional interest thereon will be payable if the Company does not comply with its obligations under the Registration Rights Agreement.

On September 28, 2020, we redeemed the entire \$700 million aggregate principal amount of our previously outstanding 4.75% Senior Secured Notes due 2022 (the “2022 Notes”), at a cash redemption price equal to the sum of: (i) 100% of the aggregate principal amount of the 2022 Notes redeemed, and; (ii) accrued and unpaid interest on the 2022 Notes to the redemption date. Included in our financial results for the three and nine-month periods ended September 30, 2020, was a loss on extinguishment of debt of approximately \$1 million recorded in connection with the redemption of the 2022 Notes.

At December 31, 2020, the carrying value and fair value of our debt were each approximately \$3.9 billion. At December 31, 2019, the carrying value and fair value of our debt were each approximately \$4.0 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.

The aggregate scheduled maturities of our total debt outstanding as of December 31, 2020 are as follows:

	(000s)
2021	\$ 332,081
2022	107,587
2023	1,707,918
2024	8,284
2025	472,371
Later	1,246,203
<b>Total maturities before unamortized financing costs</b>	<b>3,874,444</b>
Less-Unamortized financing costs, (\$83) applicable to 2021	(18,193)
<b>Total</b>	<b>\$ 3,856,251</b>

## 5) COMMON STOCK

### *Dividends*

In April, 2020, as part of various COVID-19 initiatives, we suspended declaration and payment of quarterly dividends. Our Board of Directors have recently approved resumption of quarterly dividend payments, of \$0.20 per share, beginning in the first quarter of 2021. All classes of our common stock have similar economic rights.

We declared and paid cash dividends of \$17.3 million, or \$.20 per share, during the first quarter of 2020. Cash dividends of \$0.60 per share (\$53.0 million in the aggregate) were declared and paid during 2019 and \$0.40 per share (\$37.3 million in the aggregate) were declared and paid during 2018.

### *Stock Repurchase Programs*

In April, 2020, as part of various COVID-19 initiatives, we suspended our stock repurchase program. We are planning to resume stock repurchases, subject to approval by our Board of Directors, during the second quarter of 2021.

In July, 2019, our Board of Directors authorized a \$1.0 billion increase to our stock repurchase program, which increased the aggregate authorization to \$2.7 billion from the previous \$1.7 billion authorization approved in various increments since 2014. Pursuant to this program, which had an aggregate available repurchase authorization of \$559.6 million as of December 31, 2020, shares of our Class B Common Stock may be repurchased, from time to time as conditions allow, on the open market or in negotiated private transactions. There is no expiration date for our stock repurchase programs.

The following schedule provides information related to our stock repurchase program for each of the three years ended December 31, 2020. During 2020, 1,951,899 shares (\$196.6 million in the aggregate) were repurchased pursuant to the terms of the

stock repurchase program and 81,057 shares (\$10.2 million in the aggregate) were repurchased in connection with the income tax withholding obligations resulting from stock-based compensation programs. During 2019, 5,397,753 shares (\$706.2 million in the aggregate) were repurchased pursuant to the terms of our stock repurchase program and 336,943 shares (\$47.7 million in the aggregate) were repurchased in connection with the income tax withholding obligations resulting from stock-based compensation programs. During 2018, 3,321,968 shares (\$401.3 million) were repurchased pursuant to the terms of our stock repurchase program and 102,800 shares (\$12.7 million in the aggregate) were repurchased in connection with the income tax withholding obligations resulting from stock-based compensation programs.

	<b>Additional dollars authorized for repurchase (in thousands)</b>	<b>Total number of shares purchased (a.)</b>	<b>Total number of shares cancelled</b>	<b>Average price paid per share for forfeited restricted shares</b>	<b>Total number of shares purchased as part of publicly announced programs</b>	<b>Average price paid per share for shares purchased as part of publicly announced program</b>	<b>Aggregate purchase price paid (in thousands)</b>	<b>Aggregate purchase price paid for shares purchased as part of publicly announced program</b>	<b>Maximum number of dollars that may yet be purchased under the program (in thousands)</b>
<b>Balance as of</b>									
January 1, 2018									\$ 363,660
2018	\$ 500,000	3,435,992	11,224	\$ 0.01	3,321,968	\$ 120.81	\$ 414,002	\$ 401,316	\$ 462,344
2019	\$ 1,000,000	5,762,409	27,713	\$ 0.01	5,397,753	\$ 130.84	\$ 753,928	\$ 706,221	\$ 756,123
2020	\$ —	2,050,735	17,779	\$ 0.01	1,951,899	\$ 100.70	\$ 206,719	\$ 196,560	\$ 559,563
<b>Total for three year period ended December 31,</b>									
2020	<u>\$ 1,500,000</u>	<u>11,249,136</u>	<u>56,716</u>	<u>\$ 0.01</u>	<u>10,671,620</u>	<u>\$ 122.20</u>	<u>\$ 1,374,649</u>	<u>\$ 1,304,097</u>	

(a.) Includes 17,779, 27,713 and 11,224 of restricted shares that were forfeited by former employees pursuant to the terms of our restricted stock purchase plan during 2020, 2019 and 2018, respectively.

### **Stock-based Compensation Plans**

At December 31, 2020, we have a number of stock-based employee compensation plans. Pursuant to the FASB's guidance, we expense the grant-date fair value of stock options and other equity-based compensation pursuant to the straight-line method over the stated vesting period of the award using the Black-Scholes option-pricing model.

Pre-tax share-based compensation costs of \$54.7 million during 2020, \$60.1 million during 2019 and \$61.1 million during 2018 were recognized related to outstanding stock options. In addition, pre-tax compensation costs of \$11.2 million during 2020, \$9.3 million during 2019 and \$5.5 million during 2018 were recognized related to amortization of restricted stock and discounts provided in connection with shares purchased pursuant to our 2005 Employee Stock Purchase Plan. As of December 31, 2020, there was approximately \$97.8 million of unrecognized compensation cost related to unvested stock options and restricted stock which is expected to be recognized over the remaining average vesting period of 2.3 years.

The expense associated with stock-based compensation arrangements is a non-cash charge. In the Consolidated Statements of Cash Flows, stock-based compensation expense is an adjustment to reconcile net income to cash provided by operating activities and aggregated to \$65.8 million in 2020, \$69.4 million in 2019 and \$66.6 million in 2018. In connection with our January 1, 2017 adoption of ASU 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting", our provision for income taxes and our net income attributable to UHS were unfavorably impacted by \$7.4 million during 2020, and favorably impacted by \$12.2 million during 2019 and \$1.2 million during 2018.

In 2005, we adopted the 2005 Stock Incentive Plan (the "Stock Incentive Plan") which was amended in 2008, 2010, 2015 and 2017 and was cancelled in 2020, as discussed below. An aggregate of 35.6 million shares of Class B Common Stock had been reserved under the Stock Incentive Plan, the remaining balance of which was cancelled in 2020. During 2020, 2019 and 2018, stock options, net of cancellations, of approximately 2.5 million, 2.2 million and 2.1 million, respectively, were granted under the Stock Incentive Plan. Stock options to purchase Class B Common Stock have been granted to our officers, key employees and members of our Board of Directors. Commencing in 2018, our key employees and non-executive officers began receiving a portion of their stock-based compensation in the form of restricted stock (as discussed below) in addition to receiving options to purchase Class B Common Stock.

In 2020, we adopted the 2020 Omnibus Stock and Incentive Plan (the "2020 Stock Incentive Plan") which was approved by our shareholders in May, 2020. A total of 6.1 million shares of Class B Common Stock may be issued under the 2020 Stock Incentive Plan. Under the 2020 Stock Incentive Plan, shares that are subject to stock options shall be counted as one share for every one share

subject to stock options, and shares that are subject to restricted stock awards or restricted stock units shall be counted as four shares for every one share subject to restricted stock awards or restricted stock units. Various other types of equity awards are also permitted under the 2020 Stock Incentive Plan. During 2020, 44,000 stock options and 3,000 restricted stock units were granted under the 2020 Stock Incentive Plan to our key employees, and no shares were cancelled. Restricted stock and restricted stock units issued under the 2020 Stock Incentive Plan do not have rights to receive dividends on unvested restricted awards, however, the accrual of dividend equivalents on unvested restricted awards may be permitted. Upon adoption of the 2020 Stock Incentive Plan, no additional awards were granted under the 2005 Stock Incentive Plan or the 2010 Employees' Restricted Stock Purchase Plan, and reserves for future issuance pursuant to each plan were cancelled.

The per option weighted-average grant-date fair value of options granted during 2020 (including the 2005 and 2020 Stock Incentive Plans), 2019 and 2018 was \$14.60, \$30.40 and \$28.19, respectively. All stock options were granted with an exercise price equal to the fair market value on the date of the grant. The majority of options are exercisable ratably over a four-year period beginning one year after the date of the grant. All outstanding options expire five years after the date of the grant. As of December 31, 2020, approximately 6.0 million shares of Class B Common Stock remain available for issuance pursuant to the 2020 Stock Incentive Plan. Shares that are subject to options are counted against the reserve balance as one share for every one share subject to such option; shares that are subject to restricted stock or restricted stock units are counted against the reserve balance as four shares for every one share subject to the restricted stock or unit.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were derived from averaging the number of options granted during the most recent five-year period. The weighted-average assumptions reflected below were based upon twenty-six option grants for the five-year period ending December 31, 2020, twenty-nine option grants for the five-year period ending December 31, 2019 and twenty-seven option grants for the five-year period ending December 31, 2018.

