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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(MARK ONE)

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

For the quarterly period ended September 30, 1997

OR

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

For the transition period from to

Commission file number 1-9321

UNIVERSAL HEALTH REALTY INCOME TRUST

(Exact name of registrant as specified in its charter)

MARYLAND

23-6858580

(State or other jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification No.)

UNIVERSAL CORPORATE CENTER

367 SOUTH GULPH ROAD

KING OF PRUSSIA, PENNSYLVANIA

19406

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (610) 265-0688

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No
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Number of common shares of beneficial interest outstanding at
October 31, 1997 - 8,954,840

UNIVERSAL HEALTH REALTY INCOME TRUST

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PART I. FINANCIAL INFORMATION
 UNIVERSAL HEALTH REALTY INCOME TRUST
 Condensed Statements of Income
 (amounts in thousands, except per share amounts)
 (unaudited)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1996	1997	1996
REVENUES (Note 2):				
Base rental - UHS facilities	\$ 3,432	\$ 3,433	\$10,298	\$10,298
Base rental - Non-related parties	1,437	1,401	4,064	3,385
Bonus rental	617	590	2,179	2,094
Interest	74	187	488	556
	-----	-----	-----	-----
	5,560	5,611	17,029	16,333
	-----	-----	-----	-----
EXPENSES:				
Depreciation & amortization	961	930	2,806	2,704
Interest expense	702	705	2,146	1,828
Advisory fees to UHS	276	271	819	772
Other operating expenses	357	390	1,020	813
	-----	-----	-----	-----
	2,296	2,296	6,791	6,117
	-----	-----	-----	-----
Income before equity in limited liability corporations	3,264	3,315	10,238	10,216
Equity in income of limited liability corporations	78	151	312	423
	-----	-----	-----	-----
Net Income	\$ 3,342	\$ 3,466	\$10,550	\$10,639
	=====	=====	=====	=====
Net Income Per Share	\$ 0.37	\$ 0.39	\$ 1.18	\$ 1.19
	=====	=====	=====	=====
Weighted average number of shares and equivalents	8,975	8,959	8,966	8,958
	=====	=====	=====	=====

See accompanying notes to these condensed financial statements.

UNIVERSAL HEALTH REALTY INCOME TRUST
Condensed Balance Sheets
(amounts in thousands)

ASSETS:	September 30, 1997 ----- (unaudited)	December 31, 1996 -----
REAL ESTATE INVESTMENTS:		
Buildings & improvements	\$ 142,362	\$ 138,400
Accumulated depreciation	(29,317)	(26,540)
	-----	-----
Land	113,045	111,860
Mortgage loans receivable, net	19,873	19,683
Construction loan and interest receivable	--	6,405
Construction in progress	3,933	398
Reserve for investment losses	940	1,246
	(97)	(151)
	-----	-----
Net Real Estate Investments	137,694	139,441
OTHER ASSETS:		
Cash	143	137
Bonus rent receivable from UHS	633	634
Rent receivable from non-related parties	105	32
Investments in limited liability corporations	9,453	7,932
Deferred charges and other assets, net	278	390
	-----	-----
	\$ 148,306	\$ 148,566
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY:		
LIABILITIES:		
Bank borrowings	\$ 42,300	\$ 42,000
Note payable to UHS	1,131	1,082
Accrued interest	244	234
Accrued expenses & other liabilities	878	686
Tenant reserves, escrows, deposits and prepaid rental	524	515
Minority interest	108	67
SHAREHOLDERS' EQUITY:		
Preferred shares of beneficial interest, \$.01 par value; 5,000,000 shares authorized; none outstanding	--	--
Common shares, \$.01 par value; 95,000,000 shares authorized; issued and outstanding: 1997 - 8,954,840 1996 - 8,952,340	90	90
Capital in excess of par value	128,646	128,643
Cumulative net income	108,704	98,154
Cumulative dividends	(134,319)	(122,905)
	-----	-----
Total Shareholders' Equity	103,121	103,982
	-----	-----
	\$ 148,306	\$ 148,566
	=====	=====

See accompanying notes to these condensed financial statements.

