

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

Form 10-K/A

(Amendment 1)

(Mark One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013
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
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

77042
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (713) 297-7000
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE EXCHANGE ACT:

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, \$.01 par value

New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE EXCHANGE ACT: NONE

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

The aggregate market value of the shares of the registrant's common stock held by non-affiliates of the registrant at June 30, 2013 was \$250,528,000 based on the closing sale price reported on the NYSE for the registrant's common stock on June 28, 2013, the last business day of the registrant's most recently completed second fiscal quarter. For purposes of this computation, all executive officers, directors and 5% or greater beneficial owners of the registrant were deemed to be affiliates. Such determination should not be deemed an admission that such executive officers, directors and beneficial owners are, in fact, affiliates of the registrant.

As of March 11, 2014, the number of shares outstanding of the registrant's common stock, par value \$.01 per share, was: 12,198,365.

DOCUMENTS INCORPORATED BY REFERENCE

DOCUMENT

PART OF FORM 10-K

Portions of Definitive Proxy Statement for the 2014 Annual Meeting of Shareholders

PART III

Explanatory Note:

Pursuant to Rule 12b-15 of the Securities Exchange Act of 1934, as amended, we are filing this Amendment No. 1 on Form 10-K/A (this “Amended Filing”) to our Annual Report on Form 10-K for the year ended December 31, 2013 (the “Original Filing”), to: (i) correct the dates referenced within the Reports of Independent Public Accounting Firm in Item 8 of the original filing from March 10, 2014 to March 11, 2014 and (ii) add language in Item 9A. Controls and Procedures — “Management’s Report on Internal Controls Over Financial Reporting” indicating that the report did not include the effectiveness of our internal control over financial reporting of a 90% owned subsidiary acquired in December 2013.

Accordingly, we hereby also amend Item 15 in the Original Filing to reflect the filing of the new certifications and consent. Except as indicated above, this Amended Filing does not purport to reflect any information or events subsequent to the filing date of the Original Filing. As such, this Amended Filing speaks only as of the date the Original Filing was filed, and we have not undertaken herein to amend, supplement or update any information contained in the Original Filing to give effect to any subsequent events. Accordingly, this Amended Filing should be read in conjunction with the Original Filing and any documents filed by us with the Securities and Exchange Commission (SEC) subsequent to the Original Filing, including our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, filed with the SEC on May 9, 2014, our Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, filed with the SEC on August 7, 2014 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, filed with the SEC on November 7, 2014.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
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, 2013 and 2012, and the related consolidated statements of net income, changes in shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2013. 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 financial position of U.S. Physical Therapy, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their consolidated operations and their cash flows for each of the three years in the period ended December 31, 2013 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), the Company’s internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 11, 2014 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Houston, Texas
March 11, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
U.S. Physical Therapy, Inc.

We have audited the internal control over financial reporting of U.S. Physical Therapy, Inc. (a Nevada Corporation) and subsidiaries (the “Company”) as of December 31, 2013, based on criteria established in the 1992 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s 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 the Company’s internal control over financial reporting based on our audit. Our audit of, and opinion on, the Company’s internal control over financial reporting does not include the internal control over financial reporting of ARC Rehabilitation Services, LLC, a 90% owned subsidiary, whose financial statements reflect total assets and revenues constituting 1.1% and 0.2%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2013. As indicated in Management’s Report, ARC Rehabilitation Services, LLC was acquired during 2013. Management’s assertion on the effectiveness of the Company’s internal control over financial reporting excluded internal control over financial reporting of ARC Rehabilitation Services, LLC.

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, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 *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 financial statements of the Company as of and for the year ended December 31, 2013, and our report dated March 11, 2014 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Houston, Texas
March 11, 2014

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2013	December 31, 2012
	(In thousands, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,898	\$ 11,671
Patient accounts receivable, less allowance for doubtful accounts of \$1,430 and \$1,595, respectively	30,820	25,973
Accounts receivable - other, less allowance for doubtful accounts of \$198 and \$514, respectively	1,844	1,703
Other current assets	4,098	5,975
Total current assets	49,660	45,322
Fixed assets:		
Furniture and equipment	38,965	36,316
Leasehold improvements	21,891	20,858
	60,856	57,174
Less accumulated depreciation and amortization	45,896	44,158
	14,960	13,016
Goodwill	143,955	100,188
Other intangible assets, net	14,479	12,146
Other assets	1,081	1,042
	<u>\$224,135</u>	<u>\$171,714</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade	\$ 1,722	\$ 1,732
Accrued expenses	20,625	14,116
Current portion of notes payable	825	459
Total current liabilities	23,172	16,307
Notes payable	650	175
Revolving line of credit	40,000	17,400
Deferred rent	996	894
Other long-term liabilities	4,196	2,279
Total liabilities	69,014	37,055
Commitments and contingencies		
Redeemable non-controlling interests	4,104	—
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, 14,315,882 and 14,129,651 shares issued, respectively	143	141
Additional paid-in capital	40,569	37,489
Retained earnings	119,206	111,321
Treasury stock at cost, 2,214,737 shares	(31,628)	(31,628)
Total U. S. Physical Therapy, Inc. shareholders' equity	128,290	117,323
Noncontrolling interests	22,727	17,336
Total equity	151,017	134,659
	<u>\$224,135</u>	<u>\$171,714</u>

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF NET INCOME

	Year Ended December 31,		
	2013	2012	2011
	(In thousands, except per share data)		
Net patient revenues	\$258,283	\$244,100	\$225,804
Other revenues	5,775	5,551	5,719
Net revenues	<u>264,058</u>	<u>249,651</u>	<u>231,523</u>
Clinic operating costs:			
Salaries and related costs	141,840	131,604	124,820
Rent, clinic supplies, contract labor and other	52,887	50,102	46,998
Provision for doubtful accounts	4,384	4,824	3,778
Closure costs	246	211	59
Total clinic operating costs	<u>199,357</u>	<u>186,741</u>	<u>175,655</u>
Gross margin	<u>64,701</u>	<u>62,910</u>	<u>55,868</u>
Corporate office costs	25,931	24,504	24,440
Operating income from continuing operations	<u>38,770</u>	<u>38,406</u>	<u>31,428</u>
Interest and other income, net	7	6	5,445
Interest expense	(538)	(557)	(496)
Income before taxes from continuing operations	<u>38,239</u>	<u>37,855</u>	<u>36,377</u>
Provision for income taxes	12,236	11,215	9,698
Net income from continuing operations including non-controlling interests ..	<u>26,003</u>	<u>26,640</u>	<u>26,679</u>
Discontinued operations, net of tax benefit of \$3,180 and \$181 and provision of \$1,399	(5,007)	(423)	3,104
Net income including non-controlling interests	<u>20,996</u>	<u>26,217</u>	<u>29,783</u>
Less: net income attributable to non-controlling interests	(8,273)	(8,284)	(8,809)
Net income attributable to common shareholders	<u>\$ 12,723</u>	<u>\$ 17,933</u>	<u>\$ 20,974</u>
Basic earnings per share attributable to common shareholders:			
From continuing operations	\$ 1.45	\$ 1.54	\$ 1.60
From discontinued operations	(0.40)	(0.02)	0.18
Basic	<u>\$ 1.05</u>	<u>\$ 1.52</u>	<u>\$ 1.78</u>
Diluted earnings per share attributable to common shareholders:			
From continuing operations	\$ 1.45	\$ 1.53	\$ 1.57
From discontinued operations	(0.40)	(0.02)	0.18
Diluted	<u>\$ 1.05</u>	<u>\$ 1.51</u>	<u>\$ 1.75</u>
Shares used in computation:			
Basic	<u>12,063</u>	<u>11,804</u>	<u>11,814</u>
Diluted	<u>12,082</u>	<u>11,904</u>	<u>11,977</u>
Dividends declared per common share	<u>\$ 0.40</u>	<u>\$ 0.76</u>	<u>\$ 0.32</u>
Earnings attributable to common shareholders:			
From continuing operations	\$ 17,492	\$ 18,212	\$ 18,812
From discontinued operations	(4,769)	(279)	2,162
	<u>\$ 12,723</u>	<u>\$ 17,933</u>	<u>\$ 20,974</u>