<b>Year Ended December 31,</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Expected volatility	28%	27%	27%
Risk free Interest rate	2%	2%	1%
Expected life (years)	3.5	3.4	3.4
Forfeiture rate	8%	9%	13%
Dividend yield	0.5%	0.3%	0.3%

The risk-free rate is based on the U.S. Treasury zero coupon four year yield curve in effect at the time of grant. The expected life of the stock options granted was estimated using the historical behavior of employees. Expected volatility was based on historical volatility for a period equal to the stock option's expected life. Expected dividend yield is based on our dividend yield at the time of grant. The forfeiture rate is based upon the actual historical forfeitures utilizing the 5-year term of the option.

The table below summarizes our stock option activity during the year ended December 31, 2020:

<b>Outstanding Options</b>	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>
Balance, January 1, 2020	8,133,176	\$ 124.52
Granted	2,589,966	\$ 70.36
Exercised	(1,534,741)	\$ 118.99
Expired	(551,750)	\$ 117.30
Cancelled	(397,685)	\$ 114.79
Balance, December 31, 2020	8,238,966	\$ 109.47
Outstanding options vested and exercisable as of December 31, 2020	2,522,906	\$ 124.62

The following table provides information about unvested options for the year ended December 31, 2020:

	Shares	Weighted Average Grant Date Fair Value
Unvested options as of January 1, 2020	5,581,909	\$ 28.45
Granted	2,589,966	\$ 14.60
Vested	(2,184,896)	\$ 27.40
Cancelled	(270,919)	\$ 24.92
Unvested options as of December 31, 2020	<u>5,716,060</u>	<u>\$ 22.74</u>

The following table provides information regarding all options outstanding at December 31, 2020:

	Options Outstanding	Options Exercisable
Number of options outstanding	8,238,966	2,522,906
Weighted average exercise price	\$ 109.47	\$ 124.62
Aggregate intrinsic value as of December 31, 2020	\$ 231,848,241	\$ 32,525,812
Weighted average remaining contractual life	2.9	1.9

The total in-the-money value of all stock options exercised during the years ended December 31, 2020, 2019 and 2018 were \$22.2 million, \$126.7 million and \$39.9 million, respectively.

The weighted average remaining contractual life for options outstanding and weighted average exercise price per share for exercisable options at December 31, 2018, 2019 and 2020 were as follows:

Year Ended:	Options Outstanding Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in Years)	Exercisable Options Shares	Weighted Average Exercise Price Per Share	Expected to Vest Options Shares	Weighted Average Exercise Price Per Share
2018	9,674,791	\$ 115.39	2.6	3,724,179	\$ 106.77	4,414,324	\$ 120.82
2019	8,133,176	124.52	2.7	2,551,267	119.86	5,073,423	126.62
2020	8,238,966	109.47	2.9	2,522,906	124.62	5,099,823	110.47

Under our Amended and Restated 2010 Employees' Restricted Stock Purchase Plan (the "Restricted Stock Plan"), which was cancelled during 2020 upon the approval of the 2020 Stock Incentive Plan, as mentioned above, allowed eligible participants to purchase shares of Class B Common Stock at par value, subject to certain restrictions and had 600,000 shares of Class B Common Stock reserved. The reserve balance in the Restricted Stock Plan was cancelled during 2020. During 2020, 2019 and 2018, restricted shares, net of cancellations, of approximately 119,844, 117,467, and 136,571, respectively, were granted and issued under the Restricted Stock Plan, with various ratable vesting periods ranging up to five years from the date of grant. The weighted-average grant-date fair value of the restricted shares granted during 2020, 2019 and 2018 under the Restricted Stock Plan was \$68.06, \$133.98 and \$119.51, respectively. As mentioned above, in 2020, we adopted the 2020 Stock Incentive Plan. During 2020, 3,000 restricted stock units were granted under the 2020 Stock Incentive Plan with four-year vesting periods from the date of grant. The weighted average grant-date fair value of the restricted stock units issued under the 2020 Stock Incentive Plan was \$109.72. The fair value of each restricted stock grant or restricted stock unit was determined as the closing UHS market price on the date of grant. Restricted shares of Class B Common Stock have been granted to our officers and key employees.

In addition to the 2020 Stock Incentive Plan, we have our 2005 Employee Stock Purchase Plan (the "Employee Stock Plan") which allows eligible employees to purchase shares of Class B Common Stock at a ten percent discount. There were 115,008, 82,449 and 87,051 shares issued pursuant to the Employee Stock Purchase Plan during 2020, 2019 and 2018, respectively. In connection with the Employee Stock Plan, we have reserved 2.0 million shares of Class B Common Stock for issuance and have issued approximately 1.5 million shares as of December 31, 2020. As of December 31, 2020, approximately 500,000 shares of Class B Common Stock remain available for issuance pursuant to this plan.

At December 31, 2020, 22,087,459 shares of Class B Common Stock were reserved for issuance upon conversion of shares of Class A, C and D Common Stock outstanding, for issuance upon exercise of options to purchase Class B Common Stock and for

issuance of stock under other incentive plans. Class A, C and D Common Stock are convertible on a share for share basis into Class B Common Stock.

## 6) INCOME TAXES

Components of income tax expense/(benefit) are as follows (amounts in thousands):

	Year Ended December 31,		
	2020	2019	2018
<b>Current</b>			
Federal	\$ 268,974	\$ 225,663	\$ 195,862
Foreign	13,978	9,284	13,699
State	43,333	40,152	37,555
	<u>326,285</u>	<u>275,099</u>	<u>247,116</u>
<b>Deferred</b>			
Federal	(20,382)	(27,073)	(6,216)
Foreign	(2,496)	1,874	(666)
State	(4,114)	(11,106)	(3,592)
	<u>(26,992)</u>	<u>(36,305)</u>	<u>(10,474)</u>
<b>Total</b>	<u>\$ 299,293</u>	<u>\$ 238,794</u>	<u>\$ 236,642</u>

On December 22, 2017, the President of the United States signed into law comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 (the “TCJA-17”). The TCJA-17 made broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (2) requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries; (3) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (4) requiring a current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations through the implementation of a territorial tax system; (5) creating a new limitation on deductible interest expense; and (6) limiting certain other deductions. We provided a provisional estimate of the effects of the TCJA-17 in the fourth quarter of 2017 financial statements. In the fourth quarter of 2018, we completed our analysis to determine the effects of the TCJA-17 in accordance with Staff Accounting Bulletin No. 118 (“SAB 118”) as follows:

**Reduction of U.S. federal corporate tax rate:** The TCJA-17 reduces the corporate tax rate to 21 percent, effective January 1, 2018. Deferred income taxes are based on the estimated future tax effects of differences between the financial statement carrying amounts and the tax bases of assets and liabilities under the provisions of the enacted tax laws. For certain of our deferred tax assets and deferred tax liabilities, we recorded a provisional decrease of \$97 million and \$127 million, respectively, with a corresponding net adjustment to deferred tax benefit of \$30 million for the year ended December 31, 2017. Upon completion of our 2017 U.S. Corporate Income Tax Return in the fourth quarter, an increase of \$1 million attributable to certain deferred tax assets and a decrease of \$5 million attributable to certain deferred tax liabilities was recorded resulting in an additional net deferred tax benefit of \$6 million.

**Deemed Repatriation Transition Tax:** The Deemed Repatriation Transition Tax (“Transition Tax”) is a tax on previously untaxed accumulated and current earnings and profits (“E&P”) of certain of our foreign subsidiaries. The one-time Transition Tax is based upon the amount of post-1986 E&P of the relevant subsidiaries, the amount of non-U.S. income tax paid on such earnings, as well as other factors. We originally estimated and recorded a provisional Transition Tax obligation of \$11.3 million. Upon completion of our 2017 U.S. Corporate Income Tax Return, the final Transition Tax increased by \$100,000 for a total of \$11.4 million.

The TCJA-17 contains two new anti-base erosion tax provisions, (1) the global intangible low-taxed income (“GILTI”) provisions and (2) the base erosion and anti-abuse tax (“BEAT”) provisions:

**GILTI:** The GILTI provisions require the inclusion of the earnings of certain foreign subsidiaries in excess of an acceptable rate of return on certain assets of the respective subsidiaries in our U.S. tax return for tax years beginning after December 31, 2017. An accounting policy election was made during 2018 to treat taxes related to GILTI as a period cost when the tax is incurred. We recorded a GILTI tax provision of zero for the years ended December 31, 2020 and 2019, respectively.

**BEAT:** The BEAT provisions limit the deduction for U.S. tax base erosion related payments made by U.S. operations to related foreign affiliates. We were not subject to BEAT for the years ended December 31, 2020 and 2019.