UNIVERSAL HEALTH REALTY INCOME TRUST
Condensed Statements of Cash Flows
(amounts in thousands, unaudited)

	NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1996
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 10,550	\$ 10,639
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	2,806	2,704
Amortization of interest rate cap	93	93
Provision for investment losses	120	--
Changes in assets and liabilities:		
Rent receivable	(72)	10
Accrued expenses & other liabilities	192	88
Tenant escrows, deposits & prepaid rents	9	20
Mortgage loan interest receivable	--	--
Accrued interest	10	72
Payments made for investment losses	(174)	(78)
Deferred charges & other	9	(40)
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	13,543	13,508
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments in limited liability corporations	(1,926)	(6,069)
Acquisition of real property	(1,358)	(10,195)
Payments made for construction in progress	(2,466)	--
Advances under construction note receivable	(3,535)	--
Repayments under mortgage note receivable	6,457	--
Cash distributions in excess of income from LLCs	405	--
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(2,423)	(16,264)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additional borrowings	300	14,155
Dividends paid	(11,414)	(11,369)
	-----	-----
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(11,114)	2,786
	-----	-----
Increase in cash	6	30
Cash, beginning of period	137	139
	-----	-----
CASH, END OF PERIOD	\$ 143	\$ 169
	=====	=====
Supplemental disclosures of cash flow information:		
Interest paid	\$ 1,994	\$ 1,618

See accompanying notes to these condensed financial statements.

UNIVERSAL HEALTH REALTY INCOME TRUST
NOTES TO CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 1997
(unaudited)

(1) GENERAL

The financial statements included herein have been prepared by the Trust, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments which, in the opinion of the Trust, are necessary to fairly present results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Trust believes that the accompanying disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the financial statements, accounting policies and the notes thereto included in the Trust's Annual Report on Form 10-K for the year ended December 31, 1996.

Certain prior year amounts have been reclassified to conform with current year financial statement presentation.

The Financial Accounting Standards Board recently issued Statement 128, Earnings per Share, which is effective for financial statements for periods ending December 15, 1997. Adoption of Statement 128 would have had no material effect on the Trust's earnings per share for three and nine month periods ended September 30, 1997 and 1996.

(2) RELATIONSHIP WITH UNIVERSAL HEALTH SERVICES, INC.

Approximately 73% and 72% for the three month periods ended September 30, 1997 and 1996 and 72% and 74% for the nine month periods ended September 30, 1997 and 1996, respectively, of the Trust's revenues were earned under the terms of the leases with wholly-owned subsidiaries of Universal Health Services, Inc. ("UHS"). UHS has unconditionally guaranteed the obligations of its subsidiaries under the leases. Below is the detailed listing of the revenues received from UHS and other non-related parties for the three and nine months ended September 30, 1997 and 1996:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1996	1997	1996
Base rental - UHS facilities	\$ 3,432,000	\$ 3,433,000	\$10,298,000	\$10,298,000
Base rental - Non-related parties	1,437,000	1,401,000	4,064,000	3,385,000
Total base rental	4,869,000	4,834,000	14,362,000	13,683,000
Bonus rental - UHS facilities	617,000	590,000	1,950,000	1,865,000
Bonus rental-Non-related parties	--	--	229,000	229,000
Total bonus rental	617,000	590,000	2,179,000	2,094,000
Interest- Non-related parties	74,000	187,000	488,000	556,000
Total revenues	\$ 5,560,000	\$ 5,611,000	\$17,029,000	\$16,333,000

Certain of the Trust's facilities leased to subsidiaries of UHS have had earnings before interest, taxes, depreciation, amortization and lease and rental expense (EBITDAR) of less than 1.5 times the rent payable to the Trust. For the twelve months ended September 30, 1997, three of the UHS facilities did not generate sufficient EBITDAR to cover the annual rent expense payable to the Trust. The leases on these facilities, one which matures in 2000 and two which mature in 2001, generated 27% of the Trust's rental income for the twelve month period ending September 30, 1997. UHS has not advised the Trust whether the leases with subsidiaries of UHS, which have renewal options at existing lease rates, will be renewed at the end of their initial lease terms. The Trust is also unable to predict whether any of its other leases will be renewed at the end of their initial lease terms. If the leases are not renewed at their current rates, the Trust would be required to find other operators for those facilities and/or enter into leases on terms potentially less favorable to the Trust than the current leases.

UHS owned approximately 8% percent of the Trust's outstanding shares of beneficial interest as of September 30, 1997. The Trust has granted UHS an option to purchase Trust shares in the future at fair market value to enable UHS to maintain a 5% interest in the Trust. The Trust has no salaried employees and the Trust's officers are all employees of UHS and receive no cash compensation from the Trust.

