U S PHYSICAL THERAPY INC /NV
Form 10-Q
November 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(MARK ONE)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED September 30, 2018
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 1-11151

U.S. PHYSICAL THERAPY, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

NEVADA (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	76-0364866 (I.R.S. EMPLOYER IDENTIFICATION NO.)

1300 WEST SAM HOUSTON PARKWAY SOUTH, SUITE 300, HOUSTON, TEXAS	77042
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (713) 297-7000

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	(Do not check if a smaller reporting company)	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 to Section 13(a) of the Exchange Act.

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

As of November 6, 2018, the number of shares outstanding (issued less treasury stock) of the registrant's common stock, par value $.01 per share, was: 12,684,762.

PART I—FINANCIAL INFORMATION - UNAUDITED

Item 1.	Financial Statements.	3
	Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017	3
	Consolidated Statements of Net Income for the three and nine months ended September 30, 2018 and 2017	4
	Consolidated Statements of Cash Flows for the nine months ended September 30, 2018, and 2017	5
	Consolidated Statement of Changes in Equity for the nine months ended September 30, 2018	6
	Notes to Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3.	Quantitative and Qualitative Disclosure About Market Risk	37
Item 4.	Controls and Procedures	37
PART II—OTHER INFORMATION		
Item 1.	Legal Proceedings	38
Item 6.	Exhibits	39
	Signatures	40
	Certifications	

Table of Contents

ITEM 1. FINANCIAL STATEMENTS.

U. S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS	September 30, 2018 (unaudited)	December 31, 2017
Current assets:		
Cash and cash equivalents	$ 32,241	$ 21,933
Patient accounts receivable, less allowance for doubtful accounts of $2,690 and $2,273, respectively	43,899	44,707
Accounts receivable - other	9,609	5,655
Other current assets	4,908	4,786
Total current assets	90,657	77,081
Fixed assets:		
Furniture and equipment	52,473	51,100
Leasehold improvements	31,101	29,760
Fixed assets, gross	83,574	80,860
Less accumulated depreciation and amortization	63,608	60,475
Fixed assets, net	19,966	20,385
Goodwill	293,630	271,338
Other identifiable intangible assets, net	49,311	48,954
Other assets	1,405	1,224
Total assets	$ 454,969	$ 418,982
LIABILITIES, REDEEMABLE NON-CONTROLLING INTERESTS, USPH SHAREHOLDERS’ EQUITY AND NON-CONTROLLING INTERESTS		
Current liabilities:		
Accounts payable - trade	$ 2,067	$ 2,165
Accrued expenses	40,128	33,342
Current portion of notes payable	4,769	4,044
Total current liabilities	46,964	39,551
Notes payable, net of current portion	659	2,728
Revolving line of credit	54,000	54,000
Mandatorily redeemable non-controlling interests	-	327
Deferred taxes	8,643	10,875
Deferred rent	1,864	2,116
Other long-term liabilities	835	743
Total liabilities	112,965	110,340
Redeemable non-controlling interests	128,906	102,572
Commitments and contingencies		
U.S. Physical Therapy, Inc. ("USPH") shareholders’ equity:		
Preferred stock, $.01 par value, 500,000 shares authorized, no shares issued and outstanding	-	-
	149	148

Common stock, $.01 par value, 20,000,000 shares authorized, 14,899,409 and 14,809,299 shares issued, respectively		
Additional paid-in capital	78,542	73,940
Retained earnings	164,821	162,406
Treasury stock at cost, 2,214,737 shares	(31,628)	(31,628)
Total USPH shareholders’ equity	211,884	204,866
Non-controlling interests	1,214	1,204
Total USPH shareholders' equity and non-controlling interests	213,098	206,070
Total liabilities, redeemable non-controlling interests, USPH shareholders' equity and non-controlling interests	$ 454,969	$ 418,982

See notes to consolidated financial statements.

3

Table of Contents

U. S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF NET INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(unaudited)

	Three Months Ended		Nine Months En	
	September 30, 2018	September 30, 2017	September 30, 2018	Septe 30, 2
Net patient revenues	$103,354	$96,273	$309,895	$287
Other revenues	9,768	6,759	26,667	17,
Net revenues	113,122	103,032	336,562	304
Operating costs:				
Salaries and related costs				

EMPLOYEES

At December 31, 2011, we employed 2,522 people, of which 1,992 were full-time employees. At that date, no Company employees were governed by collective bargaining agreements or were members of a union. We consider our relations with our employees to be good.

In the states in which our current clinics are located, persons performing designated physical therapy services are required to be licensed by the state. Based on standard employee screening systems in place, all persons currently employed by us who are required to be licensed are licensed. We are not aware of any federal licensing requirements applicable to our employees.

AVAILABLE INFORMATION

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are made available free of charge on our internet website at www.usph.com as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

ITEM 1A. ***RISK FACTORS***

Our business, operations and financial condition are subject to various risks. Some of these risks are described below, and readers of this Annual Report on Form 10-K should take such risks into account in evaluating our Company or making any decision to invest in us. This section does not describe all risks applicable to our Company, our industry or our business, and it is intended only as a summary of material factors affecting our business.

Risks related to our business and operations

The uncertain economic conditions and the historically high unemployment rate may have material adverse impacts on our business and financial condition that we currently cannot predict.

Unemployment in the United States has remained high while business and consumer confidence is relatively low. Although it is difficult to predict with any degree of certainty the impact on our business, these factors could materially and adversely affect our business and financial condition.

13

[Table of Contents](#)

We depend upon reimbursement by third-party payors.

Substantially all of our revenues are derived from private and governmental third-party payors. In 2011, approximately 75% of our revenues were derived collectively from managed care plans, commercial health insurers, workers compensation payors, and other private pay revenue sources and approximately 25% of our revenues were derived from Medicare and Medicaid. Initiatives undertaken by industry and government to contain healthcare costs affect the profitability of our clinics. These payors attempt to control healthcare costs by contracting with healthcare providers to obtain services on a discounted basis. We believe that this trend will continue and may limit reimbursement for healthcare services. If insurers or managed care companies from whom we receive substantial payments were to reduce the amounts they pay for services, our profit margins may decline, or we may lose patients if we choose not to renew our contracts with these insurers at lower rates. In addition, in certain geographical areas, our clinics must be approved as providers by key health maintenance organizations and preferred provider plans. Failure to obtain or maintain these approvals would adversely affect our financial results.

Medicare Physician Fee Schedule Sustainable Growth Rate Update. The Medicare program reimburses outpatient rehabilitation providers based on the MPFS. The MPFS rates are automatically updated annually based on a formula, called the SGR formula. The use of the SGR formula has resulted in calculated automatic reductions in rates in every year since 2002; however, for each year through 2011, CMS or Congress has taken action to prevent the implementation of SGR formula reductions. The Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010 provided a 2.2% increase to MPFS payment rates, retroactive from June 1, 2010 through November 30, 2010, suspending a 21.3% reduction that briefly became effective on June 1, 2010. The MMEA prevented a 25.5% reduction in the MPFS payment rates that would have taken effect on January 1, 2011. The TPTC delayed application of the SGR for two additional months, through February 29, 2012. The MCTRA included a measure freezing payment rates at their current level through December 31, 2012.

On November 1, 2011, CMS released the 2012 Medicare Physician Fee Schedule final rule. Given the prevention of the 27.4% reduction, the projected impact of other changes in the rule on outpatient physician therapy service payments in aggregate is expected to be a 4.0% increase in 2012, primarily due to the continued phase in of new practice expense survey data derived from the PPIS. In 2013, when the use of the PPIS data is fully phased in, the impact is expected to be a 6.0% increase for outpatient physical therapy payments. In the final 2012 Medicare Physician Fee Schedule rule, CMS indicated that over the next year it will continue to review whether specific CPT codes billed under the fee schedule are overvalued or undervalued, including certain specific CPT codes used by physical therapists.

Therapy Caps. As a result of the Balanced Budget Act of 1997, the formula for determining the total amount paid by Medicare in any one year for outpatient physical therapy, occupational therapy, and/or speech-language pathology services provided to any Medicare beneficiary (*i.e.*, the Therapy Cap or Limit) was established. Based on the statutory definitions which constrained how the Therapy Cap would be applied, there is one Limit for Physical Therapy and Speech Language Pathology Services combined, and one Limit for Occupational Therapy. These Therapy Caps are applicable to outpatient therapy services provided in all settings, except for services provided in departments of hospitals. Therefore, outpatient therapy services rendered to Medicare beneficiaries by the Company's therapist personnel are subject to the Therapy Cap, except to the extent these services are rendered pursuant to certain management and professional services agreements with hospitals for services provided in hospital departments. Effective January 1, 2012, the annual Limit on outpatient therapy services is $1,880 for physical therapy and speech language pathology services combined and $1,880 for occupational therapy services. Under the MCTRA this Limit will temporarily apply to hospital outpatient departments beginning no later than October 1, 2012.

Table of Contents

Furthermore, under the MCTRA, starting on October 1, 2012, patients who meet or exceed $3,700 in therapy expenditures will be subject to a manual medical review. The MCTRA designates that this medical review will be similar to the process used following Deficit Reduction Act implementation in 2006. The $3,700 threshold will be applied to the combined physical therapy/speech language pathology cap; a separate $3,700 threshold will be applied to the occupational therapy cap.

In conjunction with establishing the Therapy Cap, Congress either delayed the implementation of these Limits or it provided a process authorizing CMS to grant exceptions to the Therapy Cap for services provided during a given year, as long as those services met certain qualifications. More recently, the MMEA extended the exceptions process for outpatient Therapy Caps through December 31, 2011, and the TPTC directed CMS to continue to allow exceptions to Therapy Caps for certain medically necessary services provided on or after January 1, 2012, through February 29, 2012. Under the MCTRA, Congress may extend the Therapy Caps exceptions process through December 31, 2012.

Multiple Procedure Payment Reduction. CMS adopted a MPPR for therapy services in the final update to the MPFS for calendar year 2011. Under MPPR, the Medicare program pays 100% of the practice expense component of the RVU for the therapy procedure with the highest RVU, then reduces the payment for the practice expense component of the RVU for additional procedures. The reduction for these subsequent procedures varies based on the setting, with a 20% reduction for services in an office or other non-institutional setting and 25% in institutional settings. The reduction applies to any service furnished during the same day for the same patient, regardless of the type of therapy service or whether the therapy services are furnished in separate sessions. The MPPR was continued in calendar year 2012.

Statutes, regulations, and payment rules governing the delivery of therapy services to Medicare beneficiaries are complex and subject to interpretation. The Company believes that it is in compliance in all material respects with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the Company s financial statements as of December 31, 2011. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare program.

Medicare regulations require that a physician or non-physician practitioner certify the need for skilled therapy services for each patient and that these services be provided under an established plan of treatment, which is periodically revised.

For a further description of this and other laws and regulations involving governmental reimbursements, see Business Sources of Revenue and Regulation and Healthcare Reform in Item 1.

We depend upon the cultivation and maintenance of relationships with the physicians in our markets.

Our success is dependent upon referrals from physicians in the communities our clinics serve and our ability to maintain good relations with these physicians and other referral sources. Physicians referring patients to our clinics are free to refer their patients to other therapy providers or to their own physician owned therapy practice. If we are unable to successfully cultivate and maintain strong relationships with physicians and other referral sources, our business may decrease and our net operating revenues may decline.

We also depend upon our ability to recruit and retain experienced physical therapists.

Our revenue generation is dependent upon referrals from physicians in the communities our clinics serve, and our ability to maintain good relations with these physicians. Our therapists are the front line for generating these referrals and we are dependent on their talents and skills to successfully cultivate and maintain strong relationships with these physicians. If we cannot recruit and retain our base of experienced and clinically skilled therapists, our business may decrease and our net operating revenues

may decline. Periodically, we have clinics in isolated communities that are temporarily unable to operate due to the unavailability of a therapist who satisfies our standards.

15

Our revenues may fluctuate due to weather.

We have a significant number of clinics in states that normally experience snow and ice during the winter months. Also, a significant number of our clinics are located in states along the Gulf Coast and Atlantic Coast which are subject to periodic winter storms, hurricanes and other severe storm systems. Periods of severe weather may cause physical damage to our facilities or prevent our staff or patients from traveling to our clinics, which may cause a decrease in our net operating revenues.

Our operations are subject to extensive regulation.

The healthcare industry is subject to extensive federal, state and local laws and regulations relating to:

- facility and professional licensure/permits, including certificates of need;
- conduct of operations, including financial relationships among healthcare providers, Medicare fraud and abuse, and physician self-referral;
- addition of facilities and services; and
- billing and payment for services.

In recent years, there have been heightened coordinated civil and criminal enforcement efforts by both federal and state government agencies relating to the healthcare industry. We believe we are in substantial compliance with all laws, but differing interpretations or enforcement of these laws and regulations could subject our current practices to allegations of impropriety or illegality or could require us to make changes in our methods of operations, facilities, equipment, personnel, services and capital expenditure programs and increase our operating expenses. If we fail to comply with these extensive laws and government regulations, we could become ineligible to receive government program reimbursement, suffer civil or criminal penalties or be required to make significant changes to our operations. In addition, we could be forced to expend considerable resources responding to an investigation or other enforcement action under these laws or regulations. For a more complete description of certain of these laws and regulations, see Business Regulation and Healthcare Reform in Item 1.

Healthcare reform legislation may affect our business.

In recent years, many legislative proposals have been introduced or proposed in Congress and in some state legislatures that would affect major changes in the healthcare system, either nationally or at the state level. At the federal level, Congress has continued to propose or consider healthcare budgets that substantially reduce payments under the Medicare programs. The ultimate content, timing or effect of any healthcare reform legislation and the impact of potential legislation on us is uncertain and difficult, if not impossible to predict. That impact may be material to our business, financial condition or results of operations.

We operate in a highly competitive industry.

We encounter competition from local, regional or national entities, some of which have superior resources or other competitive advantages. Intense competition may adversely affect our business, financial condition or results of operations. For a more complete description of this competitive environment, see Business Competition in Item 1. An adverse effect on our business, financial condition or results of operations may require us to write-down goodwill.

We may incur closure costs and losses.

The competitive, economic or reimbursement conditions in our markets in which we operate may require us to reorganize or to close certain clinics. In the event a clinic is reorganized or closed, we may incur losses and closure costs. The closure costs and losses may include, but are not limited to, lease obligations, severance, and write-down or write-off of goodwill and other intangible assets.

Table of Contents

Future acquisitions may use significant resources, may be unsuccessful and could expose us to unforeseen liabilities.

As part of our growth strategy, we intend to continue pursuing acquisitions of outpatient physical therapy clinics. Acquisitions may involve significant cash expenditures, potential debt incurrence and operational losses, dilutive issuances of equity securities and expenses that could have an adverse effect on our financial condition and results of operations. Acquisitions involve numerous risks, including:

- the difficulty and expense of integrating acquired personnel into our business;
- the diversion of management s time from existing operations;
- the potential loss of key employees of acquired companies;
- the difficulty of assignment and/or procurement of managed care contractual arrangements; and
- the assumption of the liabilities and exposure to unforeseen liabilities of acquired companies, including liabilities for failure to comply with healthcare regulations.

We may not be successful in obtaining financing for acquisitions at a reasonable cost, or such financing may contain restrictive covenants that limit our operating flexibility. We also may be unable to acquire outpatient physical therapy clinics or successfully operate such clinics following the acquisition.

Certain of our internal controls, particularly as they relate to billings and cash collections, are largely decentralized at our clinic locations.

Our clinic operations are largely decentralized and certain of our internal controls, particularly the processing of billings and cash collections, occur at the clinic level. Taken as a whole, we believe our internal controls for these functions at our clinics are adequate. Our controls for billing and cash collections largely depend on compliance with our written policies and procedures and separation of functions among clinic personnel. We also maintain corporate level controls, including an audit compliance program, that are intended to mitigate and detect any potential deficiencies in internal controls at the clinic level. The effectiveness of these controls to future periods are subject to the risk that controls may become inadequate because of changes in conditions or the level of compliance with our policies and procedures deteriorates.

Risks Relating to Our Outstanding Common Stock

Our stock price could be volatile, which could cause you to lose part or all of your investment.

The stock market has from time to time experienced significant price and volume fluctuations that may be unrelated to the operating performance of particular companies. In particular, the market price of our common stock has been and may continue to be highly volatile. During 2011, our stock price ranged from a low of $16.58 per share (on September 12, 2011) to a high of $26.23 per share (on July 7, 2011). Factors, such as announcements concerning changes in revenues and earnings expectations, regulatory conditions, including federal and state regulations, and economic and other external factors, as well as period-to-period fluctuations and financial results, may have a significant effect on the market price of our common stock.

From time to time, there has been limited trading volume in our common stock. In addition, there can be no assurance that there will continue to be a trading market or that any securities research analysts will continue to provide research coverage with respect to our common stock. It is possible that such factors will adversely affect the market for our common stock.

Issuance of shares in connection with financing transactions or under stock incentive plans will dilute current stockholders.

Pursuant to our stock incentive plans, our Compensation Committee of the Board of Directors, consisting solely of independent directors, is authorized to grant stock awards to our employees, directors and consultants.

Table of Contents

You will incur dilution upon the exercise of any outstanding stock awards or the grant of any restricted stock. In addition, if we raise additional funds by issuing additional common stock, or securities convertible into or exchangeable or exercisable for common stock, further dilution to our existing stockholders will result, and new investors could have rights superior to existing stockholders.