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

U. S. Physical Therapy, Inc.									
	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Total Shareholders' Equity	Noncontrolling Interests	Total
	Shares	Amount			Shares	Amount			
	(In thousands)								
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
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	<u>13,919</u>	<u>\$139</u>	<u>\$ 36,133</u>	<u>\$102,405</u>	<u>(2,215)</u>	<u>\$(31,628)</u>	<u>\$107,049</u>	<u>\$14,531</u>	<u>\$121,580</u>
Proceeds from exercise of stock options	130	2	20	—	—	—	22	—	22
Net tax benefit from exercise of stock options	—	—	1,209	—	—	—	1,209	—	1,209
Issuance of restricted stock	81	—	—	—	—	—	—	—	—
Compensation expense - restricted stock	—	—	2,102	—	—	—	2,102	—	2,102
Transfer of compensation liability for certain stock issued pursuant to long-term incentive plans	—	—	135	—	—	—	135	—	135
Purchase of business	—	—	—	—	—	—	—	2,892	2,892
Acquisitions and sales of noncontrolling interests, net	—	—	(955)	—	—	—	(955)	(244)	(1,199)
Contribution of noncontrolling interest partners	—	—	—	—	—	—	—	49	49
Transfer of losses from noncontrolling interests	—	—	(1,155)	—	—	—	(1,155)	1,155	—
Distributions to noncontrolling interest partners	—	—	—	—	—	—	—	(9,332)	(9,332)
Cash dividends to shareholders	—	—	—	(9,017)	—	—	(9,017)	—	(9,017)
Net income	—	—	—	17,933	—	—	17,933	8,285	26,218
Balance December 31, 2012	<u>14,130</u>	<u>\$141</u>	<u>\$ 37,489</u>	<u>\$111,321</u>	<u>(2,215)</u>	<u>\$(31,628)</u>	<u>\$117,323</u>	<u>\$17,336</u>	<u>\$134,659</u>
Proceeds from exercise of stock options	17	2	45	—	—	—	47	—	47
Net tax benefit from exercise of stock options	—	—	695	—	—	—	695	—	695
Issuance of restricted stock	175	—	—	—	—	—	—	—	—
Cancellation of restricted stock	(6)	—	—	—	—	—	—	—	—
Compensation expense - restricted stock	—	—	2,743	—	—	—	2,743	—	2,743
Transfer of compensation liability for certain stock issued pursuant to long-term incentive plans	—	—	248	—	—	—	248	—	248
Purchase of business	—	—	—	—	—	—	—	10,541	10,541
Acquisitions and sales of noncontrolling interests, net	—	—	(651)	—	—	—	(651)	(155)	(806)
Reclass to redeemable non-controlling interests	—	—	—	—	—	—	—	(4,104)	(4,104)
Distributions to noncontrolling interest partners	—	—	—	—	—	—	—	(9,164)	(9,164)
Cash dividends to shareholders	—	—	—	(4,838)	—	—	(4,838)	—	(4,838)
Net income	—	—	—	12,723	—	—	12,723	8,273	20,996
Balance December 31, 2013	<u>14,316</u>	<u>\$143</u>	<u>\$ 40,569</u>	<u>\$119,206</u>	<u>(2,215)</u>	<u>\$(31,628)</u>	<u>\$128,290</u>	<u>\$22,727</u>	<u>\$151,017</u>

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2013	2012	2011
	(In thousands)		
OPERATING ACTIVITIES			
Net income including noncontrolling interests	\$ 20,996	\$ 26,218	\$ 29,783
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:			
Depreciation and amortization	5,562	5,287	5,449
Provision for doubtful accounts	4,384	4,848	3,785
Gain on purchase price settlement	—	—	(5,435)
Equity-based awards compensation expense	2,743	2,102	2,032
Loss (gain) on sale of business and fixed assets	7,335	175	182
Excess tax benefit from exercise of stock options	(695)	(1,351)	(217)
Deferred income tax	2,369	3,738	3,833
Other	—	—	437
Changes in operating assets and liabilities:			
Increase in patient accounts receivable	(5,389)	(1,663)	(5,147)
Increase in accounts receivable - other	(5)	(561)	(990)
(Increase) decrease in other assets	1,803	(585)	(1,972)
(Decrease) increase in accounts payable and accrued expenses	4,833	(340)	1,190
(Decrease) increase in other liabilities	859	1,381	(275)
Net cash provided by operating activities	<u>44,795</u>	<u>39,249</u>	<u>32,655</u>
INVESTING ACTIVITIES			
Purchase of fixed assets	(4,637)	(4,234)	(3,222)
Purchase of businesses, net of cash acquired	(46,628)	(7,929)	(9,451)
Acquisitions of noncontrolling interests	(1,876)	(2,244)	(20,439)
Sale of noncontrolling interests	233	239	—
Settlement of purchase price	—	—	1,500
Proceeds on sale of business and fixed assets, net	<u>459</u>	<u>64</u>	<u>6</u>
Net cash used in investing activities	<u>(52,449)</u>	<u>(14,104)</u>	<u>(31,606)</u>
FINANCING ACTIVITIES			
Distributions to noncontrolling interests	(9,164)	(9,332)	(9,767)
Cash dividends to shareholders	(4,838)	(9,017)	(3,789)
Purchase and retire of common stock	—	—	(4,656)
Proceeds from revolving line of credit	150,800	79,900	118,900
Payments on revolving line of credit	(128,200)	(86,000)	(100,900)
Payment of notes payable	(459)	(434)	(250)
Tax benefit from stock options exercised	695	1,351	217
Other	47	75	—
Net cash provided by (used in) financing activities	<u>8,881</u>	<u>(23,457)</u>	<u>(245)</u>
Net increase in cash and cash equivalents	1,227	1,688	804
Cash and cash equivalents - beginning of period	11,671	9,983	9,179
Cash and cash equivalents - end of period	<u>\$ 12,898</u>	<u>\$ 11,671</u>	<u>\$ 9,983</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the period for:			
Income taxes	\$ 4,111	\$ 6,361	\$ 9,037
Interest	\$ 352	\$ 639	\$ 325
Non-cash investing and financing transactions during the period:			
Purchase of business - seller financing portion	\$ 1,300	\$ 350	\$ 200
Acquisition of noncontrolling interest - seller financing portion	\$ —	\$ —	\$ 367

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013

1. Organization, Nature of Operations and Basis of Presentation

U.S. Physical Therapy, Inc. and its subsidiaries (together, 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, 2013 the Company owned and operated 472 clinics in 43 states. 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 manages physical therapy facilities for third parties, primarily physicians, with 18 such third-party facilities under management as of December 31, 2013.