(3) ACQUISITIONS

During the third quarter of 1997, construction was completed on a substantial portion of the Cypresswood Professional Center located in Houston, Texas. Commencing in 1996, the Trust began providing construction financing to a limited partnership in which the Trust has a 77% controlling equity interest during the construction period which will increase to 98% upon final completion and occupancy of the building. As of September 30, 1997, in accordance with provisions of the agreement, the Trust funded a total of \$3.7 million (\$2.5 million in 1997 and \$1.2 million in 1996) for construction of the facility and reclassified a total of \$2.8 million into property (\$2.6 million into building and improvements and \$176,000 into land) during the third quarter of 1997. Construction on the remainder of the facility is expected to be completed during the fourth quarter of 1997.

(4) DIVIDENDS

A dividend of \$.425 per share or \$3,805,000 in the aggregate was declared by the Board of Trustees on September 2, 1997 and was paid on September 30, 1997 to shareholders of record as of September 15, 1997.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

GENERAL

The matters discussed in this report as well as the news releases issued from time to time by the Trust contain certain forward-looking statements that involve risks and uncertainties, including the fact that a substantial portion of the Trust's revenues are dependent on one operator, Universal Health Services, Inc., and that a substantial portion of the Trust's leases and mortgagors are involved in the healthcare industry which is undergoing substantial changes and is subject to pressure from government reimbursement programs and other third party payors. In August, 1997, a five year budget plan was approved which calls for \$115 billion reduction in the rate of increase in Medicare spending over the next five years. Included in the proposal are reductions in the future rate of increases to payments made to hospitals. In addition, the healthcare industry has been characterized in recent years by increased competition and consolidation. Management of the Trust is unable to predict the effect, if any, these industry factors will have on the operating results of its lessees, including the facilities leased to subsidiaries of UHS, or on their ability to meet their obligations under the terms of their leases with the Trust. In addition, certain of the Trust's facilities leased to subsidiaries of UHS have had EBITDAR of less than 1.5 times the rent payable to the Trust (see Note 2). UHS has not advised the Trust whether the leases with subsidiaries of UHS, which have renewal options at existing lease rates, will be renewed at the end of their initial lease terms. The Trust is also unable to predict whether any of its other leases will be renewed at the end of their initial lease terms. If the leases are not renewed at their current rates, the Trust would be required to find other operators for those facilities and/or enter into leases on terms potentially less favorable to the Trust than the current leases.

RESULTS OF OPERATIONS

The Trust has investments in twenty-six facilities located in twelve states. The Trust invests in healthcare and human service related facilities including acute care hospitals, behavioral healthcare facilities, rehabilitation hospitals, sub-acute care facilities, surgery centers, child-care centers and medical office buildings.

The third quarter dividend of \$.425 per share or \$3,805,000 in the aggregate was paid on September 30, 1997.

For the quarters ended September 30, 1997 and 1996 net income totaled \$3,342,000 and \$3,466,000 or \$.37 and \$.39 per share on net revenues of \$5,560,000 and \$5,611,000, respectively. For the nine months ended September 30, 1997 and 1996 net income totaled \$10,550,000 and \$10,639,000 or \$1.18 and \$1.19 per share on net revenues of \$17,029,000 and \$16,333,000, respectively. The \$51,000 decrease in net revenue during the 1997 third quarter as compared to the comparable prior year quarter was primarily attributable to a \$113,000 decrease in interest income, partially offset by a \$36,000 increase in base rental from non-related parties and a \$27,000 increase in bonus rental from UHS facilities. The decrease in the interest income was due to the repayment of a \$6.5 million mortgage loan receivable which was repaid in full to the Trust in June, 1997. The \$696,000 increase in net revenue for the nine months ended September 30, 1997 over the comparable prior year period was due primarily to a \$679,000 increase in base rentals from non-related parties due to the acquisitions of four preschool and child-care centers and a multi-tenant medical office building acquired during the second quarter of 1996.

Interest expense increased \$318,000 or 17% for the nine months ended September 30, 1997 as compared to the comparable prior year period due to the increased borrowings used to finance the new investments during 1996 and 1997.

Depreciation and amortization expense increased \$31,000 or 3% for the three months ended September 30, 1997 and \$102,000 or 4% for the nine months ended September 30, 1997 over the comparable prior year periods due primarily to the depreciation expense related to the additional property acquired by the Trust during 1996 and 1997.