The number of shares of our common stock eligible for future sale could adversely affect the market price of our stock.

At December 31, 2011, we had reserved approximately 349,000 shares of common stock for issuance under outstanding options and 398,000 shares for future equity grants. All of these shares of common stock are registered for sale or resale on currently effective registration statements. We may issue additional restricted securities or register additional shares of common stock under the Securities Act in the future. The issuance of a significant number of shares of common stock upon the exercise of stock options or the availability for sale, or sale, of a substantial number of the shares of common stock eligible for future sale under effective registration statements, under Rule 144 or otherwise, could adversely affect the market price of the common stock.

Provisions in our articles of incorporation and bylaws could delay or prevent a change in control of our company, even if that change would be beneficial to our stockholders.

Certain provisions of our articles of incorporation and bylaws may delay, discourage, prevent or render more difficult an attempt to obtain control of our company, whether through a tender offer, business combination, proxy contest or otherwise. These provisions include the charter authorization of blank check preferred stock and a restriction on the ability of stockholders to call a special meeting.

ITEM 1B. ***UNRESOLVED STAFF COMMENTS.***

Not Applicable.

ITEM 2. ***PROPERTIES.***

We lease the properties used for our clinics under non-cancelable operating leases with terms ranging from one to five years, with the exception of the property for one clinic which we own. We intend to lease the premises for any new clinics locations except in rare instances where leasing is not a cost-effective alternative. Our typical clinic occupies 1,500 to 3,000 square feet.

We also lease our executive offices located in Houston, Texas, under a non-cancelable operating lease expiring in June 2015. We currently occupy approximately 37,537 square feet of space (including allocations for common areas) at our executive offices.

ITEM 3. ***LEGAL PROCEEDINGS.***

We are involved in litigation and other proceedings arising in the ordinary course of business. While the ultimate outcome of lawsuits or other proceedings cannot be predicted with certainty, we do not believe the impact of existing lawsuits or other proceedings will have a material impact on our business, financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

Table of Contents

PART II

ITEM 5. ***MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.***

PRICE QUOTATIONS

Our common stock is traded on the Nasdaq Global Select Market (Nasdaq) under the symbol USPH. As of March 8, 2012, there were 60 holders of record of our outstanding common stock. The table below indicates the high and low sales prices of our common stock reported for the periods presented.

	2011		2010	
Quarter	**High**	**Low**	**High**	**Low**
First	$ 22.69	$ 18.87	$ 19.22	$ 14.97
Second	26.06	21.51	19.38	15.52
Third	26.23	16.58	18.73	15.30
Fourth	21.27	16.75	20.92	16.71

Prior to 2011, we had not declared or paid cash dividends or more distributions on our common stock. During 2011, we paid a quarterly dividend of $0.08 per share totaling $0.32 per share for 2011, which amounted to a total of aggregate cash payments of dividends to holders of our common stock in 2011 of $3.8 million. On February 28, 2012, our Board of Directors declared a quarterly dividend of $0.09 per share payable to shareholders of record on March 15, 2012 to be paid on March 30, 2012. We are currently restricted from paying dividends in excess of $5,000,000 in any fiscal year on our common stock by our bank credit facility.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table provides information regarding shares of the Company s common stock purchased by the Company during the quarter ended December 31, 2011.

Period	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)**	**Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs(1)**
October 1, 2011 through October 31, 2011		$		
November 1, 2011 through November 30, 2011	72,000	$ 18.33	72,000	
December 1, 2011 through December 31, 2011	57,630	$ 18.47	57,630	172,000
Total	129,630	$ 18.39	129,630	172,000

(1) In March 2009, the Board authorized the repurchase of up to 10% or approximately 1,200,000 shares of the Company s common stock the (March 2009 Authorization). In connection with the March 2009 Authorization, the Company amended its credit agreement, as described below, to permit share repurchases of up to $15,000,000. The Company is required to retire shares purchased under the March 2009 Authorization. Since there is no expiration date for these share repurchase programs, additional shares may be purchased from time to time in the open market or private transactions depending on price, availability and the Company s cash position. During 2011, we purchased 254,642 shares of our common stock for an aggregate cost of $4.7 million. Using the December 31, 2011 closing price of $19.68 per share, there were approximately 172,000 shares remaining that could be purchased under these programs.

Table of Contents

FIVE YEAR PERFORMANCE GRAPH

The following performance graph compares the cumulative total stockholder return of our common stock to The Nasdaq Stock Market United States Index and The Nasdaq Stock Market Healthcare Index for the period from December 31, 2006 through December 31, 2011. The graph assumes that $100 was invested in our common stock and the common stock of the companies listed on The Nasdaq Stock Market United States Index and The Nasdaq Stock Market Healthcare Index on December 31, 2006 and that any dividends were reinvested.

Comparison of Five Years Cumulative Total Return For the Year Ended December 31, 2011

Table of Contents

ITEM 6.*SELECTED FINANCIAL DATA.*

The following selected financial data should be read in conjunction with the description of our critical accounting policies set forth in Item 7.

	For the Years Ended December 31,				
	2011	2010	2009	2008	2007
	($ in thousands, except per share data)				
Net revenues	$ 237,006	$ 211,233	$ 201,409	$ 187,686	$ 151,686
Income from continuing operations including noncontrolling interests, net of tax	$ 29,783	$ 24,700	$ 19,974	$ 17,089	$ 14,542
Discontinued operations, net of tax	$	$	$	$	$ (77)
Net income including noncontrolling interests	$ 29,783	$ 24,700	$ 19,974	$ 17,089	$ 14,465
Net income attributable to common shareholders	$ 20,974	$ 15,645	$ 11,767	$ 10,004	$ 8,738
Per common share					
Net income from continuing operations attributable to common shareholders:					
Basic	$ 1.78	$ 1.34	$ 1.01	$ 0.84	$ 0.76
Diluted	$ 1.75	$ 1.32	$ 1.00	$ 0.83	$ 0.75
Net income attributable to common shareholders:					
Basic	$ 1.78	$ 1.34	$ 1.01	$ 0.84	$ 0.75
Diluted	$ 1.75	$ 1.32	$ 1.00	$ 0.83	$ 0.75

	On December 31,				
	2011	2010	2009	2008	2007
	($ in thousands)				
Total assets	$ 163,252	$ 140,861	$ 111,429	$ 118,247	$ 96,252
Long-term debt, less current portion	$ 23,784	$ 5,750	$ 400	$ 12,412	$ 7,959
Working capital	$ 29,343	$ 25,053	$ 18,255	$ 24,108	$ 24,595
Current ratio	2.80	2.76	2.24	2.65	3.15
Total long-term debt to total capitalization	0.20	0.05		0.15	0.11

ITEM 7. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.***

EXECUTIVE SUMMARY

Our Business. We operate outpatient physical therapy clinics that provide preventative and post-operative care for a variety of orthopedic-related disorders and sports-related injuries, treatment for neurologically-related injuries and rehabilitation of injured workers.

During 2011 and 2010, we completed the following acquisitions:

Acquisition	Date	% Interest Acquired	Number of Clinics
	2011		
July 2011 Acquisition	July 25	51%	20
	2010		
February 2010 Acquisition	February 26	70%	5
December 21, 2010 Acquisition	December 21	70%	6
December 31, 2010 Acquisition	December 31	65%	14

The three acquisitions in 2010 are hereinafter referred to collectively as the 2010 Acquisitions . No clinics were acquired in 2009.

The results of operations of the acquired clinics have been included in our consolidated financial statements since the date of their acquisition.

At December 31, 2011, we operated 416 clinics in 42 states, inclusive of two Physician Services Clinics. The average age of our clinics at December 31, 2011, was 8.0 years. Of the 416 clinics, we developed 293 of the clinics and acquired 123. In 2011, we opened 21 clinics, acquired 20 and closed 17.

In addition to our owned clinics, we also manage physical therapy facilities for third parties, primarily physicians, with 15 third-party facilities under management as of December 31, 2011.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that have a significant impact on our results of operations and financial position involving significant estimates requiring our judgment. Our critical accounting policies are:

Revenues from physician services, sold primarily through franchisee arrangements, are considered multiple deliverables training and ongoing services. Each component can be purchased separately. Revenue is recognized over the period of the respective services are provided.

Revenue Recognition. Revenues are recognized in the period in which services are rendered. Net patient revenues (patient revenues less estimated contractual adjustments) are reported at the estimated net realizable amounts from insurance companies, third-party payors, patients and others for services rendered. The Company has agreements with third-party payors that provide for payments to the Company at contracted amounts different from its established rates. The allowance for estimated contractual adjustments is based on terms of payor contracts and historical collection and write-off experience.

Contractual Allowances. Contractual allowances result from the differences between the rates charged for services performed and expected reimbursements by both insurance companies and government sponsored healthcare programs for such services. Medicare regulations and the various

third party payors and managed care contracts are often complex and may include multiple reimbursement mechanisms payable for the services provided in our clinics. We estimate contractual allowances based on our interpretation of the applicable

Table of Contents

regulations, payor contracts and historical calculations. Each month the Company estimates its contractual allowance for each clinic based on payor contracts and the historical collection experience of the clinic and applies an appropriate contractual allowance reserve percentage to the gross accounts receivable balances for each payor of the clinic. Based on our historical experience, calculating the contractual allowance reserve percentage at the payor level is sufficient to allow us to provide the necessary detail and accuracy with our collectibility estimates. However, the services authorized and provided and related reimbursement are subject to interpretation that could result in payments that differ from our estimates. Payor terms are periodically revised necessitating continual review and assessment of the estimates made by management. Our billing system may not capture the exact change in our contractual allowance reserve estimate from period to period. Therefore, in order to assess the accuracy of our revenues and hence our contractual allowance reserves, our management regularly compares its cash collections to corresponding net revenues measured both in the aggregate and on a clinic-by-clinic basis. In the aggregate, the historical difference between net revenues and corresponding cash collections has generally reflected a difference within approximately 1% of net revenues. Additionally, analysis of subsequent period s contractual write-offs on a payor basis reflects a difference within approximately 1% between the actual aggregate contractual reserve percentage as compared to the estimated contractual allowance reserve percentage associated with the same period end balance. As a result, we believe that a reasonable likely change in the contractual allowance reserve estimate would not be more than 1% at December 31, 2011. For purposes of demonstrating the sensitivity of this estimate on the Company s financial condition, a one percent increase or decrease in our aggregate contractual allowance reserve percentage would decrease or increase, respectively, net patient revenue by approximately $716,000 for the year ended December 31, 2011. Management believes the changes in the estimate of the contractual allowance reserve for the periods ended December 31, 2011, 2010 and 2009 have not been material to the statement of operations.

The following table sets forth information regarding our patient accounts receivable as of the dates indicated (in thousands):

	December 31,	
	2011	2010
Gross patient accounts receivable	$ 70,435	$ 58,552
Less contractual allowances	39,948	31,548
Subtotal accounts receivable	30,487	27,004
Less allowance for doubtful accounts	2,154	2,190
Net patient accounts receivable	$ 28,333	$ 24,814

The following table presents our patient accounts receivable aging by payor class as of the dates indicated (in thousands):

Accounts Receivable by Payor Class

	December 31, 2011			December 31, 2010		
Payor	Current to 120 Days	120+ Days	Total	Current to 120 Days	120+ Days	Total
Managed Care/ Commercial Plans	$ 10,066	$ 2,213	$ 12,279	$ 9,001	$ 1,972	$ 10,973
Medicare/Medicaid	5,964	1,758	7,722	5,328	1,408	6,736
Workers Compensation*	5,475	1,198	6,673	4,952	814	5,766
Self-pay	739	1,295	2,034	872	857	1,729
Other**	996	783	1,779	1,012	788	1,800

Totals	$ 23,240	$ 7,247	$ 30,487	$ 21,165	$ 5,839	$ 27,004

* Workers compensation is paid by state administrators or their designated agents.

** Other includes primarily litigation claims and, to a lesser extent, vehicular insurance claims.

Table of Contents

Reimbursement for Medicare beneficiaries is based upon a fee schedule published by HHS. For a more complete description of our third party revenue sources, see Business Sources of Revenue in Item 1.

Allowance for Doubtful Accounts. We determine allowances for doubtful accounts based on the specific agings and payor classifications at each clinic. We review the accounts receivable aging and rely on prior experience with particular payors to determine an appropriate reserve for doubtful accounts. Historically, clinics that have a large number of aged accounts generally have less favorable collection experience, and thus, require a higher allowance. Accounts that are ultimately determined to be uncollectible are written off against our bad debt allowance. The amount of our aggregate allowance for doubtful accounts is regularly reviewed for adequacy in light of current and historical experience.

Accounting for Income Taxes. We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount to be recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

The Company does not believe that it has any significant uncertain tax positions at December 31, 2011, nor is this expected to change within the next twelve months due to the settlement and expiration of statutes of limitation.

The Company did not have any accrued interest or penalties associated with any unrecognized tax benefits nor was any interest expense recognized during the twelve months ended December 31, 2011 and 2010.

Carrying Value of Long-Lived Assets. Our property and equipment, intangible assets and goodwill (collectively, our long-lived assets) comprise a significant portion of our total assets. The accounting standards require that we periodically, and upon the occurrence of certain events, assess the recoverability of our long-lived assets. If the carrying value of our property and equipment exceeds their undiscounted cash flows, we are required to write the carrying value down to estimated fair value.

Goodwill. The fair value of goodwill and other intangible assets with indefinite lives are tested for impairment annually and upon the occurrence of certain events, and are written down to fair value if considered impaired. We evaluate goodwill for impairment on at least an annual basis (in our third quarter) by comparing the fair value of each reporting unit to the carrying value of the reporting unit including related goodwill. We operate a one segment business which is made up of various clinics within partnerships. A reporting unit refers to the acquired interest of a single clinic or group of clinics. Local management typically continues to manage the acquired clinic or group of clinics. For each clinic or group of clinics, we maintain discrete financial information and both corporate and local management regularly review the operating results. We did not combine any of the reporting units for impairment testing in any year presented. For each purchase of the equity interest, goodwill, if any, is assigned to the respective clinic or group of clinics, if deemed appropriate. The evaluation of goodwill in 2011, 2010 and 2009 did not result in any goodwill amounts that were deemed impaired. An impairment loss

generally would be recognized when the carrying amount of the net assets of the reporting unit, inclusive of goodwill and other intangible assets, exceed the estimated fair value of the reporting unit. The estimated fair value of a reporting unit is determined using two factors: (i) earnings prior to taxes, depreciation and amortization for the reporting unit multiplied by a price/earnings ratio used in the industry and (ii) a discounted cash flow analysis. A weight is assigned to each factor and the sum of the each weight multiplied by the factor is considered the estimated fair value. For 2011, the factors (ie. price/earnings ratio, discount rate and residual capitalization rate) were updated to reflect current market conditions.

SELECTED OPERATING AND FINANCIAL DATA

The following table and discussion relates to continuing operations unless otherwise noted. The defined terms with their respective description used in the following discussion are listed below:

2011	Year ended December 31, 2011
2010	Year ended December 31, 2010
2009	Year ended December 31, 2009
New Clinics	Clinics opened or acquired during the year ended December 31, 2011
Mature Clinics	Clinics opened or acquired prior to January 1, 2011
2010 New Clinics	Clinics opened or acquired during the year ended December 31, 2010
2010 Mature Clinics	Clinics opened or acquired prior to January 1, 2010
2009 New Clinics	Clinics opened during the year ended December 31, 2009
2009 Mature Clinics	Clinics opened or acquired prior to January 1, 2009

The following table presents selected operating and financial data, used by management as key indicators of our operating performance:

	For the Years Ended December 31,		
	2011	2010	2009
Number of clinics, at the end of period	416	392	368
Working Days	255	254	255
Average visits per day per clinic	20.9	20.5	20.4
Total patient visits	2,163,679	1,926,892	1,899,123
Net patient revenue per visit	$ 104.72	$ 105.92	$ 102.85

RESULTS OF OPERATIONS

FISCAL YEAR 2011 COMPARED TO FISCAL 2010

Net revenues rose 12.2% to $237.0 million for 2011 from $211.2 million for 2010 due to increases in net patient revenues and other revenues as discussed below. The 2011 results include five months of operations of the July 2011 Acquisition. The 2010 results include 10 months of operations for the February 2010 Acquisition and eight days of operations for the December 21, 2010 Acquisition. The 2011 and 2010 results include 255 days and 254 days of operations, respectively.