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 the last three years, the Company completed the following multi-clinic acquisitions:

<u>Acquisition</u>	<u>Date</u>	<u>% Interest Acquired</u>	<u>Number of Clinics</u>
	<u>2013</u>		
February 2013 Acquisition	February 28	72%	9
April 2013 Acquisition	April 30	50%	5
May 2013 Acquisition	May 24	80%	5
December 9, 2013 Acquisition	December 9	60%	12
December 13, 2013 Acquisition	December 13	90%	11
	<u>2012</u>		
May 2012 Acquisition	May 22	70%	7
	<u>2011</u>		
July 2011 Acquisition	July 25	51%	20

In addition to the five multi-clinic acquisitions detailed above, in 2013, the Company acquired three individual clinics in separate transactions. In addition to the May 2012 Acquisition, in 2012, the Company acquired seven individual clinics in separate transactions. Two of the acquired clinic practices operate in two separate partnerships and the remaining five operate as satellites of existing partnerships.

Clinic Partnerships

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

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 the amount paid and fair value of the non-controlling interests over the fair value of the acquired business assets, which include certain intangible 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 in an existing clinic. Effective January 1, 2009, if the purchase price of a non-controlling 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 its reporting units to the carrying value of each reporting unit including related goodwill. The Company operates a one segment business which is made up of various clinics within partnerships. The partnerships are components of regions and are aggregated to the operating segment level for the purpose of determining the Company’s reporting units when performing its annual goodwill impairment test.

An impairment loss generally would be recognized when the carrying amount of the net assets of a reporting unit, inclusive of goodwill and other intangible assets, exceeds 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 each weight times the factor is considered the estimated fair value. For 2013, the factors (i.e., price/earnings ratio, discount rate and residual capitalization rate) were updated to reflect current market conditions. The evaluation of goodwill in 2013, 2012 and 2011 did not result in any goodwill amounts that were deemed impaired.

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:

- changes as the result of government enacted national healthcare reform;
- changes in Medicare guidelines and reimbursement or failure of our clinics to maintain their Medicare certification status;
- business and regulatory conditions including federal and state regulations;
- changes in reimbursement rates or payment methods from third party payors including government agencies and deductibles and co-pays owed by patients;
- revenue and earnings expectations;
- general economic conditions;
- availability and cost of qualified physical and occupational therapists;
- personnel productivity;
- competitive, economic or reimbursement conditions in our markets which may require us to reorganize or close certain operations and thereby incur losses and/or closure costs including the possible write-down or write-off of goodwill and other intangible assets;
- maintaining adequate internal controls;
- availability, terms, and use of capital;
- acquisitions, purchase of non-controlling interests (minority interests) 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.

Non-controlling Interests

The Company recognizes non-controlling interests as equity in the consolidated financial statements separate from the parent entity's equity. The amount of net income attributable to non-controlling 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 non-controlling equity investment on the deconsolidation date.

When the purchase price of a non-controlling 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 non-controlling interests even when such allocation creates a deficit balance for the non-controlling interest partner.

The non-controlling interests that are reflected as redeemable non-controlling interests in the consolidated financial statements consist of those outside owners that have certain put rights that are currently exercisable, and that, if exercised, require that the Company purchases the non-controlling interest of the particular limited partner. The redeemable non-controlling interests reflect the book value of the respective non-controlling interests. The redeemable non-controlling interests will be adjusted to the fair value in the reporting period in which the Company deems it probable that the limited partner will assert the put rights. Typically, for

acquisitions, the Company agrees to purchase the individual's non-controlling interest at a predetermined multiple of earnings before interest and taxes. As of December 31, 2012, there were no non-controlling interests with put rights that were exercisable.

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.

Medicare Reimbursement

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 would have resulted in calculated automatic reductions in rates in every year since 2002; however, for each year through March 31, 2014, Centers for Medicare & Medicaid Services ("CMS") or Congress has taken action to prevent the implementation of SGR formula reductions. The Bipartisan Budget Act of 2013 froze the Medicare physician fee schedule rates at 2013 levels through March 31, 2014, averting a scheduled 20.1% cut in the MPFS as a result of the SGR formula that would have taken effect on January 1, 2014. Unless Congress again takes legislative action to prevent the SGR formula reductions from going into effect automatic reductions in the MPFS will commence on April 1, 2014.

The Budget Control Act of 2011 increased the federal debt ceiling in connection with deficit reductions over the next ten years, and requires automatic reductions in federal spending by approximately \$1.2 trillion. Payments to Medicare providers are subject to these automatic spending reductions, subject to a 2% cap. On April 1, 2013, a 2% reduction to Medicare payments was implemented.

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. During 2013, the annual Limit on outpatient therapy services was \$1,900 for Physical Therapy and Speech Language Pathology Services combined and \$1,900 for Occupational Therapy Services. Effective January 1, 2014, the annual Limit on outpatient therapy services is \$1,920 for Physical and Speech Language Pathology Services combined and \$1,920 for Occupational Therapy Services. Historically, these Therapy Caps applied to outpatient therapy services provided in all settings, except for services provided in departments of hospitals. However, the American Taxpayer Relief Act of 2012 and the Bipartisan Budget Act of 2013 extended the annual limits on therapy expenses to services furnished in hospital outpatient department settings through March 31, 2014. Unless Congress enacts legislation to extend the application of these limits to therapy provided in hospital outpatient settings, the Therapy Caps will no longer apply to such services starting as of April 1, 2014.

In the Deficit Reduction Act of 2005, Congress implemented an exceptions process to the annual Limit for therapy expenses for therapy services above the annual Limit. The Bipartisan Budget Act of 2013 extended the exceptions process for outpatient Therapy Caps through March 31, 2014. Therapy services above the annual Limit that are medically necessary satisfy an exception to the annual Limit and such claims are payable by the Medicare program. Unless Congress extends the exceptions process, the Therapy Caps will apply to all claims regardless of medical necessity beginning April 1, 2014. For any claim above the annual Limit, the claim must contain a modifier indicating that the services are medically necessary and justified by appropriate documentation in the medical record.

Furthermore, under the Middle Class Tax Relief and Job Creation Act of 2012 (“MCTRA”), since October 1, 2012, patients who met or exceeded \$3,700 in therapy expenditures during a calendar year have been subject to a manual medical review to determine whether applicable payment criteria are satisfied. The \$3,700 threshold is applied to Physical Therapy and Speech Language Pathology Services; a separate \$3,700 threshold is applied to the Occupational Therapy. The Bipartisan Budget Relief Act of 2013 extended through March 31, 2014 the requirement that Medicare perform manual medical review of therapy services beyond the \$3,700 threshold. In addition, as of January 1, 2013, CMS implemented a claims based data collection strategy that is designed to assist in reforming the Medicare payment system for outpatient therapy. Since January 1, 2013, all therapy claims must include additional codes and modifiers providing information about the beneficiary’s functional status at the outset of the therapy episode of care, specified points during treatment, and at the time of discharge. Effective July 1, 2013, claims submitted without the appropriate codes and modifiers are returned unpaid.