The foreign provision for income taxes is based on foreign pre-tax earnings of \$72 million in 2020, \$69 million in 2019 and \$84 million in 2018. Prior to the TCJA-17, no deferred taxes were provided related to unremitted earnings from foreign subsidiaries. As a result of the mandatory repatriation tax provisions of the Transition Tax included in the TCJA-17, all undistributed earnings from foreign subsidiaries as of December 31, 2017, were subject to tax. Going forward, we anticipate repatriating only previously taxed foreign earnings subjected as well as any future earnings that would qualify for a full dividend received deduction permitted under the TCJA-17 for distributions post-December 31, 2017. As of December 31, 2020, the amount of previously taxed earnings and earnings that would qualify for a full dividend received deduction total \$110 million. At this time, there are no material tax effects related to

future cash repatriation of undistributed foreign earnings. As such, we have not recognized a deferred tax liability related to existing undistributed earnings.

Our provision for income taxes for the year ended December 31, 2020, 2019 and 2018 included tax expense of \$7 million, tax benefits of \$12 million and \$1 million, respectively, related to the adoption of ASU 2016-09, which changes how companies account for certain aspects of share-based payments to employees. Under ASU 2016-09, excess tax benefits (when the deductible amount related to the settlement of employee equity awards for tax purposes exceeds the cumulative compensation cost recognized for financial reporting purposes) and deficiencies, if applicable, are recorded as a component of our tax provision.

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

	Year Ended December 31,		
	2020	2019	2018
Federal statutory rate	21.0%	21.0%	21.0%
State taxes, net of federal income tax benefit	2.5%	2.2%	2.6%
Tax effects of foreign operations	-0.3%	-0.3%	-0.5%
Tax benefit from settlement of employee equity awards	0.5%	-1.0%	-0.1%
Enactment of the TCJA-17	0.0%	0.0%	-0.6%
Other items	0.4%	0.8%	0.9%
Impact of income attributable to noncontrolling interests	-0.2%	-0.3%	-0.4%
Effective tax rate	23.9%	22.4%	22.9%

Our effective tax rates were 23.9%, 22.4% and 22.9% for the years ended December 31, 2020, 2019 and 2018, respectively. The increase in our effective tax rate for the year ended December 31, 2020 as compared to 2019 is due primarily to tax expense of \$7 million and tax benefit of \$12 million from employee share-based payments during the year ended December 2020 and 2019, respectively. The decrease in our effective tax rate for the year ended December 31, 2019 as compared to 2018 is due primarily to tax benefits from employee share-based payments of \$12 million and \$1 million during the year ended December 2019 and 2018, respectively.

Included in "Other current assets" on our Consolidated Balance Sheet are prepaid federal, state and foreign income taxes amounting to approximately \$11 million and \$8 million as of December 31, 2020 and 2019, respectively.

The components of deferred taxes are as follows (amounts in thousands):

	Year Ended December 31,			
	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Self-insurance reserves	\$ 75,648	\$ 69,217	\$ 69,217	\$ 69,217
Compensation accruals	71,054	70,680	70,680	70,680
Doubtful accounts and other reserves	94,295	77,665	77,665	77,665
Other currently non-deductible accrued liabilities	61,634	36,500	36,500	36,500
Depreciable and amortizable assets		296,588		275,901
Operating lease liabilities	89,865		76,164	
Right of use assets-operating leases		89,493		76,164
State and foreign net operating loss carryforwards and other state and foreign deferred tax assets	81,036		87,662	
Net pension liabilities – OCI only	1,356		2,427	
Other liabilities		3,697		1,855
	\$ 474,888	\$ 389,778	\$ 420,315	\$ 353,920
Valuation Allowance	(68,003)	0	(75,277)	0
Total deferred income taxes	\$ 406,885	\$ 389,778	\$ 345,038	\$ 353,920

At December 31, 2020, state net operating loss carryforwards (losses originating in tax years beginning prior to January 1, 2019, expiring in years 2021 through 2039), and credit carryforwards available to offset future taxable income approximated \$951 million representing approximately \$66 million in deferred state tax benefit (net of the federal benefit); and state related interest expense carryforwards approximated \$141 million representing approximately \$5 million in deferred state tax benefit (net of the federal benefit). At December 31, 2020, there were foreign net operating losses and interest expense carryforwards of approximately \$45 million, most of which are carried forward indefinitely, representing approximately \$10 million in deferred foreign tax benefit.

A valuation allowance is required when it is more likely than not that some portion of the deferred tax assets will not be realized. Based on available evidence, it is more likely than not that certain of our state tax benefits will not be realized. Therefore, valuation allowances of approximately \$64 million and \$71 million have been reflected as of December 31, 2020 and 2019, respectively. During 2020, the valuation allowance on these state tax benefits decreased by \$7 million primarily due to expired net operating losses not realized. In addition, valuation allowances of approximately \$4 million have been reflected as of both December 31, 2020 and 2019 related to foreign net operating losses and credit carryforwards.

During 2020 and 2019, the estimated liabilities for uncertain tax positions (including accrued interest and penalties) were increased less than \$1 million due to tax positions taken in the current and prior years. The balance at each of the years ended December 31, 2020 and 2019, if subsequently recognized, that would favorably affect the effective tax rate and the provision for income taxes is approximately \$2 million as of each date.

We recognize accrued interest and penalties associated with uncertain tax positions as part of the tax provision. As of December 31, 2020 and 2019, we have accrued interest and penalties of less than \$1 million as of each date. The U.S. federal statute of limitations remains open for the 2016 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 unrecognized 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.

The tabular reconciliation of unrecognized tax benefits for the years ended December 31, 2020, 2019 and 2018 is as follows (amounts in thousands):

	As of December 31,		
	2020	2019	2018
Balance at January 1,	\$ 2,164	\$ 1,553	\$ 1,096
Additions based on tax positions related to the current year	500	500	500
Additions for tax positions of prior years	142	113	62
Reductions for tax positions of prior years	0	0	0
Settlements	0	(2)	(105)
Balance at December 31,	<u>\$ 2,806</u>	<u>\$ 2,164</u>	<u>\$ 1,553</u>

## 7) LEASE COMMITMENTS

In February 2016, the FASB issued ASU 2016-02 (Topic 842) "Leases." Topic 842 supersedes the lease requirements in Accounting Standards Codification Topic 840, "Leases." Under Topic 842, lessees are required to recognize assets and liabilities on the balance sheet for most leases and provide enhanced disclosures. Leases will be classified as either finance or operating.

We adopted Topic 842 effective January 1, 2019. We applied Topic 842 to all leases as of January 1, 2019 with comparative periods continuing to be reported under Topic 840. We have elected the practical expedient package to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases. We have also elected the policy exemption that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and are applying this expedient to all relevant asset classes.

We determine if an arrangement is or contains a lease at inception of the contract. Our right-of-use assets represent our right to use the underlying assets for the lease term and our lease liabilities represent our obligation to make lease payments arising from the leases. Right-of-use assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. We use the implicit rate noted within the contract. If not readily available, we use our estimated incremental borrowing rate, which is derived using a collateralized borrowing rate for the same currency and term as the associated lease. A right-of-use asset and lease liability is not recognized for leases with an initial term of 12 months or less and we recognize lease expense for these leases on a straight-line basis over the lease term within lease and rental expense.

Our operating leases are primarily for real estate, including certain acute care facilities, off-campus outpatient facilities, medical office buildings, and corporate and other administrative offices. Our real estate lease agreements typically have initial terms of five to 10 years. These real estate leases may include one or more options to renew, with renewals that can extend the lease term from five to 10 years. The exercise of lease renewal options is at our sole discretion. When determining the lease term, we included options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

Three of our hospital facilities are held under operating leases with Universal Health Realty Income Trust with two hospital terms expiring in 2021 and the third expiring in 2026 (see Note 9 for additional disclosure). We are also the leasee of the real property of certain facilities (see Item 2. Properties for additional disclosure).

The components of lease expense for the year ended December 31, 2020 and 2019 are as follows (in thousands):

	Twelve months ended December 31,	
	2020	2019
Operating lease cost	\$ 73,841	\$ 72,098
Variable and short term lease cost (a)	42,218	35,711
Total lease and rental expense	<u>\$ 116,059</u>	<u>\$ 107,809</u>

**Finance lease cost:**

Amortization of property under capital lease	\$ 1,985	\$ 1,877
Interest on debt of property under capital lease	1,763	1,876
Total finance lease cost	<u>\$ 3,748</u>	<u>\$ 3,753</u>

(a) Includes equipment, month-to-month and leases with a maturity of less than 12 months.

Supplemental cash flow information related to leases for the year ended December 31, 2020 and 2019 are as follows (in thousands):

	Twelve months ended December 31,	
	2020	2019
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>		
Operating cash flows from operating leases	\$ 115,270	\$ 107,239
Operating cash flows from finance leases	\$ 1,885	\$ 2,078
Financing cash flows from finance leases	\$ 2,586	\$ 1,959
<b>Right-of-use assets obtained in exchange for lease obligations:</b>		
Operating leases	\$ 69,678	\$ 383,857
Finance leases	\$ 37,029	0

Included in the \$383.9 million of right-of-use assets obtained in exchange for operating lease obligations is \$29.3 million of new and modified operating leases entered into during the year ended December 31, 2019.