Net income attributable to common shareholders for the year ended December 31, 2011 increased 34.1% to $21.0 million from $15.6 million in 2010. Diluted earnings per share rose to $1.75 from $1.32. Included in the 2011 results is a pretax gain of $5.4 million related to a purchase price settlement on the February 2010 Acquisition. Included in the 2010 results was a positive adjustment in the income tax provision of $0.8 million and a gain from the sale of a five

clinic joint venture of approximately $0.6

25

Table of Contents

million. Excluding the 2011 and 2010 gains and the 2010 tax adjustment, diluted earnings per shares from operations would have been $1.35 for 2011 and $1.22 for 2010, an increase of 10.7%. See table below

	Year Ended December 31,	
	2011	2010
	(In thousands, except per share data)	
Net income attributable to common shareholders	$ 20,974	$ 15,645
Gain on purchase price settlement of $5,434 less tax effect of $629	(4,805)	
Positive adjustment in income tax provision		(814)
Gain on the sale of a five clinic joint venture of $578 less tax effect of $227		(351)
Adjusted net income attributable to common shareholders	$ 16,169	$ 14,480
Adjusted net income attributable to common shareholders per diluted share	$ 1.35	$ 1.22

Net Patient Revenues

Net patient revenues increased to $226.6 million for 2011 from $204.1 million for 2010, an increase of $22.5 million, or 11.0%, primarily due to an increase in patient visits from 1.9 million to 2.2 million. The increase in net patient revenues of $22.5 million consisted of an increase of $14.3 million from Mature Clinics and $8.2 million from New Clinics, primarily due to the July 2011 Acquisition. The $14.4 million from Mature Clinics is made up of an increase of $14.2 million from the 2010 Acquisitions and $0.2 million from other Mature Clinics.

Total patient visits increased to 2,164,000 for 2011 from 1,927,000 for 2010. The growth in patient visits was attributable to 76,000 visits in New Clinics, primarily due to the July 2011 Acquisition and an increase of 162,000 visits for Mature Clinics, primarily due to the 2010 Acquisitions.

Net patient revenues are based on established billing rates less allowances and discounts for patients covered by contractual programs and workers compensation. Net patient revenues reflect contractual and other adjustments, which we evaluate monthly, relating to patient discounts from certain payors. Payments received under these programs are based on predetermined rates and are generally less than the established billing rates of the clinics.

Other Revenues

Other revenues increased by $3.3 million from $7.1 million to $10.4 million primarily due to $2.5 million higher revenues from physician services, which include clinical services related to intra articular joint and lumbar osteoarthritis programs as well as electro-diagnostic analysis, and $0.5 million from a management contract acquired as part of the 2010 Acquisitions.

Clinic Operating Costs

Clinic operating costs were 74.4% of net revenues for 2011 and 73.5% of net revenues for 2010. Each component of clinic operating costs is discussed below:

Clinic Operating Costs Salaries and Related Costs

Salaries and related costs increased to $125.1 million for 2011 from $110.9 million for 2010, an increase of $14.2 million, or 12.8%. Approximately $5.5 million of the increase was attributable to New Clinics. The remaining $8.7 million of the increase was due to $10.4 million in higher costs at various 2010 New Clinics

offset by a decrease of $1.7 million in costs at 2010 Mature Clinics. Salaries and related costs as a percentage of net revenues was 52.8% for 2011 and 52.5% for 2010.

Clinic Operating Costs Rent, Clinic Supplies and Other

Rent, clinic supplies and other costs increased to $47.4 million for 2011 from $40.9 million for 2010, an increase of $6.5 million, or 15.8%. For 2011, New Clinics accounted for approximately $2.8 million of the increase and 2010 New Clinics accounted for approximately $4.2 million of the increase due to a full year of activity for clinics developed or acquired in 2010. Rent, clinic supplies and other costs for 2010 Mature Clinics decreased $0.5 million in 2011 as compared to 2010 due to cost containment efforts. Rent, clinic supplies and other costs as a percent of net revenues was 20.0% for 2011 and 19.4% for 2010.

Clinic Operating Costs Provision for Doubtful Accounts

The provision for doubtful accounts for net patient receivables as a percentage of net patient revenues was 1.7% for 2011 and 1.6% for 2010. Our allowance for bad debts as a percentage of total patient accounts receivable was 7.0% at December 31, 2011 and 8.1% at December 31, 2010. The allowance for doubtful accounts at the end of each period is based on a detailed, clinic-by-clinic review of overdue accounts and is regularly reviewed in the aggregate in light of historical experience.

The accounts receivable days outstanding were 48 days at December 31, 2011 and 45 days at December 31, 2010. Receivables in the amount of $3.0 million and $2.8 million were written-off in 2011 and 2010, respectively.

Closure Costs

For 2011, closure costs amounted to $59,000 related to the closure of 17 clinics. In 2010, 15 clinics were closed with closure costs amounting to $163,000.

Corporate Office Costs

Corporate office costs, consisting primarily of salaries, benefits and equity based compensation of corporate office personnel and directors, rent, insurance costs, depreciation and amortization, travel, legal, compliance, professional, marketing and recruiting fees, were $24.7 million for 2011 and $22.8 million for 2010, an increase of $1.9 million inclusive of $0.5 million related to a potential legal settlement. Corporate office costs were reduced as a percentage of net revenues to 10.4% for 2011 from 10.8% for 2010.

Interest and Other Income, net

Interest and other income for 2011 included a pretax gain of $5.4 million related to a purchase price settlement on the February 2010 Acquisition that occurred beyond our purchase price measurement date. The settlement included $1.5 million in cash, $0.1 million in debt forgiveness and $3.8 million in exchange of the remaining noncontrolling interest. Interest and other income for 2010 included a pre-tax gain of $578,000 from the sale of our 51.0% interest in a five clinic Texas joint venture.

Interest Expense

Interest expense increased to $496,000 for 2011 from $236,000 for 2010 primarily due to higher average borrowings. At December 31, 2011, $23.5 million was outstanding under our revolving credit facility. See Liquidity and Capital Resources below for a discussion of the terms of our revolving credit facility.

27

Table of Contents

Provision for Income Taxes

The provision for income taxes increased to $11.1 million for 2011 from $8.8 million for 2010, an increase of approximately $2.3 million, primarily as a result of higher pre-tax income. For 2011, we accrued state and federal income taxes at an effective tax rate (provision for taxes divided by the difference between income from operations and net income attributable to noncontrolling interest) of 34.6%. Of the $5.4 million gain mentioned above, $3.8 million was non taxable. During the fourth quarter of 2010, we completed a process to perform a detailed reconciliation of our federal and state taxes payable and receivable accounts along with our federal and state deferred tax asset and liability accounts. Historically, calculations of these tax-related accounts were performed through summary estimates and analysis. As a result of this detailed analysis, we recorded a reduction in our current state income tax provision of $814,000. Without the effect of the $814,000, during 2010, we accrued state and federal income taxes at an effective tax rate of 39.4%. We performed a similar reconciliation process during the fourth quarter of 2011 which did not yield a significant adjustment.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests was $8.8 million in 2011 compared to $9.1 million in 2010. As a percentage of operating income before corporate office costs, net income attributable to noncontrolling interests was 14.5% in 2011 compared to 16.2% in 2010. The reduction is attributable to the Company s increased ownership interest in certain physical therapy partnerships.

FISCAL YEAR 2010 COMPARED TO FISCAL 2009

Net revenues rose 4.9% to $211.2 million for 2010 from $201.4 million for 2009 due to a 3.0% increase in net patient revenue per visit to $105.92 from $102.85 for 2009 while the number of patient visits increased by 1.5% from 1,899,000 to 1,927,000. Our net patient revenue per visit increased due to our continuing efforts to provide additional services and to negotiate more favorable reimbursement rates with payors. The 2010 results include 10 months of operations for the clinics acquired in the February 2010 Acquisition and eight days of operations for the clinics acquired in the December 21, 2010 Acquisition. The 2010 and 2009 results include 254 days and 255 days of operations, respectively.

Net income attributable to common shareholders increased 33.0% to $15.6 million for 2010 from $11.8 million. Earnings per diluted share increased to $1.32 from $1.00. Total diluted shares for the years ended December 31, 2010 and 2009 were 11.9 million and 11.8 million, respectively.

Net Patient Revenues

Net patient revenues increased to $204.1 million for 2010 from $195.3 million for 2009, an increase of $8.8 million, or 4.5%, primarily due to an increase of $3.07 in patient revenues per visit to $105.92 as previously mentioned.

Total patient visits increased to 1,927,000 for 2010 from 1,899,000 for 2009. 2010 New Clinics accounted for 62,000 additional visits in 2010 while 2010 Mature Clinics accounted for a decrease of 34,000 visits. For 2009 New Clinics, the number of visits increased by 35,000 from 2009 to 2010 due to an increase in business for developed clinics and a full year of activity for those opened in 2009. For 2009 Mature Clinics, the number of visits decreased by 68,000 in 2010 as compared to 2009.

Net patient revenues are based on established billing rates less allowances and discounts for patients covered by contractual programs and workers compensation. Net patient revenues reflect contractual and other adjustments, which we evaluate monthly, relating to patient discounts from certain payors. Payments received under these programs are based on predetermined rates and are generally less than the established billing rates of the clinics.

Table of Contents

Other Revenues

Other revenues increased by approximately $1.0 million from 2009 to 2010 due to additional management contracts.

Clinic Operating Costs

Clinic operating costs were 73.5% of net revenues for 2010 and 74.3% of net revenues for 2009. Each component of clinic operating costs is discussed below:

Clinic Operating Costs Salaries and Related Costs

Salaries and related costs increased to $110.9 million for 2010 from $105.7 million for 2009, an increase of $5.2 million, or 4.9%. Approximately $4.1 million of the increase was attributable to 2010 New Clinics. The remaining $1.1 million of the increase was due to $2.1 million in higher costs at various 2009 New Clinics offset by a decrease of $1.0 million in costs at various 2009 Mature Clinics. Salaries and related costs as a percentage of net revenues was 52.5% for 2010 and 2009.

Clinic Operating Costs Rent, Clinic Supplies and Other

Rent, clinic supplies and other costs increased to $40.9 million for 2010 from $40.5 million for 2009, an increase of $0.4 million, or 1.1%. For 2010, 2010 New Clinics accounted for approximately $1.9 million of the increase and 2009 New Clinics accounted for approximately $0.7 million of the increase due to a full year of activity for clinics developed in 2009. Rent, clinic supplies and other costs for 2009 Mature Clinics decreased $2.2 million in 2010 as compared to 2009 due to cost containment efforts. Rent, clinic supplies and other costs as a percent of net revenues was 19.4% for 2010 and 20.1% for 2009.

Clinic Operating Costs Provision for Doubtful Accounts

The provision for doubtful accounts for net patient receivables as a percentage of net patient revenues was 1.6% for 2010 and 1.7% for 2009. Our allowance for bad debts as a percentage of total patient accounts receivable was 8.1% at December 31, 2010 and 7.6% at December 31, 2009. The allowance for doubtful accounts at the end of each period is based on a detailed, clinic-by-clinic review of overdue accounts and is regularly reviewed in the aggregate in light of historical experience.

The accounts receivable days outstanding were 45 days at December 31, 2010 and December 31, 2009. Receivables in the amount of $2.8 million and $3.8 million were written-off in 2010 and 2009, respectively.

Closure Costs

In 2010, 15 clinics were closed with closure costs amounting to $163,000. For 2009, closure costs amounted to $91,000 related to the closure of 10 clinics.

Corporate Office Costs

Corporate office costs, consisting primarily of salaries, benefits and equity based compensation of corporate office personnel and directors, rent, insurance costs, depreciation and amortization, travel, legal, compliance, professional, marketing and recruiting fees, were $22.8 million for 2010 and $23.5 million for 2009, a decrease of $0.7 million. This decrease is primarily due to lower incentive compensation, including the long-term incentive plan. Corporate office costs as a percentage of net revenues were 10.8% for 2010 and 11.7% for 2009.

Interest and Other Income, net

Interest and other income for 2010 included a pre-tax gain of $578,000 from the sale of our 51.0% interest in a five clinic Texas joint venture.

Interest Expense

Interest expense decreased to $236,000 for 2010 from $352,000 for 2009 primarily due to lower average borrowings. At December 31, 2010, $5.5 million was outstanding under our revolving credit facility. See Liquidity and Capital Resources below for a discussion of the terms of our revolving credit facility.

Provision for Income Taxes

The provision for income taxes increased to $8.8 million for 2010 from $7.9 million for 2009, an increase of approximately $0.9 million, primarily as a result of higher pre-tax income. During the fourth quarter of 2010, we completed a process to perform a detailed reconciliation of our federal and state taxes payable and receivable accounts along with our federal and state deferred tax asset and liability accounts. Historically, calculations of these tax-related accounts were performed through summary estimates and analysis. As a result of this detailed analysis, we recorded a reduction in our current state income tax provision of $814,000. Without the effect of the $814,000, during 2010, we accrued state and federal income taxes at an effective tax rate (provision for taxes divided by the difference between income from operations and net income attributable to noncontrolling interest) of 39.4%. For 2009, the results included certain incentive compensation that was not tax deductible thereby slightly increasing the effective income tax rate to 40.3%.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests was $9.1 million in 2010 compared to $8.2 million in 2009. As a percentage of operating income before corporate office costs, net income attributable to noncontrolling interests was 16.2% in 2010 compared to 15.9% in 2009.

LIQUIDITY AND CAPITAL RESOURCES

We believe that our business is generating sufficient cash flow from operating activities to allow us to meet our short-term and long-term cash requirements, other than those with respect to future significant acquisitions. At December 31, 2011, we had $10.0 million in cash and cash equivalents compared to $9.2 million at December 31, 2010. Although the start-up costs associated with opening new clinics and our planned capital expenditures are significant, we believe that our cash and cash equivalents and availability under our revolving credit facility are sufficient to fund the working capital needs of our operating subsidiaries, future clinic development and investments through at least December 2012. The amount outstanding under our revolving credit facility was $23.5 million at December 31, 2011 compared to $5.5 million at December 31, 2010. At December 31, 2011, we had $51.5 million available under our revolving credit facility. Significant acquisitions would likely require financing under our revolving credit facility.

The increase in cash and cash equivalents of $0.8 million from December 31, 2010 to December 31, 2011 was due primarily to $32.7 million provided by operations, $18.0 million of net proceeds on our revolving credit facility and $1.5 million from a purchase price settlement. The major uses of cash for investing and financing activities included: acquisitions of noncontrolling interests ($20.4 million), distributions to noncontrolling interests ($9.8 million), purchase of business and earnout payment on a previously acquired business ($9.5 million), purchases of our common stock ($4.7 million), payments of cash dividends to our shareholders ($3.8 million), purchases of fixed assets ($3.2 million), and payments on notes payable ($0.3 million).

30

Effective August 27, 2007, we entered into a credit agreement with a commitment for a $30.0 million revolving credit facility which was increased to $50.0 million effective June 4, 2008 (Credit Agreement). Effective March 18, 2009, we amended the Credit Agreement to permit us to purchase up to $15,000,000 of our common stock subject to compliance with certain covenants, including the requirement that after giving effect to any stock purchase, our consolidated leverage ratio (as defined in the Credit Agreement) be less than 1.0 to 1.0 and that any stock repurchased be retired within seven days of purchase. Effective October 13, 2010, we amended the Credit Agreement to extend the maturity date from August 31, 2011 to August 31, 2015. In addition, the Credit Agreement was amended to adjust the pricing grid which is based on our consolidated leverage ratio with the applicable spread over LIBOR ranging from 1.6% to 2.5% or the applicable spread over the Base Rate ranging from .1% to 1%. On July 14, 2011, we amended the Credit Agreement to increase the commitment from $50.0 million to $75.0 million. The Credit Agreement is unsecured and has loan covenants, including requirements that we comply with a consolidated fixed charge coverage ratio and consolidated leverage ratio. Proceeds from the Credit Agreement may be used for working capital, acquisitions, purchases of our common stock, dividend payments to our common stockholders, capital expenditures and other corporate purposes. Fees under the Credit Agreement include an unused commitment fee ranging from .1% to .25% depending on our consolidated leverage ratio and the amount of funds outstanding under the Credit Agreement. On December 31, 2011, $23.5 million was outstanding on the revolving credit facility resulting in $51.5 million of availability, and we were in compliance with all of the covenants thereunder.

In six separate transactions during 2011, we purchased a total of 22.2% of the 30% non-controlling interest in STAR Physical Therapy, LP, a subsidiary of the Company (STAR). The aggregate purchase price paid for the 22.2% interest was $16.9 million, which included $0.8 million of undistributed earnings. The remaining purchase price of $16.1 million, less future tax benefits of $6.3 million, was recognized as an adjustment to additional paid-in capital. After these transactions, we owned 92.2% and the non-controlling interest limited partners in aggregate owned the remaining 7.8% in the partnership.

Effective June 30, 2011, we purchased the 35% non-controlling interest in one of our Texas partnerships (June 2011 Noncontrolling Interest Purchase). The aggregate purchase price for the 35% interest was $3.9 million, of which $3.5 million was paid in cash and $367,272 was paid in the form of a note to the seller. The purchase price included $0.2 million of undistributed earnings and $0.2 million in invested capital. The remaining purchase price of $3.5 million, less future tax benefits of $1.4 million, was recognized as an adjustment to additional paid-in capital. After this transaction, we own 100% of the partnership.

In addition, during 2011, we purchased the non-controlling interests of several other partners for $142,000, which included $48,000 of undistributed earnings and sold additional interest to an existing partner for $58,000. The net purchase price of approximately $36,000, less future tax benefits of $23,000, was recognized as an adjustment to additional paid-in capital.

Historically, we have generated sufficient cash from operations to fund our development activities and to cover operational needs. We plan to continue developing new clinics and making additional acquisitions in selected markets. We have from time to time purchased the noncontrolling interests of limited partners in our Clinic Partnerships. We may purchase additional noncontrolling interests in the future. Generally, any acquisition or purchase of noncontrolling interests is expected to be accomplished using a combination of cash and financing. Any large acquisition would likely require financing.