CMS adopted a multiple procedure payment reduction (“MPPR”) for therapy services in the final update to the MPFS for calendar year 2011. During 2011, the MPPR applied to all outpatient therapy services paid under Medicare Part B — occupational therapy, physical therapy and speech-language pathology. Under the policy, the Medicare program pays 100% of the practice expense component of the Relative Value Unit (“RVU”) for the therapy procedure with the highest practice expense RVU, then reduces the payment for the practice expense component for the second and subsequent therapy procedures or units of service furnished during the same day for the same patient, regardless of whether those therapy services are furnished in separate sessions. In 2011 and 2012, the practice expense component for the second and subsequent therapy service furnished during the same day for the same patient was reduced by 20% in office and other non-institutional settings and by 25% in institutional settings. The American Taxpayer Relief Act of 2012 increased the payment reduction of the practice expense component to 50%, on subsequent therapy procedures in either setting, effective April 1, 2013. In addition, the Middle Class Tax Relief and Job Creation Act of 2012 (“MCTRA”) directed CMS to implement a claims-based data collection program to gather additional data on patient function during the course of therapy in order to better understand patient conditions and outcomes. All practice settings that provide outpatient therapy services are required to include this data on the claim form. Since July 1, 2013, therapists have been required to report new codes and modifiers on the claim form that reflect a patient’s functional limitations and goals at initial evaluation, periodically throughout care, and at discharge. Since July 1, 2013, CMS has rejected claims if the required data is not included in the claim.

The Physician Quality Reporting System, or “PQRS,” is a CMS reporting program that uses a combination of incentive payments and payment reductions to promote reporting of quality information by “eligible professionals.” Although physical therapists, occupational therapists and qualified speech-language therapists are generally able to participate in the PQRS program, therapy professionals for whose services we bill through our rehab agencies cannot participate because the Medicare claims processing systems currently cannot accommodate institutional providers such as rehab agencies. Eligible professionals, such as those of our therapy professionals for whose services we bill using their individual Medicare provider numbers, who do not satisfactorily report data on quality measures will be subject to a 2% reduction in their Medicare payment in 2016.

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 substantial 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, 2013. 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

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.

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 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, 2013.

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, 2013 and 2012. 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 Credit Agreement, 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.

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, 2013.

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. There was no stock option compensation in the years ended December 31, 2013, 2012 and 2011. No stock options were granted during the years ended December 31, 2013, 2012 and 2011. As of December 31, 2013, there were no non vested 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.

Reclassifications

Reclassification has been made to prior period amounts to conform to the current period presentation of the physician services business, which was sold in 2013, as discontinued operations.

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 of Businesses and Non-controlling Interests

Acquisition of Businesses

During 2013, 2012 and 2011, the Company completed the following multi-clinic acquisitions of physical therapy practices:

<u>Acquisition</u>	<u>Date</u>	<u>% Interest Acquired</u>	<u>Number of Clinics</u>
	<u>2013</u>		
February 2013 Acquisition	February 28	72%	9
April 2013 Acquisition	April 30	50%	5
May 2013 Acquisition	May 24	80%	5
December 9, 2013 Acquisition	December 9	60%	12
December 13, 2013 Acquisition	December 13	90%	11
	<u>2012</u>		
May 2012 Acquisition	May 22	70%	7
	<u>2011</u>		
July 2011 Acquisition	July 25	51%	20

In addition to the five multi-clinic acquisitions detailed above, in 2013, the Company acquired three individual clinics in separate transactions. In addition to the May 2012 Acquisition, in 2012, the Company acquired seven individual clinic in separate transactions. Two of the acquired clinic practices operate in two separate partnerships and the remaining five operate as satellites of existing partnerships.

The purchase price for the 72% interest in the February 2013 Acquisition was \$4.3 million in cash and \$400,000 in a seller note, that is payable in two principal installments totaling \$200,000 each, plus accrued interest, in February 2014 and 2015. The purchase price for the 50% interest in the April 2013 Acquisition was \$2.4 million in cash and \$200,000 in a seller note, that is payable in two principal installments totaling \$100,000 each, plus accrued interest, in April of 2014 and 2015. The purchase price for the 80% interest in the May 2013 Acquisition was \$3.6 million in cash and \$200,000 in a seller note, that is payable in two principal installments totaling \$100,000 each, plus accrued interest, in May of 2014 and 2015. The purchase price for the 60% interest in the December 9, 2013 Acquisition was \$1.7 million in cash.

The purchase price for the 90% interest in the December 13, 2013 Acquisition was \$35.5 million in cash and \$500,000 in a seller note, that is payable in two principal installments totaling \$250,000 each, plus accrued interest, in December 2014 and 2015. On December 13, 2013, U.S. Physical Therapy, Ltd. (“USPT Ltd.” and “Purchaser”), a wholly-owned subsidiary of the Company, entered into a Reorganization and Purchase Agreement (the “Purchase Agreement”) with ARC Rehabilitation Services, LLC, Athletic & Rehabilitation Center, LLC, Matthew J. Condon and Kevin O’Rourke (collectively referred to as “Sellers”). Prior to, and in

connection with the transaction contemplated by the Purchase Agreement, the Sellers and Purchaser, formed or caused to be formed ARC Physical Therapy Plus, Limited Partnership, a Texas limited partnership (“ARC PT”) and ARC PT Management GP, LLC, a Texas limited liability company (“ARC GP”). ARC GP, which owns a 1% interest in ARC PT, is the sole general partner of ARC PT. ARC PT owns and operates 11 outpatient physical and occupational therapy clinics and has three on site industrial client locations it serves. As a result of the closing under the Purchase Agreement, USPT Ltd. owns 89% of the limited partnership interests of ARC PT and 100% of the membership interests in ARC GP (the “Acquired Interests”). The business acquired complements the Company’s business since it focuses on developing programs for traditional physical and occupational therapy, work hardening, corporate wellness, as well as pre and post offer employment testing and functional capacity testing. The results of operations are included in the consolidated results of the Company since December 13, 2013 which includes \$505,000 of net revenues and \$119,000 of earnings from the December 13, 2013 Acquisition.

Unaudited proforma net revenue and net income from continuing operations for the Company as if the December 13, 2013 Acquisition occurred as of January 1, 2012 is as follows (in thousands, except per share data):

	For the Year Ended December 31,	
	2013	2012
Net revenues	\$275,511	\$261,231
Net income attributable to common shareholders from continuing operations	\$ 19,231	\$ 19,894
Earnings per share:		
Basic - net income attributable to common shareholders from continuing operations	\$ 1.60	\$ 1.69
Diluted - net income attributable to common shareholders from continuing operations	\$ 1.59	\$ 1.67
Shares used in computation:		
Basic - net income attributable to common shareholders from continuing operations	12,050	11,804
Diluted - net income attributable to common shareholders from continuing operations	12,069	11,904

The aggregate purchase price for the three clinic practices acquired in 2013 was \$238,000.

The purchase prices for the acquisitions in 2013 have been preliminarily allocated as follows (in thousands):

Cash paid, net of cash acquired	\$ 46,628
Seller notes	1,300
Total consideration	<u>\$ 47,928</u>
Estimated fair value of net tangible assets acquired:	
Total current assets	\$ 3,895
Total non-current assets	2,283
Total liabilities	<u>(1,082)</u>
Net tangible assets acquired	\$ 5,096
Referral relationships	400
Non compete	160
Tradename	600
Goodwill	52,213
Fair value of noncontrolling interest	<u>(10,541)</u>
	<u>\$ 47,928</u>

The purchase price for the 70% interest in the May 2012 Acquisition was \$6,090,000 in cash and \$250,000 in seller notes, that are payable in two principal installments totaling \$125,000 each, plus any accrued interest, in May 2013 and 2014. The seller notes accrue interest at 3.25% per annum. For the Company, 70% of the goodwill for the May 2012 Acquisition is tax deductible. In addition to the above multi-clinic acquisitions, in 2012, the Company, through its subsidiaries, purchased seven outpatient therapy practices in seven transactions for aggregate cash consideration of \$1,938,000 and, in one transaction, a \$100,000 note payable. For the Company, approximately 67% of the goodwill for the acquisitions in 2012 is tax deductible.