Other operating expenses decreased \$33,000 or 8% during the third quarter of 1997 and increased \$207,000 or 25% during the 1997 nine month period as compared to the comparable prior year periods due primarily to the expenses related to the medical office buildings acquired by the Trust during the second quarter of 1996. The expenses relating to the medical office buildings, which totaled \$196,000 and \$245,000 for the three month periods ended September 30, 1997 and 1996 and \$569,000 and \$418,000 for the nine month periods ended September 30, 1997 and 1996, respectively, are passed on directly to the tenants of these buildings and are included as revenue in the Trust's statements of income. Also included in other operating expenses was an increase in the reserve established for future expenses related to Lake Shore Hospital amounting to \$40,000 for each of the three month periods ended September 30, 1997 and 1996 and \$120,000 and \$80,000 for the nine month periods ended September 30, 1997 and 1996, respectively.

Included in the Trust's financial results was \$78,000 and \$151,000 for the three months ended September 30, 1997 and 1996 and \$312,000 and \$423,000 for the nine months ended September 30, 1997 and 1996, respectively, of income generated from the Trust's ownership in limited liability corporations which own medical office buildings in Arizona and Kentucky.

Funds from operations ("FFO"), which is the sum of net income plus depreciation expenses related to consolidated investments and unconsolidated affiliates, and amortization of interest rate cap expense totaled \$4.6 million and \$4.5 million for the three months ended September 30, 1997 and 1996 and \$14.1 million and \$13.6 million for the nine months ended September 30, 1997 and 1996, respectively. FFO does not represent cash flows from operations as defined by generally accepted accounting principles and should not be considered as an alternative to net income as an indicator of the Trust's operating performance or to cash flows as a measure of liquidity.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$13.5 million in each of the nine month periods ended September 30, 1997 and 1996.

During the first nine months of 1997, the \$13.5 million of cash generated from operating activities and the \$6.5 million of cash received for the repayment under a mortgage note receivable was primarily used to: (i) pay dividends (\$11.4 million); (ii) finance construction on two new medical office buildings which will be owned by limited liability corporations and limited partnerships in which the Trust will own an equity interest (\$6.0 million); (iii) purchase a 75% equity interest in a limited liability corporation (\$1.9 million), and; (iv) acquire additional properties (\$1.4 million).

As of September 30, 1997 the Trust had approximately \$25 million of unused borrowing capacity under the terms of its \$70 million revolving credit agreement. This agreement matures on September 30, 2001 at which time all amounts then outstanding are required to be repaid.

PART II. OTHER INFORMATION
UNIVERSAL HEALTH REALTY INCOME TRUST

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

10.1 Universal Health Realty Income Trust 1997 Incentive Plan

27. Financial Data Schedule

(b) Reports on Form 8-K

All other items of this report are inapplicable.

UNIVERSAL HEALTH REALTY INCOME TRUST

Signatures

Pursuant to the requirements 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.

Date: November 11, 1997

UNIVERSAL HEALTH REALTY INCOME TRUST
(Registrant)

/s/ Kirk E. Gorman

Kirk E. Gorman, President,
Chief Financial Officer, Secretary and
Trustee

(Principal Financial Officer and Duly
Authorized Officer.)

UNIVERSAL HEALTH REALTY INCOME TRUST
1997 INCENTIVE PLAN

1. Purposes. The Universal Health Realty Income Trust 1997 Incentive Plan (the "Plan") is intended to provide a method whereby employees of Universal Health Realty Income Trust (the "Trust"), including officers, directors, consultants and other people who are responsible for the management and growth of the business and who are presently making and are expected to continue making substantial contributions to the successful management and growth of the Trust, may be offered incentives in addition to those presently available and may be stimulated to personal involvement in the fortunes of the Trust to continue in the service of the Trust, thereby advancing the interests of the Trust and its shareholders. Accordingly, the Trust may, from time to time, grant to such employees, as may be selected in the manner hereinafter provided, on the terms and conditions hereinafter established, (i) options (each, an "Option") to purchase shares of the beneficial interest, par value \$.01 per share, of the Trust (the "Shares"), including incentive stock options (each, an "ISO") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended from time to time, and any successor statute (the "Code"), (ii) dividend equivalent rights with respect to Shares (each, a "DER") or (iii) any combination thereof. Each such grant shall hereinafter be referred to as an "Award."

2. Administration of the Plan. The Plan shall be administered by the Board of Trustees of the Trust (the "Board"). Subject to the provisions of the Plan, the Board is authorized to make all determinations and to take all actions necessary or advisable for the administration of the Plan, including determining the persons to whom Awards are to be granted and the types and combinations of Awards to be granted.