We make reasonable and appropriate efforts to collect accounts receivable, including applicable deductible and co-payment amounts. Claims are submitted to payors daily, weekly or monthly in accordance with our policy or payor s requirements. When possible, we submit our claims electronically. The collection process is time consuming and typically involves the submission of claims to multiple payors whose payment of claims may be dependent upon the payment of another payor. Claims under litigation and vehicular incidents can take a year or longer to collect. Medicare and other payor claims relating to new clinics awaiting Medicare Rehab Agency status approval initially

may not be submitted for six months or more. When all reasonable internal collection efforts have been exhausted, accounts are written off prior to sending them to outside collection firms. With

Table of Contents

managed care, commercial health plans and self-pay payor type receivables, the write-off generally occurs after the account receivable has been outstanding for 120 days or longer.

We have future obligations for debt repayments, employment agreements and future minimum rentals under operating leases. The obligations as of December 31, 2011 are summarized as follows (in thousands):

Contractual Obligation	Total	2012	2013	2014	2015	2016	Thereafter
Notes Payable	$ 24,217	$ 433	$ 284	$	$ 23,500	$	$
Interest Payable	$ 37	28	9				
Employee Agreements	$ 24,677	16,789	5,012	1,892	711	273	
Operating Leases	$ 52,661	17,306	13,070	9,381	6,421	2,830	3,653
	$ 101,592	$ 34,556	$ 18,375	$ 11,273	$ 30,632	$ 3,103	$ 3,653

We generally enter into various notes payable as a means of financing our acquisitions. Our presently outstanding notes payable relate only to certain of the acquisitions of businesses and noncontrolling interests that occurred in 2011 and 2010. For those acquisitions, we entered into several notes payables aggregating to $1.1 million. The notes are payable in equal annual installments of principal over two years plus any accrued and unpaid interest. Interest accrues at various interest rates ranging from 3.25% to 4.0% per annum. In addition, we assumed leases with remaining terms of 1 month to 6 years for the operating facilities. At December 31, 2011, the balance on these notes payable was $0.7 million.

In conjunction with the above mentioned acquisitions, in the event that a limited minority partner s employment ceases at any time after three years from the acquisition date, we have agreed to repurchase that individual s noncontrolling interest at a predetermined multiple of earnings before interest and taxes.

The purchase agreement related to an acquisition that occurred in 2008 provided for possible contingent consideration of up to $3,781,000 based on the achievement of a designated level of operating results within a three-year period following the acquisition. In 2009, 2010 and 2011, we paid $1,179,000, $1,080,000 and $1,522,000, respectively, of additional consideration related to the operating results of such acquired business. Those amounts were recorded as additional goodwill.

From September 2001 through December 31, 2008, the Board authorized us to purchase, in the open market or in privately negotiated transactions, up to 2,250,000 shares of our common stock. In March 2009, the Board authorized the repurchase of up to 10% or approximately 1,200,000 shares of our common stock (March 2009 Authorization). In connection with the March 2009 Authorization, we amended our bank credit agreement to permit the share repurchases of up to $15,000,000. We are required to retire shares purchased under the March 2009 Authorization. Since there is no expiration date for these share repurchase programs, additional shares may be purchased from time to time in the open market or private transactions depending on price, availability and our cash position. During 2011, we purchased 254,642 shares of our common stock for an aggregate cost of $4.7 million. Using the December 31, 2011 closing price of $19.68 per share, there were approximately 172,000 shares remaining that could be purchased under these programs. During 2010, we purchased 86,522 shares for an aggregate purchase price of $1.4 million. During 2009, we purchased 518,335 shares for an aggregate price of $5.6 million.

Off Balance Sheet Arrangements

With the exception of operating leases for its executive offices and clinic facilities discussed in Note 13 to our consolidated financial statements included in Item 8, we have no off-balance sheet debt or other off-balance sheet financing arrangements.

32

Table of Contents

FACTORS AFFECTING FUTURE RESULTS

The risks related to our business and operations include:

- The uncertain economic conditions and the historically high unemployment rate in the United States may have material adverse impacts on our business and financial condition that we currently cannot predict.
- We depend upon reimbursement by third-party payors including Medicare and Medicaid.
- Changes as a result of healthcare reform legislation may affect our business.
- We depend upon the cultivation and maintenance of relationships with the physicians in our markets.
- We also depend upon our ability to recruit and retain experienced physical therapists.
- Our revenues may fluctuate due to weather.
- Our operations are subject to extensive regulation.
- We operate in a highly competitive industry.
- We may incur closure costs and losses.
- Future acquisitions may use significant resources, may be unsuccessful and could expose us to unforeseen liabilities.
- Certain of our internal controls, particularly as they relate to billings and cash collections, are largely decentralized at our clinic locations.

See Risk Factors in Item 1A of this Annual Report on Form 10-K.

ITEM 7A. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

We do not maintain any derivative instruments such as, interest rate swap arrangements, hedging contracts, futures contracts or the like. Our only indebtedness as of December 31, 2011 was seller notes of $0.7 million and an outstanding balance on our revolving credit facility of $23.5 million. The outstanding balance under our revolving credit facility is subject to fluctuating interest rates. A 1% change in the interest rate would yield an additional $235,000 of interest expense. See Note 7 of the

Notes to the Consolidated Financial Statements in Item 8.

Table of Contents

ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.***

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND RELATED INFORMATION

Reports of Independent Registered Public Accounting Firm Grant Thornton LLP	35
Audited Financial Statements:	
Consolidated Balance Sheets as of December 31, 2011 and 2010	37
Consolidated Statements of Net Income for the years ended December 31, 2011, 2010 and 2009	38
Consolidated Statements of Shareholders Equity for the years ended December 31, 2011, 2010 and 2009	39
Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009	40
Notes to Consolidated Financial Statements	41

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and

Shareholders of U.S. Physical Therapy, Inc.

We have audited the accompanying consolidated balance sheets of U.S. Physical Therapy, Inc. (a Nevada corporation) and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of net income, shareholders equity and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of U.S. Physical Therapy, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their consolidated operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), U.S. Physical Therapy, Inc. and subsidiaries internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 9, 2012, expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Houston, Texas

March 9, 2012

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and

Shareholders of U.S. Physical Therapy, Inc.

We have audited U.S. Physical Therapy, Inc. (a Nevada Corporation) and subsidiaries internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Frame*work issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). U.S. Physical Therapy, Inc. and subsidiaries management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report appearing under Item 9A on Internal Control over Financial Reporting. Our responsibility is to express an opinion on U.S. Physical Therapy, Inc. s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

In our opinion, based on our audit, U.S. Physical Therapy, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of U.S. Physical Therapy, Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of net income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2011, and our report dated March 9, 2012 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Houston, Texas

March 9, 2012

Table of Contents

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2011	December 31, 2010
	(In thousands, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,983	$ 9,179
Patient accounts receivable, less allowance for doubtful accounts of $2,154 and $2,190, respectively	28,333	24,814
Accounts receivable other, less allowance for doubtful accounts of $883 and $83, respectively	1,614	1,555
Other current assets	5,737	3,736
Total current assets	45,667	39,284
Fixed assets:		
Furniture and equipment	35,103	33,563
Leasehold improvements	20,385	19,590
	55,488	53,153
Less accumulated depreciation and amortization	42,299	39,230
	13,189	13,923
Goodwill	92,750	79,424
Other intangible assets, net	9,603	7,308
Other assets	2,043	922
	$ 163,252	$ 140,861
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable trade	$ 1,809	$ 1,237
Accrued expenses	14,082	12,744
Current portion of notes payable	433	250
Total current liabilities	16,324	14,231
Notes payable	284	250
Revolving line of credit	23,500	5,500
Deferred rent	941	966
Other long-term liabilities	623	3,531
Total liabilities	41,672	24,478
Commitments and contingencies		
Shareholders equity:		
U. S. Physical Therapy, Inc. shareholders equity:		
Preferred stock, $.01 par value, 500,000 shares authorized, no shares issued and outstanding		
Common stock, $.01 par value, 20,000,000 shares authorized, 13,919,588 and 13,893,157 shares issued, respectively	139	139
Additional paid-in capital	36,133	45,570
Retained earnings	102,405	89,876

Treasury stock at cost, 2,214,737 shares	(31,628)	(31,628)
Total U. S. Physical Therapy, Inc. shareholders equity	107,049	103,957
Noncontrolling interests	14,531	12,426
Total equity	121,580	116,383
	$ 163,252	$ 140,861

See notes to consolidated financial statements.

Table of Contents

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF NET INCOME

	Year Ended December 31,		
	2011	2010	2009
	(In thousands, except per share data)		
Net patient revenues	$ 226,579	$ 204,101	$ 195,322
Other revenues	10,427	7,132	6,087
Net revenues	237,006	211,233	201,409
Clinic operating costs:			
Salaries and related costs	125,117	110,872	105,737
Rent, clinic supplies, contract labor and other	47,396	40,944	40,502
Provision for doubtful accounts	3,785	3,241	3,348
Closure costs	59	163	91
Total clinic operating costs	176,357	155,220	149,678
Corporate office costs	24,718	22,823	23,479
Operating income	35,931	33,190	28,252
Interest and other income, net	5,445	586	8
Interest expense	(496)	(236)	(352)
Income from operations	40,880	33,540	27,908
Provision for income taxes	11,097	8,840	7,934
Net income including noncontrolling interests	29,783	24,700	19,974
Less: net income attributable to noncontrolling interests	(8,809)	(9,055)	(8,207)
Net income attributable to common shareholders	$ 20,974	$ 15,645	$ 11,767
Earnings per share attributable to common shareholders:			
Basic	$ 1.78	$ 1.34	$ 1.01
Diluted	$ 1.75	$ 1.32	$ 1.00
Shares used in computation:			
Basic	11,814	11,638	11,703
Diluted	11,977	11,870	11,807

See notes to consolidated financial statements.

Table of Contents

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	U. S. Physical Therapy, Inc.								
	Common Stock		Additional Paid-In	Retained	Treasury Stock		Total Shareholders	Noncontrolling	
	Shares	Amount	Capital	Earnings	Shares	Amount	Equity	Interests	Total
					(In thousands)				
Balance December 31, 2008	14,252	$ 142	$ 43,648	$ 69,446	(2,215)	$ (31,628)	$ 81,608	$ 6,214	$ 87,822
Proceeds from exercise of stock options	11	1	56				57		57
Tax benefit from exercise of stock options			44				44		44
Issuance of restricted stock	97								
Cancellation of restricted stock	(13)								
Compensation expense restricted stock			974				974		974
Compensation expense stock options			599				599		599
Acquisition of noncontrolling interests			(2,111)				(2,111)	(83)	(2,194)
Purchase and retirement of treasury stock	(518)	(5)		(5,581)			(5,586)		(5,586)
Distributions to noncontrolling interest partners								(9,465)	(9,465)
Net income				11,767			11,767	8,207	19,974
Balance December 31, 2009	13,829	$ 138	$ 43,210	$ 75,632	(2,215)	$ (31,628)	$ 87,352	$ 4,873	$ 92,225
Proceeds from exercise of stock options	68	1	419				420		420
Tax benefit from exercise of stock options			336				336		336
Issuance of restricted stock	93								
Cancellation of restricted stock	(10)								
Compensation expense restricted stock			1,245				1,245		1,245
Compensation expense stock options			47				47		47

Purchase of business								8,133	8,133
Sale of business								(92)	(92)
Acquisition of noncontrolling interests			313				313	37	350
Purchase and retirement of treasury stock	(87)			(1,401)			(1,401)		(1,401)
Distributions to noncontrolling interest partners								(9,580)	(9,580)
Net income				15,645			15,645	9,055	24,700
Balance December 31, 2010	13,893	$ 139	$ 45,570	$ 89,876	(2,215)	$ (31,628)	$ 103,957	$ 12,426	$ 116,383
Proceeds from exercise of stock options	139								
Net tax benefit from exercise of stock options			217				217		217
Issuance of restricted stock	160								
Cancellation of restricted stock	(18)								
Compensation expense restricted stock			2,032				2,032		2,032
Transfer of compensation liability for certain stock issued pursuant to long-term incentive plans			199				199		199
Purchase of business								8,096	8,096
Sale of business									
Acquisition of noncontrolling interests			(11,885)				(11,885)	(1,198)	(13,083)
Settlement of purchase price								(3,835)	(3,835)
Purchase and retirement of treasury stock	(255)			(4,656)			(4,656)		(4,656)
Distributions to noncontrolling interest partners								(9,767)	(9,767)
Cash dividends to shareholders				(3,789)			(3,789)		(3,789)
Net income				20,974			20,974	8,809	29,783
Balance December 31, 2011	13,919	$ 139	$ 36,133	$ 102,405	(2,215)	$ (31,628)	$ 107,049	$ 14,531	$ 121,580

See notes to consolidated financial statements.

Table of Contents

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
OPERATING ACTIVITIES			
Net income including noncontrolling interests	$ 29,783	$ 24,700	$ 19,974
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:			
Depreciation and amortization	5,449	5,667	5,897
Provision for doubtful accounts	3,785	3,241	3,348
Gain on purchase price settlement	(5,435)		
Equity-based awards compensation expense	2,032	1,292	1,573
Loss (gain) on sale of business and fixed assets	182	(333)	122
Excess tax benefit from exercise of stock options	(217)	(336)	(44)
Deferred income tax	3,833	452	714
Other	437	(414)	(492)
Changes in operating assets and liabilities:			
(Increase) decrease in patient accounts receivable	(5,147)	(4,169)	165
Increase in accounts receivable other	(990)	(297)	(468)
(Increase) decrease in other assets	(1,972)	206	(855)
Increase (decrease) in accounts payable and accrued expenses	1,190	(292)	595
(Decrease) increase in other liabilities	(275)	804	415
Net cash provided by operating activities	32,655	30,521	30,944
INVESTING ACTIVITIES			
Purchase of fixed assets	(3,222)	(3,673)	(3,876)
Purchase of businesses, net of cash acquired	(9,451)	(18,197)	(1,178)
Acquisitions of noncontrolling interests	(20,439)	(682)	(2,329)
Settlement of purchase price	1,500		
Proceeds on sale of business and fixed assets, net	6	919	57
Net cash used in investing activities	(31,606)	(21,633)	(7,326)
FINANCING ACTIVITIES			
Distributions to noncontrolling interests	(9,767)	(9,580)	(9,438)
Cash dividends to shareholders	(3,789)		
Purchase and retire of common stock	(4,656)	(1,401)	(5,586)
Proceeds from revolving line of credit	118,900	46,300	24,450
Payments on revolving line of credit	(100,900)	(41,200)	(35,450)
Payment of notes payable	(250)	(1,013)	(1,379)
Tax benefit from stock options exercised	217	336	44
Proceeds from exercise of stock options		420	57
Net cash provided by (used in) financing activities	(245)	(6,138)	(27,302)
Net increase (decrease) in cash and cash equivalents	804	2,750	(3,684)
Cash and cash equivalents beginning of period	9,179	6,429	10,113
Cash and cash equivalents end of period	$ 9,983	$ 9,179	$ 6,429
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			

Cash paid during the period for:						
Income taxes	$	9,037	$	7,804	$	8,445
Interest	$	325	$	179	$	324
Non-cash investing and financing transactions during the period:						
Purchase of business seller financing portion	$	200	$	525	$	
Acquisition of noncontrolling interest seller financing portion	$	367	$		$	

See notes to consolidated financial statements.

Table of Contents

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011

1. Organization, Nature of Operations and Basis of Presentation

U.S. Physical Therapy, Inc. and its subsidiaries (the Company) operate outpatient physical therapy clinics that provide pre- and post-operative care and treatment for orthopedic-related disorders, sports-related injuries, preventative care, rehabilitation of injured workers and neurological-related injuries. As of December 31, 2011 the Company owned and operated 416 clinics in 42 states including the to physician services facilities described below. The clinics business primarily originates from physician referrals. The principal sources of payment for the clinics services are managed care programs, commercial health insurance, Medicare/Medicaid, workers compensation insurance and proceeds from personal injury cases. In addition to the Company s ownership of outpatient physical therapy clinics, it also operates two physician services facilities which provide services related to intra articular joint and lumbar osteoarthritis programs as well as electro-diagnostic analysis and manages physical therapy facilities for third parties, including physicians, with 15 such third-party facilities under management as of December 31, 2011.

The consolidated financial statements include the accounts of U.S. Physical Therapy, Inc. and its subsidiaries. All significant intercompany transactions and balances have been eliminated. The Company primarily operates through subsidiary clinic partnerships in which the Company generally owns a 1% general partnership interest and a 64% limited partnership interest. The managing therapist of each clinic owns the remaining limited partnership interest in the majority of the clinics (hereinafter referred to as Clinic Partnership). To a lesser extent, the Company operates some clinics through wholly-owned subsidiaries under profit sharing arrangements with therapists (hereinafter referred to as Wholly-Owned Facilities).

During 2011, we opened 21 clinics, acquired 20 and closed 17. Of the 21 clinics opened, six were with new partners and 15 were satellites of existing partnerships.

On July 25, 2011, the Company acquired a 51% interest in a 20 clinic multi-partner physical therapy group (July Acquisition). During 2010, we acquired a majority interest in 25 clinics in three separate transactions. On February 26, 2010, we acquired a 70% interest in five clinics in the northeast (February 2010 Acquisition). On December 21, 2010, we acquired a 70% interest in a six clinic physical therapy group in the mid-Atlantic region (December 21, 2010 Acquisition). On December 31, 2010, we acquired a 65% interest in a 14 clinic physical therapy group located in the Southeast (December 31, 2010 Acquisition).