The purchase prices for the acquisitions in 2012 were allocated as follows (in thousands):

Cash paid, net of cash acquired	\$ 7,929
Seller notes	350
Total consideration	<u>\$ 8,279</u>
Estimated fair value of net tangible assets acquired:	
Total current assets	\$ 410
Total non-current assets	525
Total liabilities	<u>(333)</u>
Net tangible assets acquired	\$ 602
Referral relationships	857
Non compete	265
Tradename	1,300
Goodwill	8,147
Fair value of noncontrolling interest	<u>(2,892)</u>
	<u>\$ 8,279</u>

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. For the Company 51% of the goodwill for the July 2011 Acquisition is tax deductible.

The purchase price for the July 2011 Acquisition was allocated as follows (in thousands):

Cash paid, net of cash acquired	\$ 7,930
Seller notes	200
Total consideration	<u>\$ 8,130</u>
Estimated fair value of net tangible assets acquired:	
Total current assets	\$ 1,341
Total non-current assets	902
Total liabilities	<u>(581)</u>
Net tangible assets acquired	\$ 1,662
Tradename	1,900
Referral relationships	1,100
Non compete	300
Goodwill	11,263
Fair value of noncontrolling interest	<u>(8,095)</u>
	<u>\$ 8,130</u>

The purchase prices plus the fair value of the non-controlling interests for the February 2013 Acquisition and the acquisitions in 2012 and 2011 were allocated to the fair value of the assets acquired, inclusive of

identifiable intangible assets, i.e. tradenames, referral relationships and non compete agreements, and liabilities assumed based on the fair values at the acquisition date, with the amount exceeding the fair values being recorded as goodwill. For the remaining acquisitions in 2013, the purchase prices plus the fair value of the non-controlling interests were allocated to the fair value of the assets acquired, exclusive of identifiable intangible assets 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.

For the remaining acquisitions in 2013, 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, 2013 based on additional information obtained and completion of the valuation of the identifiable intangible assets. Changes in the estimated valuation of the tangible assets acquired, the completion of the valuation of identifiable intangible assets 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.

For the February 2013 Acquisition and for the acquisitions in 2012 and 2011, the values assigned to the referral relationships and non compete agreements are being amortized to expense equally over the respective estimated lives. For referral relationships, the range of the estimated lives was 12 to 13 years, and for non compete agreements the estimated lives was six years. The values assigned to goodwill and tradenames are tested annually for impairment.

In April 2012, the Company sold 1% of its interest in the July 2011 Acquisition to the limited partners. The Company now owns a 50% interest in the July 2011 Acquisition, 1% as a general partner and 49% as a limited partner.

For the 2013, 2012 and 2011 acquisitions, total current assets primarily represent primarily patient accounts receivable. Total non current assets are fixed assets, primarily equipment, used in the practices.

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 previous 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 acquisitions in 2013, with the exception of the December 13, 2013 Acquisition, 2012 and 2011 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 an acquisition in 2010 reached an agreement regarding an adjustment to purchase price. 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% partnership interest originally held by the seller which had a book value of \$3.8 million.

Acquisitions of Non-controlling Interests

In 15 separate transactions during 2013, the Company purchased partnership interests in 10 partnerships and sold interests in five partnerships . The interests in the partnerships purchased and sold ranged from less than 1% to 35%. The aggregate of the purchase prices paid, was \$1.9 million and the proceeds for the sales was \$0.8 million, which included cash of \$0.2 million and notes receivable of \$0.6 million. The purchase prices paid included a net of \$0.1 million of undistributed earnings. The remaining \$1.0 million, less future tax benefits of \$0.4 million, was recognized as an adjustment to additional paid-in capital.

In 15 separate transactions during 2012, the Company purchased partnership interests in 15 partnerships. The interests in the partnerships purchased ranged from 10% to 35%. The aggregate of the purchase prices paid

was \$2.2 million, which included \$0.2 million of undistributed earnings. The remaining purchase price of \$2.0 million, less future tax benefits of \$0.8 million, was recognized as an adjustment to additional paid-in capital. During 2012, the Company sold interests in the range of 0.64% to 1% in three partnerships for an aggregate price of \$239,000. This amount less related undistributed earnings of \$5,000 was credited to additional paid-in capital.

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 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.

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

4. Divestiture of Business

On September 30, 2013, the Company sold the remainder of its physician services business. Previously, the Company closed its two physician services facilities – one in August 2013 and the other in December 2012. As previously disclosed in the Company’s public filings, the physician services business incurred negative gross margins in 2012 and through the first nine months of 2013. Revenues from physician services were generated by patient visits, franchise arrangements and fees from third parties. The results of operations and the loss on the sale of the physician services business have been reclassified to discontinued operations for all periods presented.

The Company received \$400,000 cash and a note receivable of \$500,000. The sale less the write-off of assets, primarily of goodwill and other intangible assets, and recording of appropriate accruals resulted in an after-tax loss of \$4.4 million.

The following table details the losses, including the operating results, from discontinued operations reported for the physician services business (in thousands):

	For the Year Ended December 31,		
	2013	2012	2011
Net revenues	\$ 864	\$2,435	\$ 5,483
Operating costs	1,537	2,761	702
Gross margin	(673)	(326)	4,781
Direct general and administrative expenses less proceeds	1,176	278	278
Write off of goodwill and other intangible assets	6,338	—	—
	(8,187)	(604)	4,503
Tax benefit (provision)	3,180	181	(1,399)
(Loss) income from discontinued operations	<u>\$ (5,007)</u>	<u>\$ (423)</u>	<u>\$ 3,104</u>

The cash flow impact of the sale and closures is deemed immaterial for the consolidated statements of cash flows. The reclassifications on the consolidated balance sheet as of December 31, 2012 are also deemed immaterial.

5. Goodwill

The changes in the carrying amount of goodwill as of December 31, 2013 and 2012 consisted of the following (in thousands):

	Year Ended December 31	
	2013	2012
Beginning balance	\$100,188	\$ 92,750
Goodwill acquired during the year	52,213	10,538
Goodwill allocated to specific assets for businesses acquired in 2011	—	(3,300)
Goodwill allocated to specific assets for businesses acquired in 2012	(2,340)	—
Goodwill adjustments for purchase price allocation of businesses acquired	(48)	200
Goodwill written off - sale of physician services business	(6,058)	—
Ending balance	<u>\$143,955</u>	<u>\$100,188</u>

6. Intangible Assets, net

Intangible assets, net as of December 31, 2013 and 2012 consisted of the following (in thousands):

	December 31,	
	2013	2012
Tradenames	\$ 9,814	\$ 7,973
Referral relationships, net of accumulated amortization of \$1,582 and \$1,217, respectively	3,959	3,501
Non compete agreements, net of accumulated amortization of \$1,950 and \$1,848, respectively	706	672
	<u>\$14,479</u>	<u>\$12,146</u>

Tradenames, referral relationships and non compete agreements are related to the businesses acquired. The value assigned to tradenames has an indefinite life and is tested at least annually for impairment using the relief from royalty method 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, 2013, 2012 and 2011 (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Referral relationships	\$521	\$433	\$305
Non compete agreements	372	405	390
	<u>\$893</u>	<u>\$838</u>	<u>\$695</u>

During 2013, in conjunction with the sale of the physician services business, the Company wrote-off the referral relationships and non compete agreements related to this business which included accumulated amortization of \$156,000 and \$270,000, respectively.