The interpretation and construction by the Board of any provisions of the Plan or of any agreement or of other matters related to the Plan shall be final. The Board may from time to time adopt such rules and regulations for carrying out the Plan as it may deem best. No member of the Board shall be liable for any action or determination made in good faith with respect to the Plan.

3. Stock Subject to the Plan. The Shares to be issued under the Plan shall be made available either from authorized but unissued Shares or from Shares reacquired by the Trust, including Shares purchased in the open market.

Awards and Shares issued under the Plan shall be subject to the terms, conditions and restrictions specified in the Plan and to such other terms, conditions and restrictions as the Board may provide.

Subject to the provisions of the succeeding paragraphs of this Section 3, the aggregate number of Shares which may be issued with respect to Awards under the

Plan shall not exceed 400,000 Shares of the Trust. For purposes of this Section 3 and Section 5, each outstanding DER shall be deemed to have been issued with respect to one Share, and such Share shall be counted against the maximum number of Shares available under the Plan.

If, prior to the termination of the Plan, Awards issued under the Plan shall be terminated or canceled by the Trust pursuant to the provisions hereof, such Shares shall again become available for issuance under the Plan.

In the event that the number of outstanding Shares shall be changed by reason of split-ups, combinations of shares, recapitalizations or stock dividends, the number of Shares which may thereafter be available under the Plan, the number of Shares covered by outstanding Options, the exercise prices of Options and the number of Shares with respect to which DERs were granted will be appropriately adjusted as determined by the Board so as to reflect any such change, which determination shall be conclusive. In the case of a merger, sale of assets or similar transaction which results in a replacement of the Shares with stock of another corporation, the Trust will make a reasonable effort, but shall not be required, to replace any outstanding Awards granted under the Plan with comparable Awards or will provide for immediate maturity of all outstanding Awards, with all Awards not being exercised within the time period specified by the Board being terminated.

4. Issuance of Shares. Shares issued under the Plan may be issued for such lawful consideration as shall be determined by the Board.

5. Eligibility for Grants. Awards may be granted under the Plan to employees of the Trust. The term "employees" shall include officers, directors and consultants who need not be full-time employees of the Trust, as well as other persons who are determined by the Board to be making and/or are expected to continue to make substantial contributions to the Trust by providing services to the Trust, provided that only employees as determined pursuant to the Code may be granted ISOs.

Subject to the provisions of the Plan, the Board shall have exclusive authority, among other things, to select the employees who are to participate in the Plan, to determine the Awards, if any, to be granted to each employee, to determine the Shares to be covered by each Award granted, to determine the time or times when Awards shall be exercisable and the restrictions, if any, which may apply to Awards or Shares acquired thereunder, and to prescribe the form of Awards granted under the Plan; provided, however, that Awards covering no more than 100,000 Shares may be granted to any one employee per annum.

6. Termination of Employment. In the event that the holder of an Award granted pursuant to the Plan shall cease to be employed by, or provide services to, the Trust for any reason, any Awards granted to such person pursuant to the Plan shall (unless the Board determines otherwise) terminate simultaneously with the termination of employment or the cessation of services.

No Awards granted under the Plan shall confer upon any employee to whom an Award is granted the right to continue in the employment of, or as a consultant to, the Trust or affect the right of the Trust to terminate any employee's employment at any time.

7. Non-Transferability of Awards. No Award under the Plan shall be sold, assigned, pledged, encumbered or otherwise transferred by the employee who is granted such Award unless the Board determines otherwise.

8. Options. The Board may grant to any eligible employee Options either in combination with DERs or as a separate Award under the Plan. Each Option shall entitle the employee to an option to purchase Shares on terms and conditions to be determined by the Board. The Board shall specify whether such Option is an ISO or a nonqualified stock option (each, a "NQO"). To the extent that any Option does not qualify as an ISO (whether because of its provisions or the time or manner of its exercise or otherwise), such Option or the portion thereof which does not so qualify shall constitute a separate NQO.

The exercise price of the Shares covered by each Option shall be determined by the Board; provided, however, that the exercise price of an ISO shall not be less than one hundred percent (100%) of the fair market value of the Shares on the date of grant; and provided, further, that the exercise price of an ISO granted to an employee owning more than ten percent (10%) of the total combined voting power of the Trust (a "10% Holder") shall not be less than one hundred ten percent (110%) of the fair market value of the Shares on the date of grant.