Clinic Partnerships

For Clinic Partnerships, the earnings and liabilities attributable to the noncontrolling interest, typically owned by the managing therapist, directly or indirectly, are recorded within the statements of net income and balance sheets as noncontrolling interests.

Wholly-Owned Facilities

For Wholly-Owned Facilities with profit sharing arrangements, an appropriate accrual is recorded for the amount of profit sharing due the clinic partners/directors. The amount is expensed as compensation and included in clinic operating costs salaries and related costs. The respective liability is included in current liabilities accrued expenses on the balance sheet.

Physician Services Revenues

Revenues from physician services are generated by franchisee arrangements with third parties, pursuant to which there are multiple deliverables training and ongoing services as well as through the two physician services facilities. Each component can be purchased separately. Revenue is recognized over the period the respective services are provided. Physician service revenue are included in other revenues in the accompanying Consolidated Statements of Net Income.

41

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Management Contract Revenues

Management contract revenues are derived from contractual arrangements whereby the Company manages a clinic for third party owners. The Company does not have any ownership interest in these clinics. Typically, revenues are determined based on the number of visits conducted at the clinic and recognized when services are performed. Costs, typically salaries for the Company s employees, are recorded when incurred. Management contract revenues are included in other revenues in the accompanying Consolidated Statements of Net Income.

2. Significant Accounting Policies

Cash Equivalents

The Company maintains its cash and cash equivalents at financial institutions. The combined account balances at several institutions typically exceed Federal Deposit Insurance Corporation (FDIC) insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. Management believes that this risk is not significant.

Long-Lived Assets

Fixed assets are stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. Estimated useful lives for furniture and equipment range from three to eight years and for software purchased from three to seven years. Leasehold improvements are amortized over the shorter of the related lease term or estimated useful lives of the assets, which is generally three to five years.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

The Company reviews property and equipment and intangible assets with finite lives for impairment upon the occurrence of certain events or circumstances that indicate the related amounts may be impaired. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Goodwill

Goodwill represents the excess of costs over the fair value of the acquired business assets. Historically, goodwill has been derived from acquisitions and, prior to 2009, from the purchase of some or all of a particular local management s equity interest (noncontrolling interests) in an existing clinic. Effective January 1, 2009, if the purchase price of a noncontrolling interest by the Company exceeds or is less than the book value at the time of purchase, any excess or shortfall is recognized as an adjustment to additional paid-in capital.

The fair value of goodwill and other intangible assets with indefinite lives are tested for impairment annually and upon the occurrence of certain events, and are written down to fair value if considered impaired. The Company evaluates goodwill for impairment on at least an annual basis (in its third quarter) by comparing the fair value of each reporting unit to the carrying value of the reporting unit including related goodwill. The Company operates a one segment business which is made up of various clinics within partnerships. A reporting unit refers to the acquired interest of a single clinic or group of

clinics. Local management typically continues to manage the acquired clinic or group of clinics. For each clinic or group of clinics, the Company maintains discrete financial information and both corporate and local management regularly review the operating results. The Company did not combine any of the reporting units for impairment testing in any year presented. For each purchase of the equity interest, goodwill, if any, is assigned to the respective clinic or group of clinics, if deemed appropriate. The evaluation of goodwill in 2011, 2010 and 2009 did not result in any goodwill amounts that were deemed impaired.

An impairment loss generally would be recognized when the carrying amount of the net assets of the reporting unit, inclusive of goodwill and other intangible assets, exceed the estimated fair value of the reporting

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

unit. The estimated fair value of a reporting unit is determined using two factors: (i) earnings prior to taxes, depreciation and amortization for the reporting unit multiplied by a price/earnings ratio used in the industry and (ii) a discounted cash flow analysis. A weight is assigned to each factor and the sum of the each weight times the factor is considered the estimated fair value. For 2011, the factors (ie. price/earnings ratio, discount rate and residual capitalization rate) were updated to reflect current market conditions.

The Company has not identified any triggering events occurring after the testing date that would impact the impairment testing results obtained. Factors which could result in future impairment charges include but are not limited to:

- revenue and earnings expectations;
- general economic conditions;
- regulatory conditions including federal and state regulations;
- changes as the result of government enacted national healthcare reform;
- availability and cost of qualified physical therapists;
- personnel productivity;
- changes in Medicare guidelines and reimbursement or failure of our clinics to maintain their Medicare certification status;
- competitive, economic or reimbursement conditions in our markets which may require us to reorganize or close certain clinics and thereby incur losses and/or closure costs;
- changes in reimbursement rates or payment methods from third party payors including government agencies and deductibles and co-pays owed by patients;
- maintaining adequate internal controls;

- availability, terms, and use of capital;
- acquisitions and the successful integration of the operations of the acquired businesses; and
- weather and other seasonal factors.

The Company will continue to monitor for any triggering events or other indicators of impairment.

Noncontrolling Interests

The Company recognizes noncontrolling interests as equity in the consolidated financial statements separate from the parent entity s equity. The amount of net income attributable to noncontrolling interests is included in consolidated net income on the face of the income statement. Changes in a parent entity s ownership interest in a subsidiary that do not result in deconsolidation are treated as equity transactions if the parent entity retains its controlling financial interest. The Company recognizes a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss is measured using the fair value of the noncontrolling equity investment on the deconsolidation date.

When the purchase price of a noncontrolling interest by the Company exceeds the book value at the time of purchase, any excess or shortfall is recognized as an adjustment to additional paid-in capital. Additionally, operating losses are allocated to noncontrolling interests even when such allocation creates a deficit balance for the noncontrolling interest partner.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue Recognition

Revenues are recognized in the period in which services are rendered. Net patient revenues (patient revenues less estimated contractual adjustments) are reported at the estimated net realizable amounts from third-party payors, patients and others for services rendered. The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established rates. The allowance for estimated contractual adjustments is based on terms of payor contracts and historical collection and write-off experience.

The Company determines allowances for doubtful accounts based on the specific agings and payor classifications at each clinic. The provision for doubtful accounts is included in clinic operating costs in the statement of net income. Net accounts receivable, which are stated at the historical carrying amount net of contractual allowances, write-offs and allowance for doubtful accounts, includes only those amounts the Company estimates to be collectible.

The Medicare program reimburses outpatient rehabilitation providers based on the Medicare Physician Fee Schedule (MPFS). The MPFS rates are automatically updated annually based on a formula, called the sustainable growth rate (SGR) formula. The use of the SGR formula has resulted in calculated automatic reductions in rates in every year since 2002; however, for each year through 2011, Centers for Medicare & Medicaid Services (CMS) or Congress has taken action to prevent the implementation of SGR formula reductions. The Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2011 provided a 2.2% increase to MPFS payment rates, retroactive from June 1, 2011 through November 30, 2011, suspending a 21.3% reduction that briefly became effective on June 1, 2011. The Medicare and Medicaid Extenders Act of 2011 (MMEA) prevented a 25.5% reduction in the MPFS payment rates that would have taken effect on January 1, 2011. The Temporary Payroll Tax Cut Continuation Act of 2011 (TPTC) delayed application of the SGR for two additional months, through February 29, 2012. The Middle Class Tax Relief and Job Creation Act of 2012 (MCTRA) included a measure freezing payment rates at their current level through December 31, 2012.

On November 1, 2011, CMS released the 2012 Medicare Physician Fee Schedule final rule. Given the prevention of the 27.4% reduction, the projected impact of other changes in the rule on outpatient physician therapy service payments in aggregate is expected to be a 4.0% increase in 2012, primarily due to the continued phase in of new practice expense survey data derived from the Physician Practice Information Survey (PPIS). In 2013, when the use of the PPIS data is fully phased in, the impact is expected to be a 6.0% increase for outpatient physical therapy payments. In the final 2012 Medicare Physician Fee Schedule rule, CMS indicated that over the next year it will continue to review whether specific Current Procedural Terminology (CPT) codes billed under the fee schedule are overvalued or undervalued, including certain specific CPT codes used by physical therapists.

As a result of the Balanced Budget Act of 1997, the formula for determining the total amount paid by Medicare in any one year for outpatient physical therapy, occupational therapy, and/or speech-language pathology services provided to any Medicare beneficiary (*i.e.*, the Therapy Cap or Limit) was established. Based on the statutory definitions which constrained how the Therapy Cap would be applied, there is one Limit for Physical Therapy and Speech Language Pathology Services combined, and one Limit for Occupational Therapy. These Therapy Caps are applicable to outpatient therapy services provided in all settings, except for services provided in departments of hospitals. Therefore, outpatient therapy services rendered to Medicare beneficiaries by the Company s therapist personnel are subject to the Therapy Cap, except to the extent these services are rendered pursuant to certain management and professional services agreements with hospitals for services provided in hospital departments. Effective January 1, 2012, the annual Limit on outpatient therapy services is $1,880 for physical therapy and speech language pathology services combined and $1,880 for

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

occupational therapy services. Under the MCTRA this Limit will temporarily apply to hospital outpatient departments beginning no later than October 1, 2012.

Furthermore, under the MCTRA, starting on October 1, 2012, patients who meet or exceed $3,700 in therapy expenditures will be subject to a manual medical review. The MCTRA designates that this medical review will be similar to the process used following Deficit Reduction Act implementation in 2006. The $3,700 threshold will be applied to the combined physical therapy/speech language pathology cap; a separate $3,700 threshold will be applied to the occupational therapy cap.

In conjunction with establishing the Therapy Cap, Congress either delayed the implementation of these Limits or it provided a process authorizing CMS to grant exceptions to the Therapy Cap for services provided during a given year, as long as those services met certain qualifications. More recently, the MMEA extended the exceptions process for outpatient Therapy Caps through December 31, 2011, and the TPTC directed CMS to continue to allow exceptions to Therapy Caps for certain medically necessary services provided on or after January 1, 2012, through February 29, 2012. Under the MCTRA, Congress may extend the Therapy Caps exceptions process through December 31, 2012.

CMS adopted a multiple procedure payment reduction (MPPR) for therapy services in the final update to the MPFS for calendar year 2011. Under MPPR, the Medicare program pays 100% of the practice expense component of the Relative Value Unit (RVU) for the therapy procedure with the highest RVU, then reduces the payment for the practice expense component of the RVU for additional procedures. The reduction for these subsequent procedures varies based on the setting, with a 20% reduction for services in an office or other non-institutional setting and 25% in institutional settings. The reduction applies to any service furnished during the same day for the same patient, regardless of the type of therapy service or whether the therapy services are furnished in separate sessions. The MPPR was continued in calendar year 2012.

Statutes, regulations, and payment rules governing the delivery of therapy services to Medicare beneficiaries are complex and subject to interpretation. The Company believes that it is in compliance in all material respects with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the Company s financial statements as of December 31, 2011. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare program.

Management contract revenues are derived from contractual arrangements whereby we manage a clinic for third party owners. The Company does not have any ownership interest in these clinics. Typically, revenues are determined based on the number of visits conducted at the clinic and recognized when services are performed. Physician services and other revenues are recognized as services are performed.

Contractual Allowances

Contractual allowances result from the differences between the rates charged for services performed and expected reimbursements by both insurance companies and government sponsored healthcare programs for such services. Medicare regulations and the various third party payors and managed care contracts are often complex and may include multiple reimbursement mechanisms payable for the services provided in Company clinics. The Company estimates contractual allowances based on its interpretation of the applicable regulations, payor contracts and historical calculations. Each month the Company estimates its contractual allowance for each clinic based on payor contracts and the historical collection experience of the clinic and applies an appropriate

45

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

contractual allowance reserve percentage to the gross accounts receivable balances for each payor of the clinic. Based on the Company s historical experience, calculating the contractual allowance reserve percentage at the payor level is sufficient to allow the Company to provide the necessary detail and accuracy with its collectibility estimates. However, the services authorized and provided and related reimbursement are subject to interpretation that could result in payments that differ from the Company s estimates. Payor terms are periodically revised necessitating continual review and assessment of the estimates made by management. The Company s billing system does not capture the exact change in its contractual allowance reserve estimate from period to period in order to assess the accuracy of its revenues and hence its contractual allowance reserves. Management regularly compares its cash collections to corresponding net revenues measured both in the aggregate and on a clinic-by-clinic basis. In the aggregate, historically the difference between net revenues and corresponding cash collections has generally reflected a difference within approximately 1% of net revenues. Additionally, analysis of subsequent period s contractual write-offs on a payor basis reflects a difference within approximately 1% between the actual aggregate contractual reserve percentage as compared to the estimated contractual allowance reserve percentage associated with the same period end balance. As a result, the Company believes that a change in the contractual allowance reserve estimate would not likely be more than 1% at December 31, 2011.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount to be recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

The Company did not have any accrued interest or penalties associated with any unrecognized tax benefits nor was any interest expense recognized during the twelve months ended December 31, 2011 and 2010. The Company will book any interest or penalties, if required, in interest and/or other income/expense as appropriate.

Fair Values of Financial Instruments

The carrying amounts reported in the balance sheet for cash and cash equivalents, accounts receivable, accounts payable and notes payable approximate their fair values due to the short-term maturity of these financial instruments. The carrying amount of the revolving credit facility approximates its fair value. The interest rate on the revolving credit facility, which is tied to the Eurodollar Rate, is set at various short-term intervals, as detailed in the credit agreement.

Segment Reporting

Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by chief operating decision makers in deciding how to allocate resources and in assessing performance. The Company identifies operating segments based on management responsibility and believes it meets the criteria for aggregating its operating segments into a single reporting segment.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Use of Estimates

In preparing the Company s consolidated financial statements, management makes certain estimates and assumptions, especially in relation to, but not limited to, goodwill impairment, allowance for receivables, tax provision and contractual allowances, that affect the amounts reported in the consolidated financial statements and related disclosures. Actual results may differ from these estimates.

Self-Insurance Program

The Company utilizes a self insurance plan for its employee group health insurance coverage administered by a third party. Predetermined loss limits have been arranged with the insurance company to minimize the Company s maximum liability and cash outlay. Accrued expenses include the estimated incurred but unreported costs to settle unpaid claims and estimated future claims. Management believes that the current accrued amounts are sufficient to pay claims arising from self insurance claims incurred through December 31, 2011.

Stock Options

The Company measures and recognizes compensation expense for all stock-based payments at fair value. Compensation cost recognized includes compensation for all stock-based payments granted prior to, but not yet vested on January 1, 2006, based on the grant-date fair value estimated at the time of grant and compensation cost for the stock-based payments granted subsequent to January 1, 2006, based on the grant-date fair value. No stock options were granted during the years ended December 31, 2011, 2010 and 2009.

Prior to October 1, 2005, the Company utilized Black-Scholes, a standard option pricing model, to measure the fair value of stock options granted to employees. The Black-Scholes model does not provide for the interaction among economic and behavioral assumptions. In the fourth quarter of 2005, the Company determined that the Trinomial Lattice Model was the best available measure of the fair value of employee stock options. The Trinomial Lattice Model accounts for changing employee behavior as the stock price changes. The use of a lattice model captures the observed pattern of increasing rates of exercise as the stock price increases.

As of December 31, 2011, there were no nonvested stock options.

Restricted Stock

Restricted stock issued to employees and directors is subject to continued employment or continued service on the board, respectively. Typically, the transfer restrictions for shares granted to employees lapse in equal installments on the following four or five annual anniversaries of the date of grant. Compensation expense for grants of restricted stock is recognized based on the fair value per share on the date of grant amortized over the vesting period. The restricted stock issued is included in basic and diluted shares for the earnings per share computation.

Recently Promulgated Accounting Pronouncements

In July 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-07, Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts

and the Allowance for Doubtful Accounts for Certain Health Care Entities (ASU 2011-07). ASU 2011-07 requires certain health care entities to change the presentation in their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities are

Table of Contents

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The amendments also require disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. ASU 2011-07 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of ASU 2011-07 in 2012 is not expected to have a material impact on the Company s consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment (ASU 2011-08), which modifies the impairment test for goodwill and indefinite lived intangibles. These modifications provide an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the fair value of a reporting unit is less than its carrying amount. Such qualitative factors may include the following: macroeconomic conditions; industry and market considerations; cost factors; overall financial performance; and other relevant entity-specific events. If an entity elects to perform a qualitative assessment and determines that an impairment is more likely than not, the entity is then required to perform the existing two-step quantitative impairment test, otherwise no further analysis is required. An entity also may elect not to perform the qualitative assessment and, instead, go directly to the two-step quantitative impairment test. These changes are effective for any goodwill impairment test performed on January 1, 2012 or later, although early adoption is permitted. These changes should not affect the outcome of the impairment analysis of a reporting unit. The Company performs a review of the Company s goodwill in the third quarter of each fiscal year. The adoption of ASU 2011-08 in 2012 is not expected to have a material impact on the Company s consolidated financial statements.

Subsequent Event

The Company has evaluated events occurring after the balance sheet date for possible disclosure as a subsequent event through the date that these financial statements were issued.