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
2014	461	2014	207
2015	440	2015	207
2016	440	2016	144
2017	440	2017	100
2018	404	2018	43
2019	367	2019	4
2020	367		
2021	367		
2022	318		
2023	211		
2024	108		
2025	31		
2026	5		

7. Accrued Expenses

Accrued expenses as of December 31, 2013 and 2012 consisted of the following (in thousands):

	2013	2012
Salaries and related costs	\$11,686	\$ 8,941
Group health insurance claims	2,023	991
Credit balances and overpayments due to patients and payors	2,371	1,513
Other	4,545	2,671
Total	<u>\$20,625</u>	<u>\$14,116</u>

8. Notes Payable

Notes payable as of December 31, 2013 and 2012 consisted of the following (dollars in thousands):

	<u>2013</u>	<u>2012</u>
Credit Agreement average effective interest rate of 2.9% inclusive of unused fee	\$40,000	\$17,400
Various notes payable with \$825 plus accrued interest due in the next year interest accrues at 3.25% per annum	<u>1,475</u>	<u>634</u>
	41,475	18,034
Less current portion	<u>(825)</u>	<u>(459)</u>
	<u>\$40,650</u>	<u>\$17,575</u>

Effective December 5, 2013, the Company entered into an Amended and Restated Credit Agreement with a commitment for a \$125.0 million revolving credit facility with a maturity date of November 30, 2018 (“Credit Agreement”). 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. The pricing grid is based on the Company’s consolidated leverage ratio with the applicable spread over LIBOR ranging from 1.5% to 2.5% or the applicable spread over the Base Rate ranging from 0.1% to 1%. Fees under the Credit Agreement include an unused commitment fee ranging from 0.1% to 0.25% depending on the Company’s consolidated leverage ratio and the amount of funds outstanding under the Credit Agreement.

On December 31, 2013, \$40.0 million was outstanding on the Credit Agreement resulting in \$85.0 million of availability. As of December 30, 2013, 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 conjunction with the acquisitions in 2013, the Company entered into notes payable in the aggregate amount of \$1.3 million, each payable in two equal annual installments totaling \$650,000 plus any accrued and unpaid interest. Interest accrues at 3.25% per annum, subject to adjustment. In conjunction with the acquisitions in 2012, the Company entered into notes payable in the aggregate amount of \$350,000, each payable in two equal annual installments totaling \$175,000 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 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 accrued at 3.25% per annum.

Aggregate annual payments of principal required pursuant to the Credit Agreement and the above notes payable subsequent to December 31, 2013 are as follows (in thousands):

During the twelve months ended December 30, 2014	\$ 825
During the twelve months ended December 30, 2015	650
During the twelve months ended December 30, 2018	<u>40,000</u>
	<u>\$41,475</u>

9. Income Taxes

Significant components of deferred tax assets included in the consolidated balance sheets at December 31, 2013 and 2012 were as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Deferred tax assets:		
Compensation	\$ 1,280	\$ 1,059
Allowance for doubtful accounts	449	607
Lease obligations - closed clinics	77	39
Other	—	22
Deferred tax assets	<u>\$ 1,806</u>	<u>\$ 1,727</u>
Deferred tax liabilities:		
Depreciation and amortization	\$(4,237)	\$(2,166)
Other	(546)	(575)
Deferred tax liabilities	<u>(4,783)</u>	<u>(2,741)</u>
Net deferred tax assets (liabilities)	<u><u>\$(2,977)</u></u>	<u><u>\$(1,014)</u></u>
Amount included in:		
Other current assets	\$ 482	\$ 590
Long term liabilities	\$(3,459)	\$(1,604)

During 2013 and 2012, the Company recorded deferred tax assets of \$0.4 million and \$0.8 million, respectively, related to acquisitions of non-controlling interests. At December 31, 2013 and 2012, the Company had a tax receivable of \$2.2 million and \$4.2 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, 2013, 2012 and 2011 were as follows (in thousands):

	<u>2013</u>		<u>2012</u>		<u>2011</u>	
U. S. tax at statutory rate	\$10,415	35.0%	\$10,299	35.0%	\$ 9,979	35.0%
State income taxes, net of federal benefit	1,814	6.1%	1,219	4.2%	963	3.4%
Deductible losses	(98)	-0.3%	(404)	-1.4%	—	0.0%
Nontaxable gain	—		—		(1,342)	-4.7%
Nondeductible expenses	105	0.3%	101	0.3%	98	0.3%
	<u><u>\$12,236</u></u>	<u><u>41.1%</u></u>	<u><u>\$11,215</u></u>	<u><u>38.1%</u></u>	<u><u>\$ 9,698</u></u>	<u><u>34.0%</u></u>

Significant components of the provision for income taxes for continuing operations for the years ended December 31, 2013, 2012 and 2011 were as follows (in thousands):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current:			
Federal	\$ 8,445	\$ 7,117	\$6,376
State	1,422	360	(511)
Total current	<u>9,867</u>	<u>7,477</u>	<u>5,865</u>
Deferred:			
Federal	1,970	3,183	3,603
State	399	555	230
Total deferred	<u>2,369</u>	<u>3,738</u>	<u>3,833</u>
Total income tax provision for continuing operations	<u><u>\$12,236</u></u>	<u><u>\$11,215</u></u>	<u><u>\$9,698</u></u>

For 2012, 2011 and 2010, the Company performed 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. As a result of this detailed analysis, the Company recorded an increase in the 2013 state income tax provision of \$393,000, for the 2012 reconciliation, and \$162,000 additional provision in 2012 for the 2011 reconciliation. No adjustment was necessary for the 2010 reconciliation. The Company considers this reconciliation process to be an annual control.

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 2010 through 2012 and U.S. state jurisdictions are open for periods ranging from 2009 through 2012.

The Company does not believe that it has any significant uncertain tax positions at December 31, 2013, 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, 2013, 2012 and 2011.

10. Equity Based Plans

The Company has the following equity based plans with outstanding equity grants:

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 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.

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 1,750,000 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 2013 Shareholders Meeting on May 14, 2013.

A cumulative summary of equity plans as of December 31, 2013 follows:

Equity Plans	Authorized	Restricted Stock Issued	Outstanding Stock Options	Stock Options Exercised	Stock Options Exercisable	Shares Available for Grant
Amended 1999 Plan	600,000	360,900	8,700	131,091	8,700	99,309
Amended 2003 Plan	1,750,000	422,663	30,000	748,300	30,000	549,037
	<u>2,350,000</u>	<u>783,563</u>	<u>38,700</u>	<u>879,391</u>	<u>38,700</u>	<u>648,346</u>

A summary of the status of the Company's stock options granted under the plans as of December 31, 2013, 2012 and 2011 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, 2010	723,890	14.30	3.6 Years	
Granted	—	—		
Exercised	(375,080)	13.92		
Cancelled	—	—		
Forfeited	—	—		
Outstanding at December 31, 2011	348,810	14.30	2.6 Years	
Granted	—	—		
Exercised	(272,750)	14.12		
Cancelled	(220)	17.89		
Forfeited	—	—		
Outstanding at December 31, 2012	75,840	14.71	2.2 Years	
Granted	—	—		
Exercised	(37,140)	15.25		
Cancelled	—	—		
Forfeited	—	—		
Outstanding at December 31, 2013	38,700	18.36	1.6 Years	
Exercisable at December 31, 2013	38,700	—	1.6 Years	\$654

All shares pursuant to stock options were fully vested at December 31, 2013 and 2012.

