CtW Investment Group

April 8, 2014

Mr. John H. Herrell
Lead Independent Director
Universal Health Services, Inc.
P.O. Box 61558
367 South Gulph Road
King of Prussia, PA 19406

Dear Mr. Herrell,

In light of the ongoing investigations of UHS and its facilities by the Department of Health and Human Services Office of the Inspector General ("OIG") and by the Department of Justice ("DoJ") we urge you and the UHS board to take immediate steps to improve the board's oversight of regulatory compliance.

As we will describe below, we believe shareholders face considerable risk that regulatory enforcement actions and/or settlements with federal regulators will result from the OIG and DoJ investigations, given the divergence in billing practices between UHS-owned and other facilities evinced by an independent analysis of Medicare data. Furthermore, our review of UHS's corporate governance, and in particular of the board's committee structure and membership, strongly suggests that improvements are overdue: unlike most publicly traded hospital companies, UHS's board does not have a separate Compliance Committee – instead housing compliance oversight in the Audit Committee. However, the members of the Audit Committee do not have the depth or range of health care and regulatory experience evident among the members of the Compliance Committees at other publicly traded hospital and health care firms. We are concerned that inadequate board oversight of regulatory compliance has generated significant risks for shareholders, and believe that without changes in the board's structure and membership, such oversight will not improve sufficiently to mitigate such risks going forward.

Absent a commitment by the board to create a new Compliance Committee comprised of independent directors with extensive relevant medical and regulatory experience, we will be unable to support Lawrence Gibbs, the Audit Committee member who is slated to stand for election at this year's annual meeting.

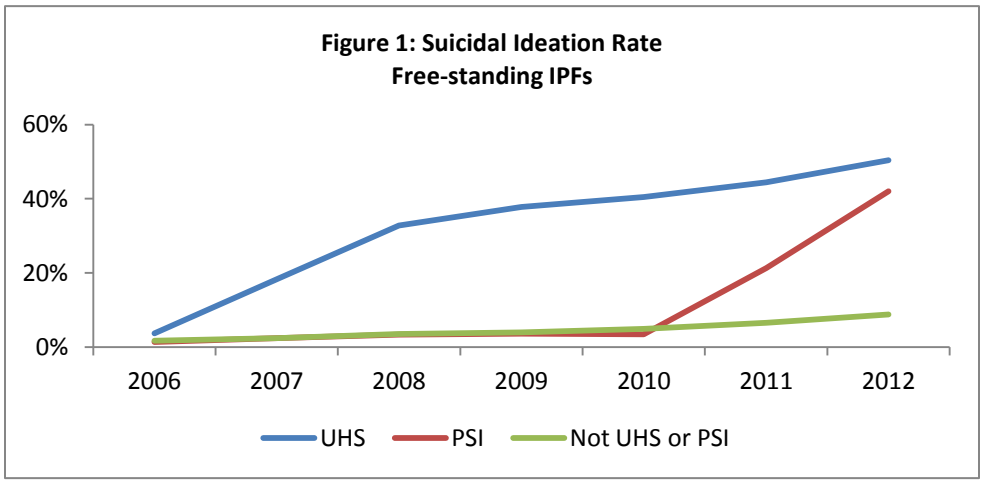
The CtW Investment Group works with pension funds sponsored by affiliates of Change to Win -- a federation of unions representing over six million members -- to enhance long-term shareholder value through active ownership. These funds invest over $200 billion in the global capital markets and are substantial investors in UHS.

UHS's Billing Practices

As you are aware, our affiliate union SEIU has conducted an analysis of Medicare data comparing UHS's billing practices to those of other behavioral health facility operators. While SEIU described its findings to you in a letter dated March 7 2014, we will briefly review their findings here, both because they are directly relevant to our concern over the effectiveness of the board's oversight of compliance risks, and because you have yet to respond to SEIU's communication. We note that last November, UHS disclosed an investigation by the DoJ, and that Massachusetts regulators halted admissions at one of the company's

facilities citing "deteriorating conditions and an immediate risk to patient safety."[1] These disclosures followed the issuance of a series of subpoenas by the OIG beginning in February 2013 and continuing at least until July 2013.[2]

SEIU's analysis of Medicare data indicates both that UHS free-standing inpatient psychiatric facilities ("IPFs") utilize the suicidal ideation code much more frequently than other free-standing IPFs. Moreover, as Figure 1 demonstrates, following UHS's acquisition of Psychiatric Solutions ("PSI") in 2010, the former PSI facilities experienced a dramatic increase in their utilization of the suicidal ideation code. Prior to acquisition by UHS, these PSI facilities had been either in line with or below other IPFs in terms of their frequency in coding patients.