3. Acquisitions and Divestiture

Acquisition of Businesses

During 2011 and 2010, the Company completed the following multi-clinic acquisitions of physical therapy practices:

Acquisition	Date	% Interest Acquired	Number of Clinics
	2011		
July 2011 Acquisition	July 25	51%	20
	2010		
February 2010 Acquisition	February 26	70%	5
December 21, 2010 Acquisition	December 21	70%	6
December 31, 2010 Acquisition	December 31	65%	14

In addition to the above multi-clinic acquisitions, on March 1, 2010, a subsidiary of the Company purchased an outpatient therapy practice for $100,000, which consisted of $75,000 of cash and a payable of $25,000. The purchase price was allocated $30,000 to non-current assets and $70,000 to goodwill. Effective July 1, 2010, a subsidiary of the Company purchased an outpatient therapy practice for $100,000, which consisted of $50,000

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

cash and a payable of $50,000, of which $25,000 was paid in December 2010. The purchase price was allocated $30,000 to non-current assets, $20,000 to non-competition agreement and $50,000 to goodwill. Both practices were consolidated into existing Company clinics. The Company did not acquire any clinics in 2009.

The purchase price for the 51% interest in the July 2011 Acquisition was $8,426,000, which consisted of $8,226,000 in cash and a $200,000 seller note, that is payable in two principal installments totaling $100,000 each, plus any accrued interest, in July 2012 and 2013. The seller note accrues interest at 3.25% per annum. The consideration was agreed upon through arm s length negotiations. Funding for the cash portion of the purchase price was derived from proceeds from the Company s revolving credit facility. For the company 51% of the goodwill for the July 2011 Acquisition is tax deductible.

Because the July 2011 Acquisition occurred during the second half of 2011, the purchase price plus the fair value of the noncontrolling interest was allocated to the fair value of the assets acquired and liabilities assumed based on the preliminary estimates of the fair values at the acquisition date, with the amount exceeding the estimated fair values being recorded as goodwill. The Company is in the process of completing its formal valuation analysis to identify and determine the fair value of tangible and intangible assets acquired and the liabilities assumed. Thus, the final allocation of the purchase price may differ from the preliminary estimates used at December 31, 2011 based on additional information obtained. Changes in the estimated valuation of the tangible and intangible assets acquired and the completion by the Company of the identification of any unrecorded pre-acquisition contingencies, where the liability is probable and the amount can be reasonably estimated, will likely result in adjustments to goodwill.

The preliminary purchase price was allocated as follows (in thousands):

Cash paid, net of cash acquired	$ 7,930
Seller notes	200
Total consideration	$ 8,130
Estimated fair value of net tangible assets acquired:	
Total current assets	$ 1,341
Total non-current assets	1,100
Total liabilities	(581)
Net tangible assets acquired	$ 1,860
Goodwill	14,366
Fair value of noncontrolling interest	(8,096)
	$ 8,130

The purchase price for the 70% interest acquired in the February 2010 Acquisition was $8.9 million, net of cash acquired, which consisted of $8,718,000 in cash and $200,000 in seller notes. The purchase price for the 70% interest acquired in the December 21, 2010 Acquisition was $4.0 million, net of cash acquired, which consisted of $3,877,000 in cash and $100,000 in a seller note. The purchase price for the 65% interest acquired in the December 31, 2010 Acquisition was $4.5 million, net of cash acquired,

which consisted of $4,347,000 in cash and $200,000 in a seller note.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The purchase prices allocated for the 2010 multi-clinic acquisitions in aggregate were as follows (in thousands):

Cash paid, net of cash acquired	$ 16,942
Seller notes	500
Total consideration	$ 17,442
Estimated fair value of net tangible assets acquired:	
Total current assets	$ 1,765
Total non-current assets	1,308
Total liabilities	(851)
Net tangible assets acquired	$ 2,222
Referral relationships	1,700
Non compete, 6 years	480
Tradename	2,700
Goodwill	18,471
Fair value of noncontrolling interest	(8,131)
	$ 17,442

For the 2010 multi-clinic acquisitions, the purchase price was allocated to the fair value of the assets acquired including tradenames, non-competition agreements and referral relationships, and to the liabilities assumed based on the estimates of the fair values at the acquisition date, with the amount exceeding the estimated fair values being recorded as goodwill. For the Company, its portion of the goodwill is tax deductible.

For the 2011 and 2010 acquisitions, total current assets primarily represent patient accounts receivable of $3.0 million. Total non current assets are fixed assets, primarily equipment, used in the practices. For the 2010 acquisitions, the value assigned to (i) referral relationships is amortized to expense equally over the respective estimated original life which is 12 years for these acquisitions, (ii) non compete agreements is amortized over five to six years and (iii) goodwill and tradenames are tested at least annually for impairment.

The consideration paid for each of the acquisitions was derived through arm s length negotiations. Funding for the cash portions was derived from proceeds from the Company s revolving credit facility. The results of operations of the acquisitions have been included in the Company s consolidated financial statements since their respective date of acquisition. Unaudited proforma consolidated financial information for the 2011 and 2010 acquisitions have not been included as the results, individually and in the aggregate, were not material to current operations.

In November 2011, the Company and the seller of the February 2010 Acquisition reached an agreement regarding an adjustment to purchase price as disclosed above. The Company received $1.5 million cash, the forgiveness of the balance of $0.1 million on the notes payable as well as the 30% originally held by the seller which had a book value of $3.8 million.

Acquisitions of Noncontrolling Interests

In six separate transactions during 2011, the Company purchased a total of 22.2% of the 30% non-controlling interest in STAR Physical Therapy, LP, a subsidiary of the Company (STAR). The aggregate purchase price paid for the 22.2% interest was $16.9 million, which included $0.8 million of undistributed

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

earnings. The remaining purchase price of $16.1 million, less future tax benefits of $6.3 million, was recognized as an adjustment to additional paid-in capital. After these transactions, the Company owned 92.2% and the non-controlling interest limited partners in aggregate owned the remaining 7.8% in the partnership. Of the 22.2% aggregate non-controlling interests purchased, 17% was held by Regg Swanson, the Managing Director and a founder of STAR and a member of the Company s Board of Directors (Swanson). The purchase prices were determined based on the contractual terms in the Reorganization of Securities Purchase Agreement dated as of September 6, 2007 among the Company, STAR, the limited partners of STAR and Regg Swanson as Seller Representative and in his individual capacity, which was filed as Exhibit 10.1 to the Company s Current Report on Form 8-K filed with the SEC on September 7, 2007. After the sale of his 17.0% interest, Swanson owned 2.0% of STAR (Swanson Interest).

Effective June 30, 2011, the Company purchased the 35% non-controlling interest in one of its Texas partnerships. The aggregate purchase price for the 35% interest was $3.9 million, of which $3.5 million was paid in cash and $367,272 was paid in the form of a note to the seller, which is payable in two equal annual installments of principal plus any accrued and unpaid interest. Interest accrues at 3.25% per annum. The purchase price included $0.2 million of undistributed earnings and $0.2 million in invested capital. The remaining purchase price of $3.5 million, less future tax benefits of $1.4 million, was recognized as an adjustment to additional paid-in capital. After this transaction, the Company owns 100% of the partnership.

In addition, during 2011, the Company purchased the non-controlling interests of several other partners for $142,000, which included $48,000 of undistributed earnings and sold additional interest to an existing partner for $58,000. The net purchase price of approximately $36,000, less future tax benefits of $23,000, was recognized as an adjustment to additional paid-in capital.

During 2010, the Company purchased noncontrolling interests in nine partnerships for an aggregate purchase price of $682,000. The amount paid plus a net deficit of $37,000 in limited partners equity, less tax benefits of $217,000, was recognized as an adjustment to additional paid-in capital.

During 2009, the Company purchased 15% of the 25% noncontrolling interest in certain clinics related to a partnership. In addition, the Company purchased noncontrolling interests in five other partnerships. The total paid, which amounted to $2,200,000, less the tax benefit of $816,000 and the book value related to the purchases of $90,000 was recognized as an adjustment to additional paid-in capital. During 2009, the Company paid $133,000 related to contingent payments for noncontrolling interests purchased prior to 2009.

The results of operations of the acquired noncontrolling interests are included in the accompanying financial statements from the dates of purchase in the net income attributable to common shareholders.

Divestiture of Business

On March 31, 2010, the Company sold its 51% interest in a joint venture of five Texas clinics for $974,000. The Company recorded a pre-tax gain of $578,000, which is included in other income in the consolidated statement of net income.

The operating results of these locations were not material to the operations of the Company, and therefore, the operating results of these clinics were not reclassified and reported as discontinued operations. The cash flow impact of these clinics was determined to be immaterial to the consolidated statements of cash flows.

51

Table of Contents

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Goodwill

The changes in the carrying amount of goodwill as of December 31, 2011 and 2010 consisted of the following (in thousands):

	Year Ended December 31,	
	2011	2010
Beginning balance	$ 79,424	$ 57,247
Goodwill acquired during the year	15,887	22,222
Goodwill allocated to specific assets for businesses acquired in 2010	(2,990)	
Goodwill adjustments for purchase price allocation of businesses acquired	443	(45)
Goodwill written off closed clinic	(14)	
Ending balance	$ 92,750	$ 79,424

In addition to the goodwill resulting from the 2011 and 2010 acquisitions, for 2011 and 2010, the goodwill acquired includes $1.5 million and $1.1 million, respectively, related to additional consideration based on the achievement of operating results for the second and third year of operations of an acquisition which occurred in 2008. Due to the timing of the acquisition, current accounting regulations required the amounts paid be capitalized as goodwill. These amounts are tax deductible.

5. Intangible Assets, net

Intangible assets, net as of December 31, 2011 and 2010 consisted of the following (in thousands):

	December 31,	
	2011	2010
Tradename	$ 6,073	$ 4,373
Referral relationships, net of accumulated amortization of $784 and $479, respectively	2,777	2,082
Non compete agreements, net of accumulated amortization of $1,443 and $1,053, respectively	753	853
	$ 9,603	$ 7,308

Tradenames and referral relationships are related to the businesses acquired. The value assigned to tradenames has an indefinite life and is tested at least annually for impairment in conjunction with the Company s annual goodwill impairment test. The value assigned to referral relationships is being amortized over their respective estimated useful lives which range from six to 16 years. Non compete agreements are amortized over the respective term of the agreements which range from five to six years.

The following table details the amount of amortization expense recorded for intangible assets for the years ended December 31, 2011, 2010 and 2009 (in thousands):

	Year Ended December 31,		
	2011	2010	2009
Referral relationships	$ 305	$ 213	$ 163
Non compete agreements	390	344	134
	$ 695	$ 557	$ 297

52

Table of Contents

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The remaining balance of referral relationships and non compete agreements is expected to be amortized as follows (in thousands):

Referral Relationships		Non Compete Agreements	
Years	Annual Amount	Years	Annual Amount
2012-2013	$305	2012	$330
2014	$302	2013	$227
2015-2017	$281	2014	$86
2018	$245	2015	$86
2019	$216	2016	$24
2020	$209		
2021	$186		
2022	$137		
2023	$29		

6. Accrued Expenses

Accrued expenses as of December 31, 2011 and 2010 consisted of the following (in thousands):

	Year Ended December 31,	
	2011	2010
Salaries and related costs	$ 9,275	$ 8,989
Group health insurance claims	1,168	1,324
Credit balances due to patients and payors	793	702
Other	2,846	1,729
Total	$ 14,082	$ 12,744

7. Notes Payable

Notes payable as of December 31, 2011 and 2010 consisted of the following ($ in thousands):

	2011	2010
Revolving credit agreement average effective interest rate of 2.6% inclusive of unused fee	$ 23,500	$ 5,500
Various promissory notes payable in annual installments of an aggregate of $100 plus accrued interest through February 26, 2012, interest accrues at 3.25% per annum		200
Promissory note payable in annual installments of $100 plus accrued interest through December 31, 2012, interest accrues at	100	200

3.25% per annum		
Promissory note payable in annual installments of $50 plus accrued interest through December 21, 2012, interest accrues at 4.00% per annum	50	100
Promissory note payable in annual installments of $184 plus accrued interest through June 30, 2013, interest accrues at 3.25% per annum	367	
Promissory note payable in annual installments of $100 plus accrued interest through July 25, 2013, interest accrues at 3.25% per annum	200	
	24,217	6,000
Less current portion	(433)	(250)
	$ 23,784	$ 5,750

53

Table of Contents

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Effective August 27, 2007, the Company entered into a credit agreement with a commitment for a $30.0 million revolving credit facility which was increased to $50.0 million effective June 4, 2008 (Credit Agreement). Effective March 18, 2009, the Credit Agreement was amended to permit the purchase of up to $15,000,000 of the Company s common stock subject to compliance with certain covenants, including the requirement that after giving effect to any stock purchase, the Company s consolidated leverage ratio (as defined in the Credit Agreement) be less than 1.0 to 1.0 and that any stock repurchased be retired within seven days of purchase. Effective October 13, 2010, the Credit Agreement was amended to extend the maturity date from August 31, 2011 to August 31, 2015. In addition, the Credit Agreement was amended to adjust the pricing grid which is based on the Company s consolidated leverage ratio with the applicable spread over LIBOR ranging from 1.6% to 2.5% or the applicable spread over the Base Rate ranging from .1% to 1%. On July 14, 2011, the Credit Agreement was amended to increase the commitment from $50.0 million to $75.0 million. The Credit Agreement is unsecured and has loan covenants, including requirements that the Company comply with a consolidated fixed charge coverage ratio and consolidated leverage ratio. Proceeds from the Credit Agreement may be used for working capital, acquisitions, purchases of the Company s common stock, dividend payments to the Company s common stockholders, capital expenditures and other corporate purposes. Fees under the Credit Agreement include an unused commitment fee ranging from .1% to .25% depending on the Company s consolidated leverage ratio and the amount of funds outstanding under the Credit Agreement. On December 31, 2011, $23.5 million was outstanding on the revolving credit facility resulting in $51.5 million of availability. The Company was in compliance with all of the covenants thereunder.

The Company generally enters into various notes payable as a means of financing a portion of its acquisitions and purchases of non controlling interests. In June 2011, the Company, in conjunction with the purchase of a non controlling interest, entered into a note payable in the amount of $367,272 payable in two equal annual installments of $183,636 plus any accrued and unpaid interest. Interest accrues at 3.25% per annum. In conjunction with the July 2011 Acquisition, the Company entered into a note payable in the amount of $200,000 payable in two equal annual installments of $100,000 plus any accrued and unpaid interest. Interest accrues at 3.25% per annum.

In conjunction with the 2010 multi-clinic acquisitions, the Company entered into various notes payable aggregating $500,000. The notes are payable in equal annual installments of principal over two years plus any accrued and unpaid interest. Interest accrues at rates ranging from 3.25% to 4.0% per annum. The remaining balance of $100,000 on the notes payable related to the February 2011 Acquisition was forgiven in conjunction with the agreement on the adjustment of the purchase price as disclosed above.

Aggregate annual payments of principal required pursuant to the revolving credit facility and the above notes payable subsequent to December 31, 2011 are as follows:

During the year ended December 31, 2012	$ 433
During the year ended December 31, 2013	284
During the year ended December 31, 2014	
During the year ended December 31, 2015	23,500
.	$ 24,217

Table of Contents

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Income Taxes

Significant components of deferred tax assets included in the consolidated balance sheets at December 31, 2011 and 2010 were as follows (in thousands):

	2011	2010
Deferred tax assets:		
Compensation	$ 1,253	$ 1,375
Allowance for doubtful accounts	950	740
Lease obligations closed clinics	139	47
Depreciation and amortization	58	
Other	26	40
Deferred tax assets	$ 2,426	$ 2,202
Deferred tax liabilities:		
Depreciation and amortization	$	$ (3,970)
Other	(478)	(164)
Deferred tax liabilities	$ (478)	$ (4,134)
Net deferred tax assets (liabilities)	$ 1,948	$ (1,932)
Amount included in:		
Other current assets	$ 896	$ 921
Other assets	$ 1,052	$
Long term liabilities	$	$ (2,853)

During 2011, the Company recorded deferred tax assets of $7.7 million related to acquisitions of non controlling interests. At December 31, 2011 and 2010, the Company had a tax receivable of $3.6 million and $1.8 million, respectively, included in other current assets on the accompanying consolidated balance sheets.

The differences between the federal tax rate and the Company s effective tax rate for results of continuing operations for the years ended December 31, 2011, 2010 and 2009 were as follows (in thousands):

	2011		2010		2009	
U. S. tax at statutory rate	$ 11,225	35.0%	$ 8,570	35.0%	$ 6,895	35.0%
State income taxes, net of federal benefit	1,116	3.5%	185	0.7%	762	3.9%
Non taxable gain	(1,342)	-4.2%				
Nondeductible expenses	98	0.3%	85	0.4%	277	1.4%
	$ 11,097	34.6%	$ 8,840	36.1%	$ 7,934	40.3%

55

Table of Contents

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Significant components of the provision for income taxes for continuing operations for the years ended December 31, 2011, 2010 and 2009 were as follows (in thousands):

	2011	**2010**	**2009**
Current:			
Federal	$ 5,732	$ 7,730	$ 6,002
State	1,532	658	1,218
Total current	7,264	8,388	7,220
Deferred:			
Federal	3,603	392	611
State	230	60	103
Total deferred	3,833	452	714
Total income tax provision for continuing operations	$ 11,097	$ 8,840	$ 7,934

During the fourth quarter of 2010, the Company completed a process to perform a detailed reconciliation of its federal and state taxes payable and receivable accounts along with its federal and state deferred tax asset and liability accounts. Historically, calculations of these tax-related accounts were performed through summary estimates and analysis. As a result of this detailed analysis, the Company recorded a reduction in its current state income tax provision of $814,000. The Company considers this reconciliation process to be an annual control and performed a similar reconciliation process during the fourth quarter of 2011. In addition, the Company adjusted its deferred tax asset for the tax benefit of $816,000 related to the purchase of a non controlling interest in 2009. The tax benefit is shown as an offset to the purchase of non controlling interests in the Consolidated Statement of Shareholders Equity.