A summary of the intrinsic value of stock options exercised during the years ended December 31, 2013, 2012 and 2011 is as follows:

	Number of Shares	Aggregate Intrinsic Value (000')
2011	375,080	\$3,160
2012	272,750	\$3,459
2013	37,140	\$ 402

The following tables summarize information about the Company's stock options outstanding as of December 31, 2013, 2012 and 2011, respectively:

	Outstanding Options as of December 31, 2013	Exercise Price	Weighted Average Remaining Contractual Life	Exercisable	Exercise Price
1999 Plan	8,700	\$12.60 - \$18.42	1.6 Years	8,700	\$12.60 - \$18.42
2003 Plan	<u>30,000</u>	\$18.42	1.6 Years	<u>30,000</u>	\$18.42
	<u>38,700</u>	\$12.60 - \$18.42	1.6 Years	<u>38,700</u>	\$12.60 - \$18.42

	Outstanding Options as of December 31, 2012	Exercise Price	Weighted Average Remaining Contractual Life	Exercisable	Exercise Price
1999 Plan	15,840	\$12.60 - \$18.42	2.2 Years	15,840	\$12.60 - \$18.42
2003 Plan	<u>60,000</u>	\$12.51 - \$18.80	2.2 Years	<u>60,000</u>	\$12.51 - \$18.80
	<u>75,840</u>	\$12.51 - \$18.80	2.2 Years	<u>75,840</u>	\$12.51 - \$18.80

	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	<u>80,000</u>	\$12.75 - \$14.32	1.7 Years	<u>80,000</u>	\$12.75 - \$14.32
	<u>348,810</u>	\$12.51 - \$18.80	2.6 Years	<u>348,810</u>	\$12.51 - \$18.80

During 2003, the Board of Directors of the Company granted inducement options ("Inducements") to five individuals in connection with their offers of employment. In 2012, the remaining options were exercised.

The following table summarizes information about the Company's stock options outstanding and those options that are exercisable as of December 31, 2013:

Exercise Prices	Outstanding Options	Exercisable Options
\$12.60	400	400
\$18.42	<u>38,300</u>	<u>38,300</u>
	<u>38,700</u>	<u>38,700</u>

During 2013, 2012 and 2011, 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:

<u>Year Granted</u>	<u>Number of Shares</u>	<u>Weighted Average Fair Value Per Share</u>
2011	156,750	\$19.94
2012	80,650	\$21.65
2013	174,938	\$23.52

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, 2013, there were 244,018 shares outstanding for which restrictions had not lapsed. The restrictions will lapse in 2014 through 2017.

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 \$2,743,000, \$2,102,000 and \$2,032,000, respectively, for 2013, 2012 and 2011. As of December 31, 2013, the remaining \$4.2 million of compensation expense will be recognized from 2014 through 2017.

11. 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.

12. Common Stock

From September 2001 through December 31, 2008, the Board authorized the Company to purchase, in the open market or in privately negotiated transactions, up to 2,250,000 shares of the Company's common stock. 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 the Credit Agreement to permit share repurchases of up to \$15,000,000. The Company is required to retire shares purchased under the March 2009 Authorization.

Under the March 2009 Authorization, the Company has purchased a total of 859,499 shares. There is no expiration date for the share repurchase program. The Credit Agreement was further amended to permit the Company to purchase, commencing on October 24, 2012 and at all times thereafter, up to \$15,000,000 of its common stock subject to compliance with covenants. There are currently an additional estimated 340,501 shares

that may be purchased from time to time in the open market or private transactions depending on price, availability and the Company's cash position. The Company did not purchase any shares of its common stock during 2012 or 2013.

13. 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, 2013, 2012 and 2011.

14. 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 \$22.0 million, \$20.8 million and \$19.4 million for the years ended December 31, 2013, 2012 and 2011, 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, 2013 are as follows (in thousands):

2014	\$22,563
2015	18,263
2016	12,761
2017	7,859
2018	4,274
Thereafter	<u>1,902</u>
	<u>\$67,622</u>

Employment Agreements

At December 31, 2013, the Company had outstanding employment agreements with three of its executive officers. These agreements, which presently expire on December 31, 2015, provide for automatic one year renewals if not terminated on at least 12 month 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 \$18.1 million in 2014 and \$4.5 million in the aggregate from 2015 through 2018. 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.

15. Earnings Per Share

The computations of basic and diluted earnings per share for the years ended December 31, 2013, 2012 and 2011 are as follows (in thousands, except per share data):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Earnings attributable to common shareholders:			
From continuing operations	\$17,492	\$18,212	\$18,812
From discontinued operations	(4,769)	(279)	2,162
	<u>\$12,723</u>	<u>\$17,933</u>	<u>\$20,974</u>
Basic earnings per share attributable to common shareholders:			
From continuing operations	\$ 1.45	\$ 1.54	\$ 1.60
From discontinued operations	(0.40)	(0.02)	0.18
Basic	<u>\$ 1.05</u>	<u>\$ 1.52</u>	<u>\$ 1.78</u>
Diluted earnings per share attributable to common shareholders:			
From continuing operations	\$ 1.45	\$ 1.53	\$ 1.57
From discontinued operations	(0.40)	(0.02)	0.18
Diluted	<u>\$ 1.05</u>	<u>\$ 1.51</u>	<u>\$ 1.75</u>
Shares used in computation:			
Basic earnings per share - weighted-average shares	12,063	11,804	11,814
Effect of dilutive securities - Stock options	19	100	163
Denominator for diluted earnings per share - adjusted weighted-average shares	<u>12,082</u>	<u>11,904</u>	<u>11,977</u>

All options to purchase shares for the year ended December 31, 2013, 2012 and 2011 were included in the diluted earnings per share calculation as the average market price for those years exceeded the options' exercise price.