Supplemental balance sheet information related to leases as of December 31, 2020 and 2019 are as follows (in thousands):

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<b>Operating Leases</b>		
Right of use assets-operating leases	\$ 336,513	\$ 326,518
Operating lease liabilities	\$ 59,796	\$ 56,442
Operating lease liabilities noncurrent	278,303	270,076
Total operating lease liabilities	<u>\$ 338,099</u>	<u>\$ 326,518</u>
<b>Finance Leases</b>		
Property and equipment	\$ 75,611	\$ 38,582
Accumulated depreciation	(28,595)	(26,610)
Property and equipment, net	<u>\$ 47,016</u>	<u>\$ 11,972</u>
Current maturities of long-term debt	\$ 2,082	\$ 1,650
Long-term debt	50,999	16,359
Total finance lease liabilities	<u>\$ 53,081</u>	<u>\$ 18,009</u>
Weighted Average remaining lease term, years		
Operating leases	10.9	9.7
Finance leases	8.1	6.9
Weighted Average discount rate		
Operating leases	4.4%	4.7%
Finance leases	9.7%	9.8%

Future maturities of lease liabilities as of December 31, 2020 are as follows (in thousands):

	Operating Leases	Finance Leases
Year ending December 31,		
2021	\$ 72,722	\$ 5,662
2022	62,848	6,020
2023	55,733	6,173
2024	47,824	6,332
2025	40,139	5,149
Later years	<u>163,102</u>	<u>48,563</u>
Total lease payments	<u>442,368</u>	<u>77,899</u>
less imputed interest	<u>(104,269)</u>	<u>(24,818)</u>
<b>Total</b>	<b><u>\$ 338,099</u></b>	<b><u>\$ 53,081</u></b>

We assumed \$37 million in finance lease obligations during 2020 and no finance leases in 2019. In the ordinary course of business, our facilities routinely lease equipment pursuant to new lease arrangements that will likely result in future lease and rental expense in excess of amounts indicated above.

## **8) COMMITMENTS AND CONTINGENCIES**

### ***Professional and General Liability, Workers' Compensation Liability***

The vast majority of our subsidiaries are self-insured for professional and general liability exposure up to: (i) \$20 million for professional liability and \$3 million for general liability per occurrence in 2021; (ii) \$10 million and \$3 million per occurrence in 2020 (professional liability claims are also subject to an additional annual aggregate self-insured retention of \$2.5 million for claims in excess of \$10 million for 2020); (iii) \$5 million and \$3 million per occurrence, respectively, during 2019, 2018 and 2017, and; (iv) \$10 million and \$3 million per occurrence, respectively, prior to 2017.

These subsidiaries are provided with several excess policies through commercial insurance carriers which provide for coverage in excess of the applicable per occurrence self-insured retention or underlying policy limits up to \$155 million per occurrence and in the aggregate in 2021, \$250 million per occurrence and in the aggregate for claims incurred from 2014-2020, \$200 million per occurrence and in the aggregate for claims incurred from 2010-2013. In addition, from time to time based upon marketplace conditions, we may elect to purchase additional commercial coverage for certain of our facilities or businesses. Our 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.

As of December 31, 2020, the total accrual for our professional and general liability claims was \$264 million, of which \$74 million was included in current liabilities. As of December 31, 2019, the total accrual for our professional and general liability claims was \$242 million, of which \$42 million was included in current liabilities. As of December 31, 2018, the total accrual for our professional and general liability claims was \$243 million, of which \$42 million was included in current liabilities.

As a result of unfavorable trends experienced during the year, included in our consolidated results of operations during 2020, was a \$25 million increase to our reserves related to prior years for self-insured professional and general liability claims. Our consolidated results of operations during 2019 and 2018 were not materially impacted by adjustments to our prior year reserves for professional and general liability claims. Our estimated liability for self-insured professional and general liability claims is based on a number of factors including, among other things, the number of asserted claims and reported incidents, estimates of losses for these claims based on recent and historical settlement amounts, 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 December 31, 2020, the total accrual for our workers' compensation liability claims was \$105 million, \$55 million of which was included in current liabilities. As of December 31, 2019, the total accrual for our workers' compensation liability claims was \$81 million, of which \$40 million was included in current liabilities. As of December 31, 2018, the total accrual for our workers' compensation liability claims was \$72 million, of which \$40 million was included in current liabilities. As a result of unfavorable trends experienced during the year, including, among other things, increased claims volumes and certain other factors resulting from the COVID-19 pandemic, our consolidated results of operations during 2020 included a \$20 million increase to our reserves for workers' compensation liability claims, a portion of which related to reserves for prior year. Our consolidated results of operations during 2019 and 2018 were not materially impacted by adjustments to our prior year reserves for workers' compensation claims.

Although we are unable to predict whether or not our future financial statements will require updates to estimates for our prior year reserves for self-insured general and professional and workers' compensation claims, given the relatively unpredictable nature of these potential liabilities and the factors impacting these reserves, as discussed above, it is reasonably likely that our future financial results may include material adjustments to prior period reserves.

Below is a schedule showing the changes in our general and professional liability and workers' compensation reserves during the three years ended December 31, 2020 (amount in thousands):

	General and Professional Liability	Workers' Compensation	Total
Balance at January 1, 2018	\$ 228,691	\$ 69,531	\$ 298,222
Plus: Accrued insurance expense, net of commercial premiums paid	54,387	38,476	92,863
Less: Payments made in settlement of self-insured claims	(40,027)	(36,117)	(76,144)
Balance at January 1, 2019	243,051	71,890	314,941
Plus: Accrued insurance expense, net of commercial premiums paid	56,452	49,220	105,672
Less: Payments made in settlement of self-insured claims	(57,683)	(40,106)	(97,789)
Balance at January 1, 2020	241,820	81,004	322,824
Plus: Accrued insurance expense, net of commercial premiums paid	91,518	67,705	159,223
Less: Payments made in settlement of self-insured claims	(69,559)	(43,524)	(113,083)
Balance at December 31, 2020	<u>\$ 263,779</u>	<u>\$ 105,185</u>	<u>\$ 368,964</u>

#### **Property Insurance**

We have commercial property insurance policies for our properties covering catastrophic losses, including windstorm damage, up to a \$1 billion policy limit, subject to a per occurrence/per location deductible of \$2.5 million as of June 1, 2020. Losses resulting from named windstorms are subject to deductibles between 3% and 5% of the 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). Commercially insured earthquake coverage for our facilities is subject to various deductibles and limitations including: (i) \$300 million limitation for our facilities located in Nevada; (ii) \$130 million limitation for our facilities located in California; (iii) \$100 million limitation for our facilities located in fault zones within the United States; (iv) \$40 million limitation for our facilities located in Puerto Rico, and; (v) \$250 million limitation for many of our facilities located in other states. Our commercially insured flood coverage has a limit of \$100 million annually. There is also a \$10 million sublimit for one of our facilities located in Houston, Texas, and a \$1 million sublimit for our facilities located in Puerto Rico. Property insurance for our behavioral health facilities located in the U.K. are provided on an all risk basis up to a £1.5 billion policy limit, with coverage caps per location, that includes coverage for real and personal property as well as business interruption losses.

#### **Information Technology Incident**

We experienced an information technology security incident in the early morning hours of September 27, 2020. As a result of this cyberattack, we suspended user access to our information technology applications related to operations located in the United States. While our information technology applications were offline, patient care was delivered safely and effectively at our facilities across the country utilizing established back-up processes, including offline documentation methods. Our information technology applications were substantially restored at our acute care and behavioral health hospitals at various times in October, 2020, on a rolling/staggered basis, and our facilities generally resumed standard operating procedures at that time.

Immediately after the incident, we worked diligently with our information technology security partners to restore our information technology infrastructure and business operations as quickly as possible. In parallel, we began investigating the nature and potential impact of the security incident and engaged third-party information technology and forensic vendors to assist. No evidence of unauthorized access, copying or misuse of any patient or employee data has been identified to date.

Given the disruption to the standard operating procedures at our facilities during the period of September 27, 2020 into October, 2020, certain patient activity, including ambulance traffic and elective/scheduled procedures at our acute care hospitals, were diverted to competitor facilities. We also incurred significant incremental labor expense, both internal and external, to restore information technology operations as expeditiously as possible. Additionally, certain administrative functions such as coding and billing were delayed into December, 2020, which had a negative impact on our operating cash flows during the fourth quarter of 2020.

#### **Other Contractual Commitments:**

In addition to our long-term debt obligations as discussed in Note 4 - *Long-Term Debt* and our operating lease obligations as discussed in Note 7 - *Lease Commitments*, we have various other contractual commitments outstanding as of December 31, 2020 as follows: (i) other combined estimated future purchase obligations of \$349 million related to a long-term contract with third-parties consisting primarily of certain revenue cycle data processing services for our acute care facilities (\$27 million), expected future costs to be paid to a third-party vendor in connection with the ongoing operation of an electronic health records application and purchase implementation of a revenue cycle and other applications for our acute care facilities (\$218 million), healthcare infrastructure in Washington D.C. in connection with various agreements with the District of Columbia (\$75 million), and other software applications

(\$29 million); (ii) estimated construction commitment of \$95 million representing our share of the construction costs of four behavioral health care facilities, that we are required to build pursuant to joint-venture agreements with third-parties, that are under construction and scheduled to be completed at various times in 2021, 2022 and 2023; (iii) combined estimated future payments of \$181 million related to our non-contributory, defined benefit pension plan (\$159 million consisting of estimated payments through 2078) and other retirement plan liabilities (\$22 million), and; (iv) accrued and unpaid estimated claims expense incurred in connection with our commercial health insurers and self-insured employee benefit plans (\$91 million).