The term of each Option shall be determined by the Board; provided, however, that each ISO shall expire no later than ten (10) years after the date of grant; and provided, further, that each ISO granted to a 10% Holder shall expire no later than five (5) years after the date of grant.

An employee electing to exercise an Option under the Plan shall give written notice to the Trust in person or by first class mail, postage prepaid, of such election and of the number of Shares the employee has elected to acquire. The exercise price of an Option under the Plan may be paid in cash, by check, in Shares which have been held for at least six months, or any combination thereof, or, in the Board's discretion, in the form of a promissory note. If Shares are tendered as payment of the Option exercise price, the value of such Shares shall be their fair market value as of the date of exercise which shall be determined at the close of business on the date preceding such exercise. If such tender would result in the issuance of fractional Shares, the Trust shall instead round to the nearest whole Share. Notices of exercise shall be accompanied by payment of the full purchase price of such Shares in cash or by check or Shares (which Shares may be constructively tendered under such procedures as may be set out by the Board). Each notice to the Trust shall be addressed to it at its principal office at 367 South Gulph Road, King of Prussia, Pennsylvania 19406, Attention: Secretary, or such other address as the Trust shall

furnish to the employee. Until the employee's written notice and payment have been received by the Trust, the employee shall possess no shareholder rights with respect to the Shares issued upon the exercise.

9. Dividend Equivalent Rights. The Board may grant to any eligible employee DERs either in combination with an Option or as a separate Award under the Plan on terms and conditions determined by the Board. On a dividend payment date for the Shares, each employee with an outstanding DER shall be credited with an amount equal to the cash or stock dividends or other distributions that would have been received had the Shares covered by the Award been issued and outstanding on the dividend record date related to such dividend.

The Board shall determine at the time of grant whether payment pursuant to a DER shall be immediate or deferred and if immediate, the Trust shall make payments pursuant to each DER concurrently with the payment of the quarterly dividend to holders of Shares. If deferred, the payment shall not be made until a date or the occurrence of an event specified by the Board and then shall be made within 30 days after the occurrence of the specified date or event, unless the right is forfeited under the terms of the Plan or applicable award grant.

With respect to DERs granted in combination with an Option, at the time of the exercise of such Option, the employee will be required to settle such DERs. At the employee's election, any payment to be made to the employee upon settlement of a DER concurrently with the exercise of an Option may, at the discretion of the Board, be offset against the exercise price of the Option. In the event of the expiration of an Option granted in combination with a DER, the employee shall nevertheless be entitled to settle such DER immediately following such expiration in accordance with the Plan.

Notwithstanding anything to the contrary contained herein, neither the Board nor the Trust shall be obligated to declare or pay dividends of any kind.

10. Amendments to the Plan. The Board may at any time alter, amend, suspend or terminate or from time to time modify the Plan; provided, however, that no such action shall impair any Awards theretofore granted under the Plan; and provided, further, that no such modification without the approval of shareholders of the Trust representing at least the majority of the votes of the Trust represented and voting at a duly held meeting shall:

- (a) increase the maximum number of Shares which may be issued under the Plan in the aggregate; or
- (b) extend the period during which Awards may be granted under the Plan.

11. Successors and Assigns. The provisions of the Plan shall be binding upon all successors and assigns of an employee granted Awards or acquiring Shares under

the Plan, including, without limitation, the estate of any such employee and the executors, administrators or trustees of such estate, and any receiver, trustee in bankruptcy or representative of the creditors of any such employee.

12. Effective Date and Termination Date of the Plan. The Plan shall become effective as of [June 12], 1997, but subject, nevertheless, to (a) approval, if required, by the shareholders representing at least a majority of the votes of the Trust at a duly constituted meeting of shareholders, or by such greater percentage as may from time to time be required, under the laws of the State of Maryland and applicable rules or regulations of the New York Stock Exchange, and (b) approvals, if required, of any other public authorities. The Plan shall terminate on [June 11], 2007; provided, however, that Awards granted on or before such date shall remain exercisable, in accordance with their respective terms, after the termination of the Plan.

5
1,000

9-MOS
DEC-31-1997
JAN-01-1997
SEP-30-1997
143
0
9,671
5,097
0
0
163,175
29,317
148,306
0
43,431
0
0
90
103,031
148,306
0
17,341
0
1,839
2,806
0
2,146
10,550
0
10,550
0
0
0
10,550
1.18
1.18