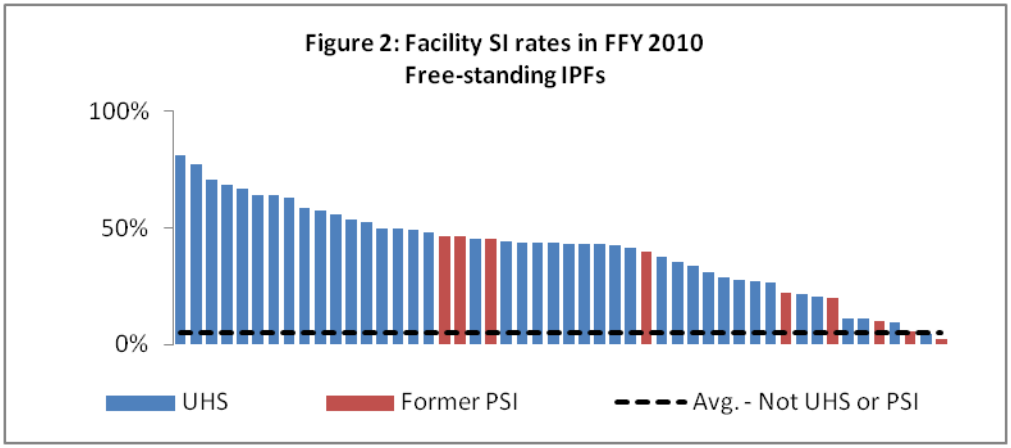


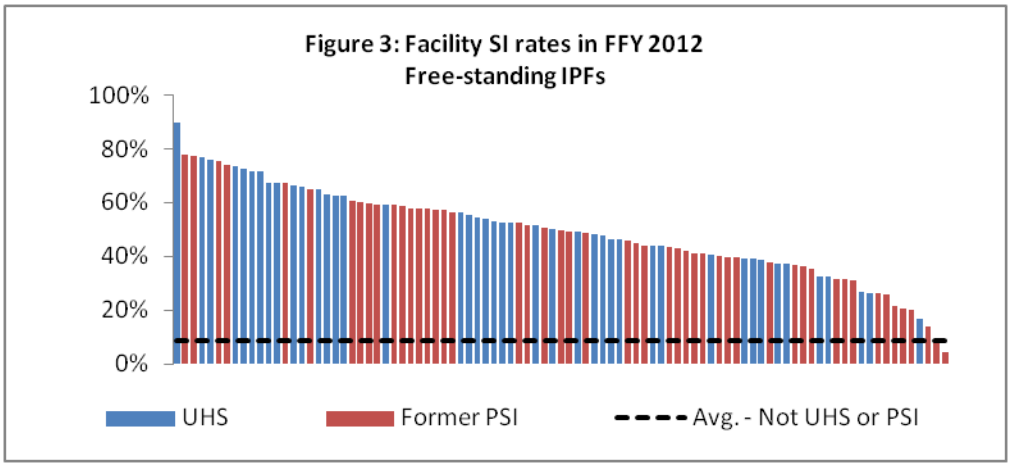
This sharp increase in the suicidal ideation rate following acquisition by UHS prompted SEIU to compare individual PSI facilities to the broader industry before and after the 2010 merger. Their findings are shown in Figures 2 and 3 below: in federal fiscal year 2010, only seven of PSI's facilities had suicidal ideation rates above the 80th percentile nationally (which in FFY 2010 was approximately 5.7%), the level identified by the OIG as indicating a significant outlier at risk of billing errors.[3] But by federal fiscal year 2012, 71% of former PSI facilities (37 out of 52) had suicidal ideation rates above the national 80th percentile level (which rose to 36.7% in FFY 2012, with UHS/PSI facilities comprising 20% of sampled facilities).

[1] Chelsea Conaboy, "New curb on Brookline mental health hospital" *Boston Globe* November 26, 2013.

[2] UHS 10Q filed November 7, 2013, pg. 13.

[3] The Inpatient Psychiatric Facility Program for Evaluating Payment Patterns Electronic Report (or "PEPPER") – a program designed to help hospitals monitor their compliance with Medicare guidelines – has suggested that hospitals at or above the 80th national percentile represent potential outliers in areas at risk for payment errors.