### ***Legal Proceedings***

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 Claims 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 Claims Act matter. In September 2014, the Criminal Division of the Department of Justice ("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 Legislation 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.

Certain legal matters are described below:

#### ***Litigation:***

##### ***Shareholder Class Action***

In December 2016 a purported shareholder class action lawsuit was filed in U.S. District Court for the Central District of California against UHS and certain UHS officers alleging violations of the federal securities laws. The case was originally filed as Heed v. Universal Health Services, Inc. et. al. (Case No. 2:16-CV-09499-PSG-JC). The court subsequently appointed Teamsters Local 456 Pension Fund and Teamsters Local 456 Annuity Fund to serve as lead plaintiffs. The case has been transferred to the U.S. District Court for the Eastern District of Pennsylvania and the style of the case has been changed to Teamsters Local 456 Pension Fund, et. al. v. Universal Health Services, Inc. et. al. (Case No. 2:17-CV-02817-LS). In September, 2017, Teamsters Local 456 Pension Fund filed an amended complaint. The amended class action complaint alleges violations of federal securities laws relating to disclosures made in public filings associated with alleged practices and operations at our behavioral health facilities. Plaintiffs seek monetary damages for shareholders during the defined class period as a result of the decrease in share price following various public disclosures or reports. In December, 2017, we filed a motion to dismiss the amended complaint. In August, 2019, the court granted our motion to dismiss. Plaintiffs subsequently filed a motion with the court seeking leave to file a second amended complaint. In April, 2020, the

court denied Plaintiffs' motion to file a second amended complaint. Plaintiffs have filed an appeal with the 3d Circuit Court of Appeals. During the fourth quarter of 2020, and during the pendency of the appeal, we reached an agreement to settle this matter, pending court approval. The net settlement amount, after anticipated commercial insurance proceeds, did not have a material impact on our consolidated financial statements for the year ended December 31, 2020. The settlement is not an admission of liability.

#### *Shareholder Derivative Cases*

In March 2017, a shareholder derivative suit was filed by plaintiff David Heed in the Court of Common Pleas of Philadelphia County. A notice of removal to the United States District Court for the Eastern District of Pennsylvania was filed (Case No. 2:17-cv-01476-LS). Plaintiff filed a motion to remand. In December 2017, the Court denied plaintiff's motion to remand and retained the case in federal court. In May, June and July 2017, additional shareholder derivative suits were filed in the United States District Court for the Eastern District of Pennsylvania. The plaintiffs in those cases are: Central Laborers' Pension Fund (Case No. 17-cv-02187-LS); Firemen's Retirement System of St. Louis (Case No. 17-cv-02317-LS); Waterford Township Police & Fire Retirement System (Case No. 17-cv-02595-LS); and Amalgamated Bank Longview Funds (Case No. 17-cv-03404-LS). The Fireman's Retirement System case has since been voluntarily dismissed. The federal court consolidated all of the cases pending in the Eastern District of Pennsylvania and appointed co-lead plaintiffs and co-lead counsel. Lead Plaintiffs filed a consolidated, amended complaint. We filed a motion to dismiss the amended complaint. In addition, a shareholder derivative case was filed in Chancery Court in Delaware by the Delaware County Employees' Retirement Fund (Case No. 2017-0475-JTL). In December 2017, the Chancery Court stayed this case pending resolution of other contemporaneous matters. Each of these cases have named certain current and former members of the Board of Directors individually and certain officers of Universal Health Services, Inc. as defendants. UHS has also been named as a nominal defendant in these cases. The derivative cases make substantially similar allegations and claims as the shareholder class action relating to practices at our behavioral health facilities and board and corporate oversight of these facilities as well as claims relating to the stock trading by the individual defendants and company repurchase of shares during the relevant time period. The cases make claims of breaches of fiduciary duties by the named board members and officers; alleged violations of federal securities laws; and common law causes of action against the individual defendants including unjust enrichment, corporate waste, abuse of control, constructive fraud and gross mismanagement. The cases seek monetary damages allegedly incurred by the company; restitution and disgorgement of profits, benefits and other compensation from the individual defendants and various forms of equitable relief relating to corporate governance matters. In August, 2019, the court granted our motion to dismiss. Plaintiffs subsequently filed a motion with the court seeking leave to file a second amended complaint. In April, 2020, the court denied Plaintiffs motion to file a second amended complaint. Plaintiffs have filed an appeal with the 3d Circuit Court of Appeals. The defendants deny liability and intend to defend these cases vigorously. The parties continue settlement negotiations during the pendency of the appeal, however, we can provide no assurance that a settlement will be reached. We are uncertain as to potential liability or financial exposure, if any, which may be associated with these matters.

#### *The George Washington University v. Universal Health Services, Inc., et. al.*

In December 2019, The George Washington University ("University") filed a lawsuit in the Superior Court for the District of Columbia against Universal Health Services, Inc. as well as certain subsidiaries and individuals associated with the ownership and management of The George Washington University Hospital ("GW Hospital") in Washington, D.C. (case No. 2019 CA 008019 B). The lawsuit claims that UHS failed to provide sufficient financial compensation to the University under the terms of various agreements entered into in 1997 between the University and UHS for the joint venture ownership of GW Hospital. The lawsuit includes claims for breach of contract, breach of fiduciary duty, and unjust enrichment. We deny liability and intend to defend this matter vigorously. We filed a motion to dismiss the complaint. In June, 2020, the Court granted the motion in part dismissing the majority of the claims against UHS. At this time, we are uncertain as to potential liability or financial exposure, if any, which may be associated with this matter.

#### *Disproportionate Share Hospital Payment Matter:*

In late September, 2015, many hospitals in Pennsylvania, including certain of our behavioral health care hospitals located in the state, received letters from the Pennsylvania Department of Human Services (the "Department") demanding repayment of allegedly excess Medicaid Disproportionate Share Hospital payments ("DSH"), primarily consisting of managed care payments characterized as DSH payments, for the federal fiscal year ("FFY") 2011 amounting to approximately \$4 million in the aggregate. Since that time, certain of our behavioral health care hospitals in Pennsylvania have received similar requests for repayment for alleged DSH overpayments for FFYs 2012 through 2015. For FFY 2012, the claimed overpayment amounts to approximately \$4 million. For FY 2013, FY 2014 and FY 2015 the initial claimed overpayments and attempted recoupment by the Department were approximately \$7 million, \$8 million and \$7 million, respectively. The Department has agreed to a change in methodology which, upon confirmation of the underlying data being accepted by the Department, could reduce the initial claimed overpayments for FY 2013, FY 2014 and FY 2015 to approximately \$2 million, \$2 million and \$3 million, respectively. We filed administrative appeals for all of our facilities contesting the recoupment efforts for FFYs 2011 through 2015 as we believe the Department's calculation methodology is inaccurate and conflicts with applicable federal and state laws and regulations. The Department has agreed to postpone the recoupment of the state's share for FY 2011 to 2013 until all hospital appeals are resolved but started recoupment of the federal share. For FY 2014 and FY 2015, the Department has initiated the recoupment of the alleged overpayments. Starting in FFY 2016, the first full fiscal year after the January 1, 2015 effective date of Medicaid expansion in Pennsylvania, the Department no longer characterized managed care payments received by the hospitals as DSH payments. We can provide no assurance that we will ultimately be successful in our legal

and administrative appeals related to the Department'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.

*Other Matters:*

Various other suits, claims and investigations, including government subpoenas, arising against, or issued to, us are pending and additional such matters may arise in the future. Management will consider additional disclosure from time to time to the extent it believes such matters may be or become material. 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 described above or that are otherwise pending 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 matter 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.

**9) RELATIONSHIP WITH UNIVERSAL HEALTH REALTY INCOME TRUST AND OTHER RELATED PARTY TRANSACTIONS**

*Relationship with Universal Health Realty Income Trust:*

At December 31, 2020, we held approximately 5.7% 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, which is scheduled to expire on December 31st of each year, pursuant to the terms of which we conduct the Trust's day-to-day affairs, provide administrative services and present investment opportunities. The advisory agreement was renewed by the Trust for 2021 at the same rate as the prior three years, providing for an advisory computation at 0.70% of the Trust's average invested real estate assets. We earned an advisory fee from the Trust, which is included in net revenues in the accompanying consolidated statements of income, of approximately \$4.1 million during 2020, \$4.0 million during 2019 and \$3.8 million during 2018.

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.

Our pre-tax share of income from the Trust was \$1.1 million during each of 2020 and 2019 and \$1.4 million during 2018, which are included in other income, net, on the accompanying consolidated statements of income for each year. We received dividends from the Trust amounting to \$2.2 million during 2020 and \$2.1 million during each of 2019 and 2018.