The Company is required to establish a valuation allowance for deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income in the periods which the deferred tax assets are deductible, management believes that a valuation allowance is not required, as it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

The Company s U.S. federal returns remain open to examination for 2008 through 2010 and U.S. state jurisdictions are open for periods ranging from 2004 through 2010.

The Company does not believe that it has any significant uncertain tax positions at December 31, 2011, nor is this expected to change within the next twelve months due to the settlement and expiration of statutes of limitation.

The Company did not have any accrued interest or penalties associated with any unrecognized tax benefits nor was any interest expense recognized during the years ended December 31, 2011 and 2010.

Table of Contents

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Equity Based Plans

The Company has the following equity based plans:

The 1992 Stock Option Plan, as amended (the 1992 Plan), permitted the Company to grant to key employees and outside directors of the Company incentive and non-qualified options to purchase up to 3,495,000 shares of common stock (subject to proportionate adjustments in the event of stock dividends, splits, and similar corporate transactions). The 1992 Plan expired in 2002 and no new option grants can be awarded subsequent to this date. At December 31, 2011, there were no stock options outstanding under the 1992 Plan.

Incentive stock options (those intended to satisfy the requirements of the Internal Revenue Code) granted under the 1992 Plan were granted at an exercise price not less than the fair market value of the shares of common stock on the date of grant. The exercise prices of options granted under the 1992 Plan were determined by the Compensation Committee. The period within which each option is exercisable was determined by the Compensation Committee (however, in no event may the exercise period of an incentive stock option extend beyond 10 years from the date of grant).

The Amended and Restated 1999 Employee Stock Option Plan (the Amended 1999 Plan) permits the Company to grant to non-employee directors and employees of the Company up to 600,000 non-qualified options to purchase shares of common stock and restricted stock (subject to proportionate adjustments in the event of stock dividends, splits, and similar corporate transactions). The exercise prices of options granted under the Amended 1999 Option Plan are determined by the Compensation Committee. The period within which each option will be exercisable is determined by the Compensation Committee. The Amended 1999 Plan was approved by the shareholders of the Company at the 2008 Shareholders Meeting on May 20, 2008.

During 2003, the Board of Directors of the Company (the Board) granted inducement options covering 145,000 options, respectively, to five individuals in connection with their offers of employment. As of December 31, 2011, 124,000 of the 145,000 options are outstanding. Inducement options may be exercised for a 10 year term from the date of the grant.

The Amended and Restated 2003 Stock Option Plan (the Amended 2003 Plan) permits the Company to grant to key employees and outside directors of the Company incentive and non-qualified options and shares of restricted stock covering up to 1,250,000 shares of common stock (subject to proportionate adjustments in the event of stock dividends, splits, and similar corporate transactions). The Amended 2003 Plan was approved by the shareholders of the Company at the 2010 Shareholders Meeting on May 18, 2010.

A cumulative summary of equity plans as of December 31, 2011 follows:

Equity Plans	Authorized	Restricted Stock Issued	Outstanding Stock Options	Stock Options Exercised	Stock Options Exercisable	Shares Available for Grant
1992 Plan	3,495,000			2,796,012		
Amended 1999 Plan	600,000	360,900	17,310	122,701	17,310	99,089
Amended 2003 Plan	1,250,000	172,750	251,500	526,800	251,500	298,950

Inducements	164,000		80,000	84,000	80,000	
	5,509,000	533,650	348,810	3,529,513	348,810	398,039

Table of Contents

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the status of the Company s stock options granted under the plans as of December 31, 2011, 2010 and 2009 and the changes during the years then ended is presented below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (000 s)
Outstanding at December 31, 2008	892,309	14.14		
Granted				
Exercised	(10,752)	4.05		
Cancelled	(1,290)	18.42		
Forfeited	(6,075)	16.97		
Outstanding at December 31, 2009	874,192	14.24	4.6 Years	
Granted				
Exercised	(142,002)	13.66		
Cancelled	(160)	18.42		
Forfeited	(8,140)	18.54		
Outstanding at December 31, 2010	723,890	14.30	3.6 Years	
Granted				
Exercised	(375,080)	13.92		
Cancelled				
Forfeited				
Outstanding at December 31, 2011	348,810	14.71	2.6 Years	
Exercisable at December 31, 2011	348,810	14.71	2.6 Years	$ 1,732

All shares pursuant to stock options were fully vested at December 31, 2011 and 2010.

A summary of the intrinsic value of stock options exercised during the years ended December 31, 2011, 2010 and 2009 is as follows:

	Number of Shares	Aggregate Intrinsic Value (000)
2009	10,752	$ 113
2010	142,002	$ 863
2011	375,080	$ 3,160

Table of Contents

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables summarize information about the Company s stock options outstanding as of December 31, 2011, 2010 and 2009, respectively:

	Outstanding Options as of December 31, 2011	Exercise Price	Weighted Average Remaining Contractual Life	Exercisable	Exercise Price
1999 Plan	17,310	$ 12.60 - $18.42	3.2 Years	17,310	$ 12.60 - $18.42
2003 Plan	251,500	$ 12.51 - $18.80	2.9 Years	251,500	$ 12.51 - $18.80
Inducements	80,000	$ 12.75 - $14.32	1.7 Years	80,000	$ 12.75 - $14.32
	348,810	$ 12.51 - $18.80	2.6 Years	348,810	$ 12.51 - $18.80

	Outstanding Options as of December 31, 2010	Exercise Price	Weighted Average Remaining Contractual Life	Exercisable	Exercise Price
1992 Plan	15,000	$ 16.34	.6 Years	15,000	$ 16.34
1999 Plan	43,390	$ 12.60 - $18.42	3.9 Years	43,390	$ 12.60 - $18.42
2003 Plan	541,500	$ 12.51 - $18.80	3.8 Years	541,500	$ 12.51 - $18.80
Inducements	124,000	$ 12.75 - $14.32	2.8 Years	124,000	$ 12.75 - $14.32
	723,890	$ 12.51 - $18.80	3.6 Years	723,890	$ 12.51 - $18.80

	Outstanding Options as of December 31, 2009	Exercise Price	Weighted Average Remaining Contractual Life	Exercisable	Exercise Price
1992 Plan	15,002	$ 4.15 - $16.34	1.7 Years	15,002	$ 4.15 - $16.34
1999 Plan	57,690	$ 4.15 - $19.29	5.0 Years	50,440	$ 4.15 - $18.42
2003 Plan	677,500	$ 12.51 - $18.80	4.8 Years	668,500	$ 12.51 - $18.80
Inducements	124,000	$ 12.75 - $14.32	3.8 Years	124,000	$ 12.75 - $14.32
	874,192	$ 4.15 - $19.29	4.6 Years	857,942	$ 4.15 - $18.80

The following table summarizes information about the Company s stock options outstanding and those options that are exercisable as of December 31, 2011:

Range of Exercise Prices	Outstanding Options	Exercisable Options

$12.00	$12.99	62,180	62,180
$13.00	$13.99	124,000	124,000
$14.00	$14.99	55,150	55,150
$15.00	$15.99	32,730	32,730
$18.00	$18.80	74,750	74,750
		348,810	348,810

59

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During 2011, 2010 and 2009, the Company granted the following shares (net of those shares cancelled in their respective grant year due to employee terminations prior to restrictions lapsing) of restricted stock to directors, officers and employees pursuant to its equity plans as follows:

Year Granted	Number of Shares	Weighted Average Fair Value Per Share
2009	82,000	14.78
2010	84,400	16.53
2011	156,750	19.94

Generally, restrictions on the stock granted to employees lapse in equal annual installments on the following four or five anniversaries of the date of grant. For those shares granted to directors, the restrictions will lapse in equal quarterly installments during the first year after the date of grant. For those granted to executive officers, the restriction will lapse in equal quarterly installments during the three to four years following the date of grant.

As of December 31, 2011, there were 216,031 shares outstanding for which restrictions had not lapsed. The restrictions will lapse in 2012 through 2015.

Compensation expense for grants of restricted stock will be recognized based on the fair value on the date of grant. Compensation expense for restricted stock grants was $2,032,000, $1,245,000 and $974,000, respectively, for 2011, 2010 and 2009. As of December 31, 2011, the remaining $3.3 million of compensation expense will be recognized from 2012 through 2015.

10. Preferred Stock

The Board is empowered, without approval of the shareholders, to cause shares of preferred stock to be issued in one or more series and to establish the number of shares to be included in each such series and the rights, powers, preferences and limitations of each series. There are no provisions in the Company s Articles of Incorporation specifying the vote required by the holders of preferred stock to take action. All such provisions would be set out in the designation of any series of preferred stock established by the Board. The bylaws of the Company specify that, when a quorum is present at any meeting, the vote of the holders of at least a majority of the outstanding shares entitled to vote who are present, in person or by proxy, shall decide any question brought before the meeting, unless a different vote is required by law or the Company s Articles of Incorporation. Because the Board has the power to establish the preferences and rights of each series, it may afford the holders of any series of preferred stock, preferences, powers, and rights, voting or otherwise, senior to the right of holders of common stock. The issuance of the preferred stock could have the effect of delaying or preventing a change in control of the Company.

11. Common Stock

In September 2001 through December 31, 2008, the Board of Directors ("Board") authorized the Company to purchase, in the open market or in privately negotiated transactions, up to 2,250,000 shares of its common stock. However, the terms of the Company s revolving credit facility had prohibited such

purchases since August 2007. As of December 31, 2008, there were approximately 50,000 shares remaining that could be purchased under those programs. In March 2009, the Board authorized the repurchase of up to 10% or approximately 1,200,000 shares of its common stock (March 2009 Authorization). In connection with the March 2009 Authorization, the Company amended its revolving credit facility to permit the share repurchases. The Company

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

is required to retire shares purchased under the March 2009 Authorization. Since there is no expiration date for these share repurchase programs, additional shares may be purchased from time to time in the open market or private transactions depending on price, availability and the Company s cash position. During 2011, the Company purchased 254,642 shares of its common stock for an aggregate cost of $4.7 million. Using the December 31, 2011 closing price of $19.68 per share, there were approximately 172,000 shares remaining that could be purchased under these programs. During 2010, the Company purchased 86,522 shares for an aggregate purchase price of $1.4 million. During 2009, the Company purchased 518,335 shares for an aggregate price of $5.6 million.

12. Defined Contribution Plan

The Company has a 401(k) profit sharing plan covering all employees with three months of service. The Company may make discretionary contributions of up to 50% of employee contributions. The Company did not make any discretionary contributions and recognized no contribution expense for the years ended December 31, 2011, 2010 and 2009.

13. Commitments and Contingencies

Operating Leases

The Company has entered into operating leases for its executive offices and clinic facilities. In connection with these agreements, the Company incurred rent expense of $19.4 million, $16.8 million and $16.3 million for the years ended December 31, 2011, 2010 and 2009, respectively. Several of the leases provide for an annual increase in the rental payment based upon the Consumer Price Index. The majority of the leases provide for renewal periods ranging from one to five years. The agreements to extend the leases specify that rental rates would be adjusted to market rates as of each renewal date.

The future minimum operating lease commitments for each of the next five years and thereafter and in the aggregate as of December 31, 2011 are as follows (in thousands):

2012	$ 17,306
2013	13,070
2014	9,381
2015	6,421
2016	2,830
Thereafter	3,653
	$ 52,661

Employment Agreements

At December 31, 2011, the Company had outstanding employment agreements with three of its executive officers. These agreements, which presently expire on December 31, 2013, provide for automatic one year renewals if not terminated on at least 12 months notice. All of the agreements contain a provision for annual adjustment of salaries.

In addition, the Company has outstanding employment agreements with most of the managing physical therapist partners of the Company s physical therapy clinics and with certain other clinic employees which obligate subsidiaries of the Company to pay compensation of $15.7 million in 2012 and $6.8 million in the aggregate from 2013 through 2016. In addition, most of the employment agreements with the managing physical therapists provide for monthly bonus payments calculated as a percentage of each clinic s net revenues (not in excess of operating profits) or operating profits.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Earnings Per Share

The computations of basic and diluted earnings per share for the years ended December 31, 2011, 2010 and 2009 are as follows (in thousands, except per share data):

	2011	2010	2009
Numerator:			
Net income attributable to common shareholders	$ 20,974	$ 15,645	$ 11,767
Denominator:			
Denominator for basic earnings per share weighted-average shares	11,814	11,638	11,703
Effect of dilutive securities Stock options	163	232	104
Denominator for diluted earnings per share adjusted weighted-average shares and assumed conversions	11,977	11,870	11,807
Earnings per common share:			
Basic net income attributable to common shareholders	$ 1.78	$ 1.34	$ 1.01
Diluted net income attributable to common shareholders	$ 1.75	$ 1.32	$ 1.00

All options to purchase shares for the year ended December 31, 2011 were included in the diluted earnings per share calculation as the average market price for 2011 exceeded the options exercise price. Options to purchase 92,900 and 387,885 shares for the years ended December 31, 2010 and 2009, respectively, were excluded from the diluted earnings per share calculation for the respective periods because the options exercise prices exceeded the average market price of the common shares during the periods.

Table of Contents

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Selected Quarterly Financial Data (Unaudited)

	2011			
	Q1	Q2	Q3	Q4
	(In thousands, except per share data)			
Net patient revenues	$ 53,872	$ 56,678	$ 57,332	$ 58,697
Net revenues	$ 56,741	$ 59,912	$ 59,675	$ 60,678
Income from operations	$ 8,611	$ 10,775	$ 8,507	$ 12,987
Net income including noncontrolling interests	$ 6,185	$ 7,603	$ 5,853	$ 10,142
Net income attributable to common shareholders	$ 3,746	$ 4,900	$ 4,099	$ 8,229
Earnings per common share:				
Basic net income attributable to common shareholders	$ 0.32	$ 0.42	$ 0.35	$ 0.70
Diluted net income attributable to common shareholders	$ 0.31	$ 0.41	$ 0.34	$ 0.69
Shares used in computation:				
Basic	11,718	11,807	11,886	11,786
Diluted	11,945	11,999	12,011	11,892

	2010			
	Q1	Q2	Q3	Q4
	(In thousands, except per share data)			
Net patient revenues	$ 48,779	$ 52,296	$ 51,748	$ 51,278
Net revenues	$ 50,405	$ 54,103	$ 53,398	$ 53,327
Income from operations	$ 7,182	$ 9,911	$ 8,684	$ 7,763
Net income including noncontrolling interests	$ 5,131	$ 7,034	$ 6,177	$ 6,358
Net income attributable to common shareholders	$ 3,172	$ 4,451	$ 3,875	$ 4,147
Earnings per common share:				
Basic net income attributable to common shareholders	$ 0.27	$ 0.38	$ 0.33	$ 0.36
Diluted net income attributable to common shareholders	$ 0.27	$ 0.38	$ 0.33	$ 0.35
Shares used in computation:				
Basic	11,614	11,622	11,667	11,649
Diluted	11,840	11,857	11,889	11,906

Table of Contents

ITEM 9. ***CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.***

Not applicable.

ITEM 9A. ***CONTROLS AND PROCEDURES.***

Evaluation of Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Exchange Act) as of the end of the fiscal period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in ensuring that the information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2011 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 adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under Exchange Act. U.S. Physical Therapy, Inc and subsidiaries (the Company) internal control over financial reporting is 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.

Internal control over financial reporting includes those policies and procedures that:

Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of the Company s management and directors; and

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.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a

risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. 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. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, the risk.

Table of Contents

Management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2011. In making this assessment, management used the criteria described in Internal Control Integrated *Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2011.

The Company s internal control over financial reporting has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in their report included on page 36.

ITEM 9B. ***OTHER INFORMATION***

Not applicable.

PART III

ITEM 10. ***DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.***

The information required in response to this Item 10 is incorporated herein by reference to our definitive proxy statement relating to our 2012 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year covered by this report.

ITEM 11. ***EXECUTIVE COMPENSATION.***

The information required in response to this Item 11 is incorporated herein by reference to our definitive proxy statement relating to our 2012 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year covered by this report.

ITEM 12. ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.***

The information required in response to this Item 12 is incorporated herein by reference to our definitive proxy statement relating to our 2012 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year covered by this report.

ITEM 13. ***CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.***

The information required in response to this Item 13 is incorporated herein by reference to our definitive proxy statement relating to our 2012 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year covered by this report.

ITEM 14. ***PRINCIPAL ACCOUNTING FEES AND SERVICES.***

The information required in response to this Item 14 is incorporated herein by reference to our definitive proxy statement relating to our 2012 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year covered by this report.

Table of Contents

PART IV

ITEM 15. ***EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.***
(a) Documents filed as a part of this report:

1. *Financial Statements.* Reference is made to the Index to Financial Statements and Related Information under Item 8 in Part II hereof, where these documents are listed.