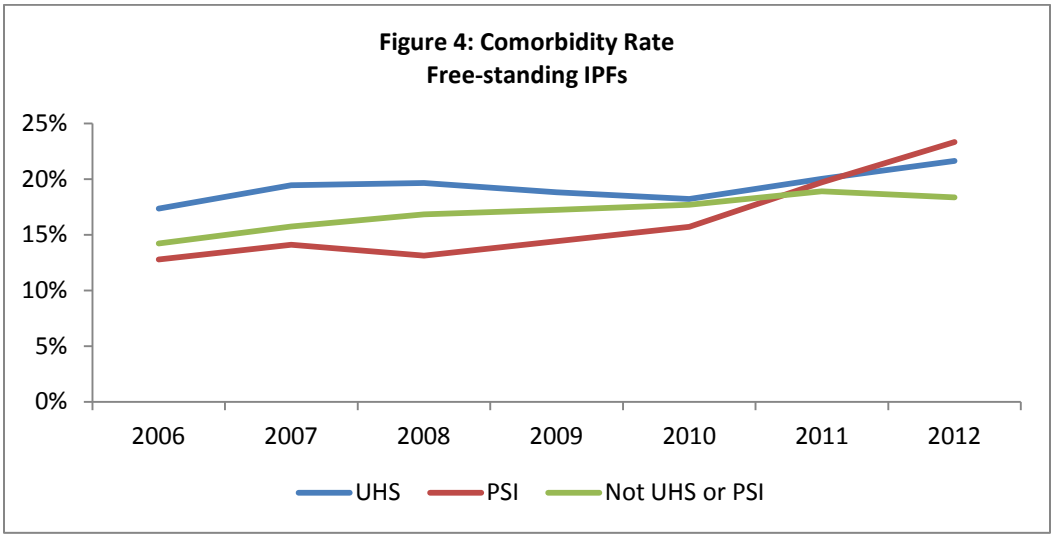


Beyond the generic concern with a large number of facilities above the risk threshold identified by the OIG, this pattern of extremely high suicidal ideation rates is particularly troubling because it seems consistent with allegations made by a former UHS doctor in 2010. In a *qui tam* lawsuit, Dr. Steven G. Klotz, formerly of the Roxbury Treatment Center (a UHS facility), alleged that UHS "falsely and fraudulently coded patients as suicidal, when the chart did not reflect a likelihood of patient suicide."[i] Dr. Klotz further alleged the UHS's internal audit employees advised caregivers on how to maximize reimbursement. While the DoJ declined to intervene in Dr. Klotz's suit, and the suit itself was withdrawn voluntarily in October 2013, we are concerned that the Medicare data seems to point to an unusually high level of suicidal ideation coding at UHS facilities, particularly following the PSI acquisition, consistent with Dr. Klotz's allegations. We note that the Roxbury treatment center was one of 14 UHS facilities subpoenaed by the OIG in February 2013.[4]

Additionally, SEIU compared UHS and former PSI facilities to other inpatient psychiatric facilities with respect to their rates of comorbidities requiring treatment during an inpatient stay that have been identified by the Program for Evaluating Payment Patterns Electronic Report ("PEPPER") as target areas that increase costs incurred by hospitals caring for affected patients. Figure 4 shows that comorbidity rates at UHS facilities have consistently been higher than those at non-UHS/non-PSI facilities from 2006 to 2012. Furthermore, this figure shows that PSI facilities exhibited a lower rate of these targeted

[4] UHS 10K filed February 27, 2014, pg. 35.

comorbidities up through 2010 (when these facilities were acquired by UHS), but exhibit a sharp increase thereafter. Indeed, by FFY 2012 12 of UHS's 43 qualifying "legacy" facilities (ie not including those acquired by PSI), ranked at the 80th percentile nationally. Of the former PSI facilities, 19 ranked at or above the 80th percentile nationally in FFY 2012, compared to only 9 in FFY 2010.



SEIU also analyzed readmission rates, since Medicare administrators have also identified this as an area for attention in order to contain costs. SEIU found that in FFY 2012, nearly 30% of UHS's free standing IPFs have 30-day readmission rates at or above the 80th percentile nationally. Three of these facilities rank in the top 10 in the country for this fiscal year, and two of the facilities that have been subject to the federal subpoenas mentioned above (Hartgrove Hospital and Riveredge Hospital) have the highest readmission rates among free-standing IPFs in their state in FFY 2012.

Despite having a substantial share of its facilities above the "red flag" 80th percentile for suicidal ideation diagnoses, as well in areas targeted by Medicare administrators for cost-containment such as comorbidities and readmission rates, and despite a steadily intensifying investigation by federal authorities, UHS's board has not disclosed any efforts by itself or the Audit Committee to determine if UHS's unusually high level of suicidal ideation diagnoses, comorbidity rates, or other billing practices, may be generating excessive regulatory and compliance risks for the company and its long-term shareholders.