The carrying value of our investment in the Trust was \$5.4 million and \$6.4 million at December 31, 2020 and 2019, respectively, and is included in other assets in the accompanying consolidated balance sheets. The market value of our investment in the Trust was \$50.6 million at December 31, 2020 and \$92.4 million at December 31, 2019, based on the closing price of the Trust's stock on the respective dates.

The Trust commenced operations in 1986 by purchasing certain hospital 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 those subsidiaries are unconditionally guaranteed by us and are cross-defaulted with one another.

Total rent expense under the operating leases on the three wholly-owned hospital facilities with the Trust was \$17.1 million, \$16.4 million and \$16.0 million during 2020, 2019 and 2018, respectively. Pursuant to the terms of the three wholly-owned hospital leases with the Trust, we have the option to renew the leases at the lease terms described above and below 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 their appraised fair market value upon any of the following: (i) at the end of the lease terms or any renewal terms; (ii) upon one month's notice should a change of control of the Trust occur, or; (iii) within the time period as specified in the lease in the event that we provide notice to the Trust of our intent to offer a substitution property/properties in exchange for one (or more) of the three hospital properties leased from the Trust should we be unable to reach an agreement with the Trust on the properties to be substituted. 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.

<u>Hospital Name</u>	<u>Annual Minimum Rent</u>	<u>End of Lease Term</u>	<u>Renewal Term (years)</u>
McAllen Medical Center	\$ 5,485,000	December, 2026	5 (a)
Wellington Regional Medical Center	\$ 3,030,000	December, 2021	10 (b)
Southwest Healthcare System, Inland Valley Campus	\$ 2,648,000	December, 2021	10 (b)

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

The existing lease on Southwest Healthcare System, Inland Valley Campus is scheduled to expire on December 31, 2021 and we are considering terminating the lease at that time. As permitted pursuant to the terms of the lease, we have the right to purchase the leased property at its appraised fair market value at the end of the existing lease term. However, we are planning to offer the Trust potential substitution properties, with a fair market value substantially equal to that of the existing leased property, in exchange for the Inland Valley Campus. We expect to submit our proposal to the Trust, which is subject to the Trust's approval, during the first quarter of 2021. Should a property substitution agreement be reached with the Trust, we anticipate that the transaction would be effective December 31, 2021, upon expiration of the existing lease on the Inland Valley Campus. We can provide no assurance that we will ultimately agree on a property substitution with the Trust in connection with the Inland Valley Campus.

In addition, certain of our subsidiaries are tenants in several medical office buildings ("MOBs") and two free-standing emergency departments owned by the Trust or by limited liability companies in which the Trust holds 95% to 100% of the ownership interest.

During the third quarter of 2019, the Trust commenced construction on a new 75,000 rentable square feet MOB that is located on the campus of Texoma Medical Center, a hospital that is owned and operated by one of our subsidiaries. The construction on this MOB was substantially completed in December, 2020. In connection with this MOB, a master flex lease was executed between a wholly-owned subsidiary of ours and a Trust limited partnership that owns the MOB. Pursuant to the terms of this master flex lease, our subsidiary will master lease approximately 50% of the rentable square feet of the MOB, allocated to specific floors of the building, which could be reduced during the term if certain conditions are met, for a ten-year term at an initial minimum annual rent of \$644,000. As of December 31, 2020, as a result of fully executed leases between the Trust and third-party tenants, the master lease flex commitment has been reduced to 5,840 rentable square feet on the third floor of the MOB.

During the third quarter of 2019, a joint-venture agreement between us and a non-related third-party was finalized in connection with the development of a newly constructed behavioral health care facility located in Clive, Iowa. Pursuant to the terms of the agreement, we hold a majority ownership interest in the venture and will act as manager of the facility when completed and opened. This joint-venture also entered into an agreement with the Trust whereby a wholly-owned subsidiary of the Trust constructed the 108-bed behavioral health care hospital, which was substantially completed in December, 2020 and the property received a temporary certificate of occupancy on December 31, 2020. Upon completion and issuance of the temporary certificate of occupancy, the joint venture lease from the Trust commenced pursuant to a 20-year, triple net lease with five, 10-year renewal options. Construction of the approximately 82,000 square foot hospital was managed by a wholly-owned subsidiary of ours for an aggregate fee of approximately \$750,000. The approximate cost of the project is estimated at \$35.1 million and the initial annual rent is estimated at approximately \$2.5 million.

#### ***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, as amended in October, 2016, based on actuarial tables and other assumptions, during the life expectancies of the insureds, we would pay approximately \$28 million in premiums, and certain trusts owned by our CEO, would pay approximately \$9 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 approximately \$37 million representing the \$28 million of aggregate premiums paid by us as well as the \$9 million of aggregate premiums paid by the trusts. In connection with these policies, we paid approximately \$1.1 million, net, in premium payments during each of 2020, 2019 and 2018.

In August, 2015, Marc D. Miller, our President and Chief Executive Officer and member of our Board of Directors, was appointed to the Board of Directors of Premier, Inc. ("Premier"), a healthcare performance improvement alliance. During 2013, we entered into a new group purchasing organization agreement ("GPO") with Premier. In conjunction with the GPO agreement, we acquired a minority interest in Premier for a nominal amount. During the fourth quarter of 2013, in connection with the completion of an initial public offering of the stock of Premier, we received cash proceeds for the sale of a portion of our ownership interest in the

GPO. Also in connection with this GPO agreement, we received shares of restricted stock of Premier which vest ratably over a seven-year period (2014 through 2020), contingent upon our continued participation and minority ownership interest in the GPO. During the third quarter of 2020, we entered into an agreement with Premier pursuant to the terms of which, among other things, our ownership interest in Premier was converted into shares of Class A Common Stock of Premier. We have elected to retain a portion of the previously vested shares of Premier, the market value of which is included in other assets on our consolidated balance sheet. Based upon the closing price of Premier's stock on each respective date, the market value of our shares of Premier on which the restrictions have lapsed was \$78 million as of December 31, 2020 and \$70 million as of December 31, 2019. The \$8 million increase in market value at December 31, 2020, as compared to December 31, 2019, is the result of \$12 million of additional vested shares and \$4 million of decreased market value. The \$4 million decrease in market value of our vested Premier shares since December 31, 2020 was recorded as an unrealized loss and included in "Other (income) expense, net" in our consolidated statements of income for the year ended December 31, 2020. Additionally, during 2020, Premier declared a quarterly cash dividend during each of the third and fourth quarters of \$0.19 per share per quarter. Our share of the dividends for the year ended December 31, 2020 is approximately \$800,000 and is included in "Other (income) expense, net" in our condensed consolidated statements of income for the year ended December 31, 2020.

A member of our Board of Directors and member of the Executive Committee and Finance Committee is a partner in Norton Rose Fulbright US LLP, a law firm engaged by us for a variety of legal services. The Board member and his law firm also provide personal legal services to our Executive Chairman and acts as trustee of certain trusts for the benefit of our Executive Chairman and his family.

## **10) REVENUE RECOGNITION**

The company recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Our estimate for amounts not expected to be collected based on historical experience will continue to be recognized as a reduction to net revenue. However, subsequent changes in estimate of collectability due to a change in the financial status of a payer, for example a bankruptcy, will be recognized as bad debt expense in operating charges.

The performance obligation is separately identifiable from other promises in the customer contract. As the performance obligations are met (i.e.: room, board, ancillary services, level of care), revenue is recognized based upon allocated transaction price. The transaction price is allocated to separate performance obligations based upon the relative standalone selling price. In instances where we determine there are multiple performance obligations across multiple months, the transaction price will be allocated by applying an estimated implicit and explicit rate to gross charges based on the separate performance obligations.

In assessing collectability, we have elected the portfolio approach. This portfolio approach is being used as we have large volume of similar contracts with similar classes of customers. We reasonably expect that the effect of applying a portfolio approach to a group of contracts would not differ materially from considering each contract separately. Management's judgment to group the contracts by portfolio is based on the payment behavior expected in each portfolio category. As a result, aggregating all of the contracts (which are at the patient level) by the particular payer or group of payers, will result in the recognition of the same amount of revenue as applying the analysis at the individual patient level.

We group our revenues into categories based on payment behaviors. Each component has its own reimbursement structure which allows us to disaggregate the revenue into categories that share the nature and timing of payments. The other patient revenue consists primarily of self-pay, government-funded non-Medicaid, and other.