2. *Financial Statement Schedules.* See page 66 for Schedule II Valuation and Qualifying Accounts. All other schedules are omitted because of the absence of conditions under which they are required or because the required information is shown in the financial statements or notes thereto.

3. *Exhibits.* The exhibits listed in List of Exhibits on the next page are filed or incorporated by reference as part of this report.

Table of Contents

EXHIBIT INDEX

LIST OF EXHIBITS

Number	Description
3.1	Articles of Incorporation of the Company [filed as an exhibit to the Company s Form 10-Q for the quarterly period ended June 30, 2001 and incorporated herein by reference].
3.2	Amendment to the Articles of Incorporation of the Company [filed as an exhibit to the Company s Form 10-Q for the quarterly period ended June 30, 2001 and incorporated herein by reference].
3.3	Bylaws of the Company, as amended [filed as an exhibit to the Company s Form 10-KSB for the year ended December 31, 1993 and incorporated herein by reference Commission File Number 1-11151].
10.1+	1992 Stock Option Plan, as amended [filed as an exhibit to the Company s Form 10-Q for the quarterly period ended June 30, 2001 and incorporated herein by reference].
10.2+	Executive Option Plan [filed as an exhibit to the Company s Registration Statement on Form S-8 (Reg. No. 33-63444) and incorporated herein by reference].
10.3+	1999 Employee Stock Option Plan (as amended and restated May 20, 2008) [incorporated by reference to Appendix A to the Company s Definitive Proxy Statement on Schedule 14A, filed with the SEC on April 17, 2008].
10.4+	U. S. Physical Therapy, Inc. 2003 Stock Incentive Plan, as amended and restated March 26, 2010 [incorporated by reference to Appendix A to the Company s proxy statement on Schedule 14A filed with the SEC on April 9, 2010].
10.5+	Non-Statutory Stock Option Agreement dated February 26, 2002 between the Company and Mary Dimick [filed as an exhibit to the Company s Registration Statement on Form S-8 dated February 10, 2003 Reg. No. 333-103057- and incorporated herein by reference].
10.6+	Non-Statutory Stock Option Agreement dated May 20, 2003 between the Company and Jerald Pullins [filed as an exhibit to the Company s Registration Statement on Form S-8 filed March 15, 2004 Reg. No. 333-113592 and incorporated herein by reference].
10.7+	Non-Statutory Stock Option Agreement dated November 18, 2003 between the Company and Christopher Reading [filed as an exhibit to the Company s Registration Statement on Form S-8 filed March 15, 2004 Reg. No. 333-113592 and incorporated herein by reference].
10.8+	Non-Statutory Stock Option Agreement dated November 18, 2003 between the Company and Lawrance McAfee [filed as an exhibit to the Company s Registration Statement on Form S-8 filed March 15, 2004 Reg. No. 333-113592 and incorporated herein by reference].
10.9+	Non-Statutory Stock Option Agreement dated November 18, 2003 between the Company and Janna King [filed as an exhibit to the Company s Registration Statement on Form S-8 filed March 15, 2004 Reg. No. 333-113592 and incorporated herein by reference].
10.10+	Non-Statutory Stock Option Agreement dated November 18, 2003 between the Company and Glenn McDowell [filed as an exhibit to the Company s Registration Statement on Form S-8 filed March 15, 2004 Reg. No. 333-113592 and incorporated herein by reference].
10.11+	Consulting agreement between the Company and J. Livingston Kosberg [filed as an exhibit to the Company s Form 10-Q for the quarterly period ended June 30, 2001 and incorporated herein by reference].
10.12+	First Amendment to the Consulting Agreement between the Company and J. Livingston Kosberg [filed as an exhibit to the Company s Form 10-K for the year ended December 31, 2002 and incorporated herein by reference.]
10.13+	Amended and Restated Employment Agreement dated May 24, 2007, between U.S. Physical Therapy, Inc. and Christopher J. Reading [incorporated by reference to Exhibit 10.3 to the Company s Current Report on Form 8-K filed with the SEC on May 25, 2007].
10.14+	Amendment to Amended and Restated Employment Agreement dated December 2, 2008 between U.S. Physical Therapy, Inc. and Christopher J. Reading [incorporated by reference

to Exhibit 10.1 to the Company s Current Report on Form 8-K, filed with the SEC on December 5, 2008].

Table of Contents

Number	Description
10.15+	Amended and Restated Employment Agreement dated May 24, 2007, between U.S. Physical Therapy, Inc. and Lawrance W. McAfee [incorporated by reference to Exhibit 10.4 to the Company s Current Report on Form 8-K filed with the SEC on May 25, 2007].
10.16+	Amendment to Amended and Restated Employment Agreement dated December 2, 2008 between U.S. Physical Therapy, Inc. and Lawrance W. McAfee [incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K, filed with the SEC on December 5, 2008].
10.17+	Form of Restricted Stock Agreement [incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K/A filed with the SEC on May 30, 2007].
10.18+	Employment Agreement dated May 24, 2007, between U. S. Physical Therapy, Inc. and Glenn D. McDowell [incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed with the SEC on May 25, 2007].
10.19+	Amendment to Employment Agreement dated December 2, 2008 between U.S. Physical Therapy, Inc. and Glenn D. McDowell [incorporated by reference to Exhibit 10.3 to the Company s Current Report on Form 8-K, filed with the SEC on December 5, 2008].
10.20+	USPH Executive Long-Term Incentive Plan, as Amended [incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K, filed with the SEC on December 31, 2008].
10.21	USPH 2009 Executive Bonus Plan (incorporated by reference to Exhibit 99.1 to the Company s Current Report on Form 8-K filed with the SEC on May 19, 2009).
10.22+	U. S. Physical Therapy, Inc. Objective Long-Term Incentive Plan for Senior Management, effective March 31, 2011 [incorporated by reference to Exhibit 99.1 to the Company s Current Report on Form 8-K filed with the SEC on April 6, 2011].
10.23+	U. S. Physical Therapy, Inc. Discretionary Long-Term Incentive Plan for Senior Management for 2011, effective March 31, 2011 [incorporated by reference to Exhibit 99.2 to the Company s Current Report on Form 8-K filed with the SEC on April 6, 2011].
10.24+	U. S. Physical Therapy, Inc. Objective Cash Bonus Plan for 2011, effective March 31, 2011 [incorporated by reference to Exhibit 99.3 to the Company s Current Report on Form 8-K filed with the SEC on April 6, 2011].
10.25+	U. S. Physical Therapy, Inc. Discretionary Cash Bonus Plan for 2011, effective March 31, 2011 [incorporated by reference to Exhibit 99.4 to the Company s Current Report on Form 8-K filed with the SEC on April 6, 2011].
10.26	Reorganization and Securities Purchase Agreement dated as of September 6, 2007 between U. S. Physical Therapy, Ltd., STAR Physical Therapy, LP (STAR LP), the limited partners of STAR LP, and Regg Swanson as Seller Representative and in his individual capacity [incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed with the SEC on September 7, 2007].
10.27	Credit Agreement, dated as of August 27, 2007 among U. S. Physical Therapy, Inc., as the Borrower, Bank of America, N. A., as Administrative Agent, Swing Line Lender and L/C Issuer, and The Other Lenders Party Hereto [incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K/A filed with the SEC on September 5, 2007].
10.28	First Amendment to Credit Agreement dated as of June 4, 2008 by and among U.S. Physical Therapy, Inc., a Nevada Corporation, the Lenders party hereto, and Bank of America, N. A., as Administrative Agent [incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2008, filed with the SEC on August 11, 2008].
10.29	Second Amendment to Credit Agreement and Consent by and among the Company and the Lenders party hereto, and Bank of America, N. A., as Administrative Agent (incorporated by reference to Exhibit 99.1 to the Company Current Report on Form 8-K filed with the SEC on March 18, 2010).
10.30	

Third Amendment to Credit Agreement dated as of October 13, 2010, by and among the Company and the Lenders party hereto, and Bank of America, N.A. as administrative Agent [incorporated by reference to Exhibit 10.30 to the Company Annual Report on Form 10-K filed with the SEC on March 10, 2011].

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Number	Description
21.1*	Subsidiaries of the Registrant
23.1*	Consent of Independent Registered Public Accounting Firm Grant Thornton LLP
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
31.3*	Certification of Controller pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
32.1*	Certification of Periodic Report of the Chief Executive Officer, Chief Financial Officer and Controller pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith
\+ Management contract or compensatory plan or arrangement.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

U.S. Physical Therapy, Inc.

We have audited in accordance with the standards of the Public Company Accounting Oversight Board (United States) the consolidated financial statements of U.S. Physical Therapy, Inc. (a Nevada Corporation) and subsidiaries (the Company) referred to in our report dated March 9, 2012, which is included in the annual report to security holders and included in Part II of this form. Our audits of the consolidated financial statements included the financial statement schedule listed in the index appearing under item 15, which is the responsibility of the Company s management. In our opinion, this financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ GRANT THORNTON LLP

Houston, Texas

March 9, 2012

Table of Contents

SCHEDULE VALUATION AND QUALIFYING ACCOUNTS

FINANCIAL STATEMENT SCHEDULE*

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

COL. A	COL B	COL C Additions		COL D	COL E
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
		(Amounts in Thousands)			
YEAR ENDED DECEMBER 31, 2011:					
Reserves and allowances deducted from asset accounts:					
Allowance for doubtful accounts(1)	$ 2,273	$ 3,785		$ 3,021(2)	$ 3,037
YEAR ENDED DECEMBER 31, 2010:					
Reserves and allowances deducted from asset accounts:					
Allowance for doubtful accounts	$ 1,872	$ 3,241		$ 2,840(2)	$ 2,273
YEAR ENDED DECEMBER 31, 2009:					
Reserves and allowances deducted from asset accounts:					
Allowance for doubtful accounts	$ 2,275	$ 3,348		$ 3,751(2)	$ 1,872

(1) Related to patient accounts receivable and accounts receivable other.

(2) Uncollectible accounts written off, net of recoveries.

* All other schedules are omitted because of the absence of conditions under which they are required or because the required information is shown in the financial statements or notes thereto.

Table of Contents

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.

U.S. PHYSICAL THERAPY, INC.
(Registrant)

By: /s/ Lawrance W. McAfee
Lawrance W. McAfee
Chief Financial Officer

By: /s/ Jon C. Bates
Jon C. Bates
Vice President/Controller

Date: March 9, 2012

Table of Contents

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 indicated as of the date indicated above.

By:	/s/ Christopher J. Reading Christopher J. Reading	President, Chief Executive Officer and Director (principal executive officer)
By:	/s/ Lawrance W. McAfee Lawrance W. McAfee	Executive Vice President, Chief Financial Officer and Director (principal financial and accounting officer)
By:	/s/ Jerald Pullins Jerald Pullins	Chairman of the Board
By:	/s/ Daniel C. Arnold Daniel C. Arnold	Vice Chairman of the Board
By:	/s/ Mark J. Brookner Mark J. Brookner	Director
By:	/s/ Harry S. Chapman Harry S. Chapman	Director
By:	/s/ Bernard A. Harris, Jr. Bernard A. Harris, Jr.	Director
By:	/s/ Marlin W. Johnston Marlin W. Johnston	Director
By:	/s/ Regg Swanson Regg Swanson	Director
By:	/s/ Clayton Trier Clayton Trier	Director

Table of Contents

EXHIBIT INDEX

LIST OF EXHIBITS

Number	Description
3.1	Articles of Incorporation of the Company [filed as an exhibit to the Company s Form 10-Q for the quarterly period ended June 30, 2001 and incorporated herein by reference].
3.2	Amendment to the Articles of Incorporation of the Company [filed as an exhibit to the Company s Form 10-Q for the quarterly period ended June 30, 2001 and incorporated herein by reference].
3.3	Bylaws of the Company, as amended [filed as an exhibit to the Company s Form 10-KSB for the year ended December 31, 1993 and incorporated herein by reference Commission File Number 1-11151].
10.1+	1992 Stock Option Plan, as amended [filed as an exhibit to the Company s Form 10-Q for the quarterly period ended June 30, 2001 and incorporated herein by reference].
10.2+	Executive Option Plan [filed as an exhibit to the Company s Registration Statement on Form S-8 (Reg. No. 33-63444) and incorporated herein by reference].
10.3+	1999 Employee Stock Option Plan (as amended and restated May 20, 2008) [incorporated by reference to Appendix A to the Company s Definitive Proxy Statement on Schedule 14A, filed with the SEC on April 17, 2008].
10.4+	U. S. Physical Therapy, Inc. 2003 Stock Incentive Plan, as amended and restated March 26, 2010 [incorporated by reference to Appendix A to the Company s proxy statement on Schedule 14A filed with the SEC on April 9, 2010].
10.5+	Non-Statutory Stock Option Agreement dated February 26, 2002 between the Company and Mary Dimick [filed as an exhibit to the Company s Registration Statement on Form S-8 dated February 10, 2003 Reg. No. 333-103057- and incorporated herein by reference].
10.6+	Non-Statutory Stock Option Agreement dated May 20, 2003 between the Company and Jerald Pullins [filed as an exhibit to the Company s Registration Statement on Form S-8 filed March 15, 2004 Reg. No. 333-113592 and incorporated herein by reference].
10.7+	Non-Statutory Stock Option Agreement dated November 18, 2003 between the Company and Christopher Reading [filed as an exhibit to the Company s Registration Statement on Form S-8 filed March 15, 2004 Reg. No. 333-113592 and incorporated herein by reference].
10.8+	Non-Statutory Stock Option Agreement dated November 18, 2003 between the Company and Lawrance McAfee [filed as an exhibit to the Company s Registration Statement on Form S-8 filed March 15, 2004 Reg. No. 333-113592 and incorporated herein by reference].
10.9+	Non-Statutory Stock Option Agreement dated November 18, 2003 between the Company and Janna King [filed as an exhibit to the Company s Registration Statement on Form S-8 filed March 15, 2004 Reg. No. 333-113592 and incorporated herein by reference].
10.10+	Non-Statutory Stock Option Agreement dated November 18, 2003 between the Company and Glenn McDowell [filed as an exhibit to the Company s Registration Statement on Form S-8 filed March 15, 2004 Reg. No. 333-113592 and incorporated herein by reference].
10.11+	Consulting agreement between the Company and J. Livingston Kosberg [filed as an exhibit to the Company s Form 10-Q for the quarterly period ended June 30, 2001 and incorporated herein by reference].
10.12+	First Amendment to the Consulting Agreement between the Company and J. Livingston Kosberg [filed as an exhibit to the Company s Form 10-K for the year ended December 31, 2002 and incorporated herein by reference.]
10.13+	Amended and Restated Employment Agreement dated May 24, 2007, between U.S. Physical Therapy, Inc. and Christopher J. Reading [incorporated by reference to Exhibit 10.3 to the Company s Current Report on Form 8-K filed with the SEC on May 25, 2007].
10.14+	Amendment to Amended and Restated Employment Agreement dated December 2, 2008 between U.S. Physical Therapy, Inc. and Christopher J. Reading [incorporated by reference

to Exhibit 10.1 to the Company s Current Report on Form 8-K, filed with the SEC on December 5, 2008].

Table of Contents

Number	Description
10.15+	Amended and Restated Employment Agreement dated May 24, 2007, between U.S. Physical Therapy, Inc. and Lawrance W. McAfee [incorporated by reference to Exhibit 10.4 to the Company s Current Report on Form 8-K filed with the SEC on May 25, 2007].
10.16+	Amendment to Amended and Restated Employment Agreement dated December 2, 2008 between U.S. Physical Therapy, Inc. and Lawrance W. McAfee [incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K, filed with the SEC on December 5, 2008].
10.17+	Form of Restricted Stock Agreement [incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K/A filed with the SEC on May 30, 2007].
10.18+	Employment Agreement dated May 24, 2007, between U. S. Physical Therapy, Inc. and Glenn D. McDowell [incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed with the SEC on May 25, 2007].
10.19+	Amendment to Employment Agreement dated December 2, 2008 between U.S. Physical Therapy, Inc. and Glenn D. McDowell [incorporated by reference to Exhibit 10.3 to the Company s Current Report on Form 8-K, filed with the SEC on December 5, 2008].
10.20+	USPH Executive Long-Term Incentive Plan, as Amended [incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K, filed with the SEC on December 31, 2008].
10.21	USPH 2009 Executive Bonus Plan (incorporated by reference to Exhibit 99.1 to the Company s Current Report on Form 8-K filed with the SEC on May 19, 2009).
10.22+	U. S. Physical Therapy, Inc. Objective Long-Term Incentive Plan for Senior Management, effective March 31, 2011 [incorporated by reference to Exhibit 99.1 to the Company s Current Report on Form 8-K filed with the SEC on April 6, 2011].
10.23+	U. S. Physical Therapy, Inc. Discretionary Long-Term Incentive Plan for Senior Management for 2011, effective March 31, 2011 [incorporated by reference to Exhibit 99.2 to the Company s Current Report on Form 8-K filed with the SEC on April 6, 2011].
10.24+	U. S. Physical Therapy, Inc. Objective Cash Bonus Plan for 2011, effective March 31, 2011 [incorporated by reference to Exhibit 99.3 to the Company s Current Report on Form 8-K filed with the SEC on April 6, 2011].
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