Audit Committee Lacks Medical and Regulatory Experience

In contrast to many other publicly-traded hospital and healthcare firms, UHS assigns responsibility for overseeing regulatory compliance to its Audit Committee, rather than to a separate committee focused on that area of responsibility. Moreover, UHS's Audit Committee members do not appear to have medical and regulatory experience comparable to that of directors serving on the Compliance Committees of other hospital firms. For instance, your fellow Audit Committee members include a portfolio manager, an investment banker, and an insurance executive. While you yourself worked for over 30 years for the Mayo Foundation, it does not appear from your biographical description that your work there involved matters directly pertaining to regulatory compliance or the review of clinical practices. Additionally, as the only financial expert on the Audit Committee, as well as the Lead Independent Director for the board,

we are skeptical that you alone can provide the experience and expertise to effectively oversee UHS's compliance practices, especially given all the other duties of the Audit Committee.

In contrast, Tenet Healthcare's board has a Quality, Compliance, and Ethics Committee which includes Richard Pettingill, a former executive at Alliana Hospitals, Kaiser Foundation Health Plans and Hospitals, and Camino Healthcare, and has also been senior fellow on public health policy in the Advanced Leadership Initiative at Harvard University. Lifepoint Hospitals, HCA, and Community Health Systems each combine compliance and audit oversight functions in a single committee, but Lifepoint's Audit and Compliance Committee includes John Maupin, Jr., the president of Morehouse School of Medicine, and a former Deputy Commissioner for Medical Services at the Baltimore City Health Department, as well as Marguerite Kondracke, former president and CEO of The Brown Schools, a behavioral health provider to adolescents, and the former Commissioner of Human Services for the State of Tennessee. HCA's Audit and Compliance Committee includes Dr. Wayne Riley, who in addition to being a physician is the President of Meharry Medical College, and Geoffrey Meyers, a former executive with ManorCare, a long-term care provider. Of the major publicly traded hospital companies, only Community Health System's Audit and Compliance Committee lacks any individual with direct healthcare experience.

Moreover, the other major hospital firms make much more clear the relevant committee's responsibility to oversee regulatory compliance and that committee's role in the reporting relationships among senior compliance executives. At UHS, up until October 2013 the Audit Committee's charter did not state explicitly that the Committee was responsible for regulatory oversight. Subsequently the charter has been amended to state that the Committee is responsible for overseeing "the Company's compliance with legal and regulatory requirements and quality of care standards." The charter was also amended to include among the Committee's responsibilities reviewing and discussing with management and independent auditors "any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the Company's financial statements or accounting policies which has been brought to the Committee's attention." While the Committee has access to the Chief Compliance Officer, he is not described as reporting to the Committee.

Several of the other publicly-traded hospital companies have much more explicit language in charging their relevant committee with responsibility for compliance oversight, and establish a direct reporting relationship between the relevant committee and the company's Chief Compliance Officer. For instance, at Tenet the Chief Compliance Officer reports directly to the Quality, Compliance, and Ethics Committee, and the Committee also receives regular reports from the Ethics, Compliance, and Quality Management Departments. Similarly, at HCA the Chief Compliance Officer reports directly to the Audit and Compliance Committee, and the Committee's Charter clearly spells out that one of the Committees two purposes is to "assist the Board in fulfilling its duties and oversight responsibilities relating to the Company's compliance with applicable laws and regulations, the Company Code of Conduct, and related Company policies and procedures, including the Corporate Ethics and Compliance Program."[ii] Both Community Health Systems and Lifepoint also explicitly spell out the Committee's responsibility to oversee compliance practices, though the reporting relationship between the Committee and the senior executive responsible for compliance is not made explicit.

Improved Compliance Oversight Will Protect Shareholders

In light of the ongoing federal investigations of UHS's billing practices, the unusually high levels of suicidal ideation diagnoses at UHS facilities – and the very sharp increase in such diagnoses at formerly PSI facilities following their 2010 acquisition by UHS – and the UHS Audit Committee's lack of members with direct medical and regulatory experience, we believe that an overhaul of the board's compliance oversight function is necessary. In particular, we urge you and your fellow directors to separate the compliance and audit oversight roles, and create a new committee comprised of independent directors with direct medical and regulatory experience to oversee legal and regulatory compliance. Absent a commitment to make such changes to the board's structure and membership, we will be unwilling to support the reelection of Lawrence Gibbs at this year's annual meeting.

We look forward to hearing your response to our concerns at your earliest convenience.

Sincerely,

Dieter Waizenegger
Executive Director

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[i] US ex rel Steven G. Klotz, M.D. v. Universal Health Services, Filed in US District Court for the Eastern District of Pennsylvania. 1:12-cv-02296-CCC. November 19, 2012. ¶53.

[ii] HCA Holdings, Inc. Audit and Compliance Committee Charter. p.1.
http://hcahealthcare.com/util/documents/HCAHoldings-AuditCommitteeCharter2014.pdf