The following table disaggregates our revenue by major source for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	For the year ended December 31, 2020					
	Acute Care		Behavioral Health		Other	Total
Medicare	\$ 1,242,268	20%	\$ 448,323	9%		\$ 1,690,591 15%
Managed Medicare	869,488	14%	235,442	5%		1,104,930 10%
Medicaid	551,551	9%	651,081	12%		1,202,632 10%
Managed Medicaid	491,234	8%	1,224,205	24%		1,715,439 15%
Managed Care (HMO and PPOs)	2,146,018	34%	1,280,919	25%		3,426,937 30%
UK Revenue	0	0%	584,000	11%		584,000 5%
Other patient revenue and adjustments, net	248,047	4%	497,297	10%		745,344 6%
Other non-patient revenue (a)	788,698	12%	287,455	6%	12,871	1,089,024 9%
Total Net Revenue	\$ 6,337,304	100%	\$ 5,208,722	100%	\$ 12,871	11,558,897 100%

	For the year ended December 31, 2019					
	Acute Care		Behavioral Health		Other	Total
Medicare	\$ 1,336,200	22%	\$ 553,045	11%		\$ 1,889,245 17%
Managed Medicare	827,216	13%	220,543	4%		1,047,759 9%
Medicaid	519,508	8%	688,141	13%		1,207,649 11%
Managed Medicaid	560,029	9%	1,118,612	21%		1,678,641 15%
Managed Care (HMO and PPOs)	2,271,002	37%	1,363,815	26%		3,634,817 32%
UK Revenue	0	0%	553,831	11%		553,831 5%
Other patient revenue and adjustments, net	191,422	3%	505,144	10%		696,566 6%
Other non-patient revenue	459,183	7%	206,932	4%	3,636	669,751 6%
Total Net Revenue	\$ 6,164,560	100%	\$ 5,210,063	100%	\$ 3,636	11,378,259 100%

	For the year ended December 31, 2018					
	Acute Care		Behavioral Health		Other	Total
Medicare	\$ 1,296,152	23%	\$ 579,723	12%		\$ 1,875,875 17%
Managed Medicare	730,387	13%	199,003	4%		929,390 9%
Medicaid	487,197	9%	696,421	14%		1,183,618 11%
Managed Medicaid	554,438	10%	975,567	19%		1,530,005 14%
Managed Care (HMO and PPOs)	2,093,890	37%	1,395,980	28%		3,489,870 32%
UK Revenue	0	0%	504,721	10%		504,721 5%
Other patient revenue and adjustments, net	167,570	3%	483,417	10%		650,987 6%
Other non-patient revenue	390,271	7%	204,042	4%	13,499	607,812 6%
Total Net Revenue	\$ 5,719,905	100%	\$ 5,038,874	100%	\$ 13,499	10,772,278 100%

(a) The 2020 other non-patient revenue includes Acute Care CARES Act and other grant revenue of \$316 million and Behavioral Health CARES Act and other grant revenue of \$97 million. As an accounting policy election, we have utilized ASC 958 by analogy to recognize funds received under the CARES Act from the Provider Relief Fund as revenue, given no direct authoritative guidance available to for-profit organizations to recognize revenue for government contributions and grants. CARES Act revenues may be subject to future adjustments based on future changes to statutes.

## 11) PENSION PLAN

We maintain contributory and non-contributory retirement plans for eligible employees. Our contributions to the contributory plan amounted to \$67.1 million, \$56.3 million and \$56.6 million in 2020, 2019 and 2018, respectively. The non-contributory plan is a defined benefit pension plan which covers employees of one of our subsidiaries. The benefits are based on years of service and the employee's highest compensation for any five years of employment. Our funding policy is to contribute annually at least the minimum amount that should be funded in accordance with the provisions of ERISA.

For defined benefit pension plans, the benefit obligation is the "projected benefit obligation", the actuarial present value, as of December 31 measurement date, of all benefits attributed by the pension benefit formula to employee service rendered to that date. The amount of benefit to be paid depends on a number of future events incorporated into the pension benefit formula, including estimates of the average life of employees/survivors and average years of service rendered. It is measured based on assumptions

concerning future interest rates and future compensation levels. The following table shows the reconciliation of the defined benefit pension plan as of December 31, 2020 and 2019:

	2020 (000s)	2019 (000s)
<b>Change in plan assets:</b>		
Fair value of plan assets at beginning of year	\$ 120,287	\$ 104,591
Actual return (loss) on plan assets	18,169	22,331
Benefits paid	(6,260)	(6,168)
Administrative expenses	(511)	(467)
Fair value of plan assets at end of year	\$ 131,685	\$ 120,287
<b>Change in benefit obligation:</b>		
Benefit obligation at beginning of year	\$ 117,556	\$ 108,428
Service cost	\$ 615	\$ 725
Interest cost	\$ 3,357	\$ 4,237
Benefits paid	\$ (6,260)	\$ (6,168)
Actuarial (gain) loss	\$ 7,969	\$ 10,334
Benefit obligation at end of year	\$ 123,237	\$ 117,556
<b>Amounts recognized in the Consolidated Balance Sheet:</b>		
Other non-current assets	\$ 8,449	\$ 2,731
Total amounts recognized at end of year	<u>\$ 8,449</u>	<u>\$ 2,731</u>

	2020 (000s)	2019 (000s)	2018 (000s)
<b>Components of net periodic cost (benefit)</b>			
Service cost	\$ 615	\$ 725	\$ 689
Interest cost	3,357	4,237	4,063
Expected return on plan assets	(5,261)	(4,558)	(5,197)
Amortization of actuarial loss	—	1,533	—
Net periodic cost	<u>\$ (1,289)</u>	<u>\$ 1,937</u>	<u>\$ (445)</u>

	2020	2019
<b>Measurement Dates</b>		
Benefit obligations	12/31/2020	12/31/2019
Fair value of plan assets	12/31/2020	12/31/2019

	2020	2019
<b>Weighted average assumptions as of December 31</b>		
Discount rate	2.08%	2.94%
Rate of compensation increase	4.00%	4.00%

	2020	2019	2018
<b>Weighted-average assumptions for net periodic benefit cost calculations</b>			
Discount rate	2.94%	4.03%	3.60%
Expected long-term rate of return on plan assets	4.50 %	4.50%	4.50%
Rate of compensation increase	4.00%	4.00%	4.00%

The “accumulated benefit obligation” for our pension plan represents the actuarial present value of benefits based on employee service and compensation as of a certain date and does not include an assumption about future compensation levels. The accumulated benefit obligation for our plan was \$123.2 million and \$117.5 million as of December 31, 2020 and 2019, respectively. The fair value of plan assets exceeded the accumulated benefit obligation by \$8.4 million and \$2.7 million as of December 31, 2020 and 2019, respectively.

We estimate that there will be no net loss or prior service cost amortized from accumulated other comprehensive income during 2020.

The market values of our pension plan assets at December 31, 2020 and December 31, 2019, reported using net asset value as a practical expedient, by asset category are as follows:

	2020	2019
<b>Equities:</b>		
U.S. Large Cap	\$ 10,946	\$ 9,867
U.S. Mid Cap	\$ 3,403	\$ 3,054
U.S. Small Cap	\$ 3,581	\$ 3,160
International Developed	\$ 8,315	\$ 7,317
Emerging Markets	\$ 5,631	\$ 4,957
<b>Fixed income:</b>		
Core Fixed Income	\$ 27,782	\$ 25,390
Long Duration Fixed Income	\$ 68,886	\$ 63,515
<b>Real Estate:</b>		
REIT Fund	\$ 2,474	\$ 2,372
<b>Cash/Currency:</b>		
Cash Equivalents	\$ 667	\$ 655
<b>Total market value</b>	<b>\$ 131,685</b>	<b>\$ 120,287</b>

To develop the expected long-term rate of return on plan assets assumption, we considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

The following table shows expected benefit payments for the years 2021 through 2030 for our defined pension plan. There will be benefit payments under this plan beyond 2030.

<b>Estimated Future Benefit Payments (000s)</b>	
2021	\$ 6,790
2022	6,889
2023	6,920
2024	6,915
2025	6,886
<b>2026-2030</b>	<b>33,298</b>
<b>Total</b>	<b>\$ 67,698</b>

<b>Plan Assets</b>	2020	2019
Asset Category		
Equity securities	24%	24%
Fixed income securities	73%	74%
Other	3%	2%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Investment Policy, Guidelines and Objectives have been established for the defined benefit pension plan. The investment policy is in keeping with the fiduciary requirements under existing federal laws and managed in accordance with the Prudent Investor Rule. Total portfolio risk is regularly evaluated and compared to that of the plan's policy target allocation and judged on a relative basis over a market cycle. The following asset allocation policy and ranges have been established in accordance with the overall risk and return objectives of the portfolio:

	<u>As of 12/31/2020</u>	<u>Permitted Range</u>
Total Equity	24%	10-30%
Total Fixed Income	73%	70-90%
Other	3%	0-10%

In accordance with the investment policy, the portfolio will invest in high quality, large and small capitalization companies traded on national exchanges, and investment grade securities. The investment managers will not write or buy options for speculative purposes; securities may not be margined or sold short. The manager may employ futures or options for the purpose of hedging exposure, and will not purchase unregistered sectors, private placements, partnerships or commodities.

## 12) 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, but not limited to, information technology, purchasing, reimbursement,

accounting and finance, taxation, legal, advertising and design and construction. The chief operating decision making group for our acute care services and behavioral health care services is comprised of our Chief Executive Officer, the President and the Presidents of each operating segment. The Presidents for 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 Note 1-Business and Summary of Significant Accounting Policies. 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, based upon each segment's respective percentage of total operating expenses.

	<b>Acute Care Hospital Services</b>	<b>Behavioral Health Services (a.)</b>	<b>Other</b>	<b>Total Consolidated</b>
<b><u>2020</u></b>				
Gross inpatient revenues	\$ 30,562,093	\$ 9,718,934	\$ —	\$ 40,281,027
Gross outpatient revenues	\$ 16,272,520	\$ 963,799	\$ —	\$ 17,236,319
Total net revenues	\$ 6,337,304	\$ 5,208,722	\$ 12,871	\$ 11,558,897
Income (loss) before allocation of corporate overhead and income taxes	\$ 693,427	\$ 1,023,257	\$ (464,601)	\$ 1,252,083
Allocation of corporate overhead	\$ (223,921)	\$ (170,849)	\$ 394,770	\$ 0
Income (loss) after allocation of corporate overhead and before income taxes	\$ 469,506	\$ 852,408	\$ (69,831)	\$ 1,252,083
Total assets	\$ 4,927,456	\$ 7,044,617	\$ 1,504,806	\$ 13,476,879
<b><u>2019</u></b>				
Gross inpatient revenues	\$ 28,430,922	\$ 10,100,903	\$ —	\$ 38,531,825
Gross outpatient revenues	\$ 17,666,629	\$ 1,066,704	\$ —	\$ 18,733,333
Total net revenues	\$ 6,164,560	\$ 5,210,063	\$ 3,636	\$ 11,378,259
Income (loss) before allocation of corporate overhead and income taxes	\$ 713,410	\$ 900,965	\$ (548,038)	\$ 1,066,337
Allocation of corporate overhead	\$ (230,166)	\$ (166,571)	\$ 396,737	\$ 0
Income (loss) after allocation of corporate overhead and before income taxes	\$ 483,244	\$ 734,394	\$ (151,301)	\$ 1,066,337
Total assets	\$ 4,405,643	\$ 6,910,790	\$ 351,817	\$ 11,668,250
<b><u>2018</u></b>				
Gross inpatient revenues	\$ 24,814,959	\$ 9,735,521	\$ —	\$ 34,550,480
Gross outpatient revenues	\$ 14,967,313	\$ 1,025,721	\$ —	\$ 15,993,034
Total net revenues	\$ 5,719,905	\$ 5,038,874	\$ 13,499	\$ 10,772,278
Income (loss) before allocation of corporate overhead and income taxes	\$ 708,680	\$ 915,517	\$ (589,672)	\$ 1,034,525
Allocation of corporate overhead	\$ (199,823)	\$ (161,282)	\$ 361,105	\$ 0
Income (loss) after allocation of corporate overhead and before income taxes	\$ 508,857	\$ 754,235	\$ (228,567)	\$ 1,034,525
Total assets	\$ 4,094,537	\$ 6,786,369	\$ 384,574	\$ 11,265,480
(a.)	Includes net revenues generated from our behavioral health care facilities located in the U.K. amounting to approximately \$584 million in 2020, \$554 million in 2019 and \$505 million in 2018. Total assets at our U.K. behavioral health care facilities were approximately \$1.334 billion as of December 31, 2020, \$1.270 billion as of December 31, 2019 and \$1.224 billion as of December 31, 2018. In addition, included in our 2019 Behavioral Health Services operating segment Income (loss) before allocation of corporate overhead and income taxes is a pre-tax \$98 million provision for asset impairment to reduce the carrying value of a trademark intangible asset and real property assets. Included in our 2018 Behavioral Health Services operating segment Income (loss) before allocation of corporate overhead and income taxes is a pre-tax \$49 million provision for asset impairment to reduce the carrying value of a trademark intangible asset.			

### 13) QUARTERLY RESULTS (unaudited)

The quarterly financial data is prepared on the same basis as the audited annual financial statements, and include all adjustments, which include only normal recurring adjustments, necessary for the fair statement of our results of operations for these periods. The following tables summarize the quarterly financial data for the two years ended December 31, 2020 and 2019:

2020	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
(amounts in thousands, except per share amounts)					
Net revenues	\$ 2,829,667	\$ 2,729,754	\$ 2,912,541	\$ 3,086,935	\$ 11,558,897
Net income	\$ 144,460	\$ 256,504	\$ 244,092	\$ 307,734	\$ 952,790
Less: Net income attributable to noncontrolling interests	\$ 2,423	\$ 4,575	\$ 2,813	\$ (974)	\$ 8,837
Net income attributable to UHS	<u><u>\$ 142,037</u></u>	<u><u>\$ 251,929</u></u>	<u><u>\$ 241,279</u></u>	<u><u>\$ 308,708</u></u>	<u><u>\$ 943,953</u></u>
Earnings per share attributable to UHS-Basic:					
Total basic earnings per share	<u><u>\$ 1.64</u></u>	<u><u>\$ 2.97</u></u>	<u><u>\$ 2.84</u></u>	<u><u>\$ 3.63</u></u>	<u><u>\$ 11.06</u></u>
Earnings per share attributable to UHS-Diluted:					
Total diluted earnings per share	<u><u>\$ 1.64</u></u>	<u><u>\$ 2.95</u></u>	<u><u>\$ 2.82</u></u>	<u><u>\$ 3.60</u></u>	<u><u>\$ 10.99</u></u>

#### **First Quarter:**

- an unfavorable after-tax impact of \$770,000 or \$.01 per diluted share, resulting from our January 1, 2017 adoption of ASU 2016-09, “Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”);
- an unfavorable after-tax impact of \$7.4 million or \$.08 per diluted share, resulting from recording the unrealized loss on marketable securities held for sale.

#### **Second Quarter:**

- an unfavorable after-tax impact of \$505,000 or \$.01 per diluted share, resulting from our January 1, 2017 adoption of ASU 2016-09;
- a favorable after-tax impact of \$2.2 million or \$.03 per diluted share, resulting from recording the unrealized gain on marketable securities held for sale.

#### **Third Quarter:**

- an unfavorable after-tax impact of \$3.1 million or \$.04 per diluted share, resulting from our January 1, 2017 adoption of ASU 2016-09;
- an unfavorable after-tax impact of \$2.1 million or \$.02 per diluted share, resulting from recording the unrealized loss on marketable securities held for sale.

#### **Fourth Quarter:**

- an unfavorable after-tax impact of \$3.0 million or \$.04 per diluted share, resulting from our January 1, 2017 adoption of ASU 2016-09;
- a favorable after-tax impact of \$3.9 million or \$.05 per diluted share, resulting from recording the unrealized gain on marketable securities held for sale.

<u>2019</u>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>Total</b>
(amounts in thousands, except per share amounts)					
Net revenues	\$ 2,804,391	\$ 2,855,168	\$ 2,822,453	\$ 2,896,247	\$ 11,378,259
Net income	\$ 237,398	\$ 241,265	\$ 100,870	\$ 248,010	\$ 827,543
Less: Net income attributable to noncontrolling interests	\$ 3,230	\$ 2,945	\$ 3,680	\$ 2,834	\$ 12,689
Net income attributable to UHS	<u>\$ 234,168</u>	<u>\$ 238,320</u>	<u>\$ 97,190</u>	<u>\$ 245,176</u>	<u>\$ 814,854</u>
Earnings per share attributable to UHS-Basic:					
Total basic earnings per share	\$ 2.57	\$ 2.67	\$ 1.10	\$ 2.81	\$ 9.16
Earnings per share attributable to UHS-Diluted:					
Total diluted earnings per share	<u>\$ 2.57</u>	<u>\$ 2.66</u>	<u>\$ 1.10</u>	<u>\$ 2.79</u>	<u>\$ 9.13</u>

The 2019 quarterly financial data presented above includes the following:

***First Quarter:***

- a favorable after-tax impact of \$10.9 million, or \$.12 per diluted share, resulting from our January 1, 2017 adoption of ASU 2016-09.

***Second Quarter:***

- an unfavorable \$11.0 million pre-tax impact (\$8.4 million, or \$.09 per diluted share, net of taxes) increase in the reserve established in connection with the discussions with the Department of Justice related to the civil aspects of the government's investigation of certain of our behavioral health care facilities ("DOJ Reserve");
- a favorable after-tax impact of \$509,000, or \$.01 per diluted share, resulting from our January 1, 2017 adoption of ASU 2016-09.

***Third Quarter:***

- an unfavorable \$6.2 million after-tax impact, or \$.07 per diluted share recorded to provide income taxes on the portion of the DOJ reserve that is deemed non-deductible;
- an unfavorable \$97.6 million pre-tax impact (\$74.6 million, or \$.84 per diluted share, net of taxes) recorded in connection with provision for asset impairment.
- a favorable after-tax impact of \$1.7 million, or \$.02 per diluted share, resulting from our January 1, 2017 adoption of ASU 2016-09.

**SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS**  
 (amounts in thousands)

<b>Valuation Allowance for Deferred Tax Assets:</b>	<b>Balance at beginning of period</b>	<b>Charges to costs and expenses</b>	<b>Balance at end of period</b>
Year ended December 31, 2020	\$ 75,277	\$ (7,274)	\$ 68,003
Year ended December 31, 2019	\$ 79,264	\$ (3,987)	\$ 75,277
Year ended December 31, 2018	\$ 70,227	\$ 9,037	\$ 79,264