16. Selected Quarterly Financial Data (Unaudited)

	2013			
	Q1	Q2	Q3	Q4
	(In thousands, except per share data)			
Net patient revenues from continuing operations	\$61,432	\$65,227	\$64,368	\$67,256
Net revenues from continuing operations	\$62,756	\$66,868	\$65,829	\$68,605
Operating income from continuing operations	\$ 8,435	\$11,059	\$ 9,904	\$ 9,372
Net income from continuing operations including noncontrolling interests	\$ 5,809	\$ 7,642	\$ 6,756	\$ 5,796
Net income from continuing operations attributable to common shareholders	\$ 3,851	\$ 5,079	\$ 4,659	\$ 3,903
Net losses from discontinued operations attributable to common shareholders	\$ (130)	\$ (165)	\$ (4,432)	\$ (42)
Net income attributable to common shareholders.	\$ 3,721	\$ 4,914	\$ 227	\$ 3,861
Basic earnings per share attributable to common shareholders:				
From continuing operations.	\$ 0.32	\$ 0.42	\$ 0.38	\$ 0.32
From discontinued operations	(0.01)	(0.01)	(0.36)	—
Basic	<u>\$ 0.31</u>	<u>\$ 0.41</u>	<u>\$ 0.02</u>	<u>\$ 0.32</u>
Diluted earnings per share attributable to common shareholders:				
From continuing operations.	\$ 0.32	\$ 0.42	\$ 0.38	\$ 0.32
From discontinued operations	(0.01)	(0.01)	(0.36)	—
Diluted	<u>\$ 0.31</u>	<u>\$ 0.41</u>	<u>\$ 0.02</u>	<u>\$ 0.32</u>
Shares used in computation:				
Basic.	11,955	12,089	12,106	12,103
Diluted	11,979	12,110	12,120	12,117
	2012			
	Q1	Q2	Q3	Q4
	(In thousands, except per share data)			
Net patient revenues from continuing operations	\$60,366	\$61,963	\$60,719	\$61,052
Net revenues from continuing operations	\$61,771	\$63,397	\$62,102	\$62,381
Operating income from continuing operations	\$ 9,765	\$10,806	\$ 9,534	\$ 8,301
Net income from continuing operations including noncontrolling interests	\$ 6,733	\$ 7,452	\$ 6,423	\$ 6,032
Net income from continuing operations attributable to common shareholders	\$ 4,436	\$ 4,958	\$ 4,588	\$ 4,230
Net income (losses) from discontinued operations attributable to common shareholders	\$ 42	\$ (109)	\$ (25)	\$ (187)
Net income attributable to common shareholders	\$ 4,478	\$ 4,849	\$ 4,563	\$ 4,043
Basic earnings per share attributable to common shareholders:				
From continuing operations.	\$ 0.37	\$ 0.41	\$ 0.39	\$ 0.35
From discontinued operations	—	(0.01)	—	(0.02)
Basic	<u>\$ 0.37</u>	<u>\$ 0.40</u>	<u>\$ 0.39</u>	<u>\$ 0.33</u>
Diluted earnings per share attributable to common shareholders:				
From continuing operations.	\$ 0.37	\$ 0.41	\$ 0.38	\$ 0.35
From discontinued operations	—	(0.01)	—	(0.02)
Diluted.	<u>\$ 0.37</u>	<u>\$ 0.40</u>	<u>\$ 0.38</u>	<u>\$ 0.33</u>
Shares used in computation:				
Basic	11,955	12,089	12,106	12,103
Diluted.	11,979	12,110	12,120	12,117

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, 2013 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.

Management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2013. The assessment did not include the effectiveness of our internal control over financial reporting of ARC Rehabilitation Services, LLC (“ARC”), a 90% owned subsidiary acquired in December 2013. The financial statements of ARC represent total assets and revenues constituting 1.1% and 0.2%, respectively, of U.S. Physical Therapy, Inc.’s consolidated financial statement amounts as of and for the year ended December 31, 2013. 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, 2013.

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 39 (pg. 3 of this Amendment No. 1 to our Form 10-K).

ITEM 9B. OTHER INFORMATION

Not applicable.

EXHIBIT INDEX

LIST OF EXHIBITS

<u>Number</u>	<u>Description</u>
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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+	First Amendment to the Amended and Restated 2003 Stock Incentive Plan [incorporated by reference to Appendix A to the Company's proxy statement on Schedule 14A filed with the SEC on April 8, 2013].
10.6+	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].
10.7+	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.]
10.8+	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].
10.9+	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].
10.10+	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].
10.11+	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].
10.12+	Form of Restricted Stock Agreement [incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2013].

<u>Number</u>	<u>Description</u>
10.13+	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].
10.14+	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].
10.15+	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].
10.16	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).
10.17+	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].
10.18+	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].
10.19+	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].
10.20+	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].
10.21+	U. S. Physical Therapy, Inc. Objective Long-Term Incentive Plan for Senior Management, effective March 27, 2012 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the SEC on March 28, 2012).
10.22+	U. S. Physical Therapy, Inc. Discretionary Long-Term Incentive Plan for Senior Management for 2012, effective March 27, 2012 (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed with the SEC on March 28, 2012).
10.23+	U. S. Physical Therapy, Inc. Objective Cash Bonus Plan for 2012, effective March 27, 2012 (incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K filed with the SEC on March 28, 2012).
10.24+	U. S. Physical Therapy, Inc. Discretionary Cash Bonus Plan for 2012, effective March 27, 2012 (incorporated by reference to Exhibit 99.4 to the Company's Current Report on Form 8-K filed with the SEC on March 28, 2012).
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<u>Number</u>	<u>Description</u>
10.28	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].
10.29	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].
10.30	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].
10.31	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).
10.32	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].
10.33	Fourth Amendment to Credit Agreement by and among the Company and the Lenders party hereto, and Bank of America, N. A, as Administrative Agent [incorporated by reference to Exhibit 10.35 to the Company’s Annual Report on Form 10-K filed with the SEC].
10.34	Fifth Amendment to Credit Agreement 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’s Current Report on Form 8-K filed with the SEC on October 25, 2012].
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10.36	Amendment to employment agreement effective March 8, 2013 between U. S. Physical Therapy, Inc. and Christopher J. Reading [incorporated by reference to Exhibit 10.17 to the Company’s Annual Report on Form 10-K filed with the SEC on March 12, 2013].
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10.39	Reorganization and Purchase Agreement dated as of December 13, 2013 between ARC Rehabilitation Services, LLC, Athletic & Rehabilitation Center, LLC, Matthew J. Condon and Kevin O’Rourke (as Sellers) and U. S. Physical Therapy, LTD (Purchaser). (Schedules pursuant to the Reorganization of Purchase Agreement have not been filed by the Registrant, who hereby undertakes to file such schedules upon the request of the Commission.) [incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on December 18, 2013].

<u>Number</u>	<u>Description</u>
21.1	Subsidiaries of the Registrant (incorporated by reference to the Company's Annual Report on Form 10-K filed with the SEC on March 11, 2014).
23.1	Consent of Independent Registered Public Accounting Firm—Grant Thornton LLP (incorporated by reference to the Company's Annual Report on Form 10-K filed with the SEC on March 11, 2014).
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 (incorporated by reference to the Company's Annual Report on Form 10-K filed with the SEC on March 11, 2014).
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* Filed herewith

+ Management contract or compensatory plan or arrangement.

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: January 14, 2015

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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
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101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (incorporated by reference to the Company's Annual Report on Form 10-K filed with the SEC on March 11, 2014).

* Filed herewith

+ Management contract or compensatory plan or arrangement.

CERTIFICATION

I, Christopher J. Reading, certify that:

1. I have reviewed this annual report on Form 10K/A of U.S. Physical Therapy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 14, 2015

/s/ Christopher J. Reading
Christopher J. Reading
President and Chief Executive Officer
(principal executive officer)

CERTIFICATION

I, Lawrance W. McAfee, certify that:

1. I have reviewed this annual report on Form 10K/A of U.S. Physical Therapy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 14, 2015

/s/ Lawrance W. McAfee

Lawrance W. McAfee

Executive Vice President and

Chief Financial Officer

(principal financial and accounting officer)

CERTIFICATION

I, Jon C. Bates, certify that:

1. I have reviewed this annual report on Form 10K/A of U.S. Physical Therapy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 14, 2015

/s/ Jon C. Bates

Jon C. Bates

Vice President and Corporate Contoller

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of U.S. Physical Therapy, Inc. (the “registrant”) on Form 10-K/A for the year ending December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the “report”), we, Christopher J. Reading, Lawrence W. McAfee and Jon C. Bates, Chief Executive Officer, Chief Financial Officer and Controller, respectively, of the registrant, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

(1) The report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

January 14, 2015

/s/ Christopher J. Reading

Christopher J. Reading
Chief Executive Officer

/s/ Lawrence W. McAfee

Lawrence W. McAfee
Chief Financial Officer

/s/ Jon C. Bates

Jon C. Bates
Vice President and Controller

A signed original of this written statement required by Section 906 has been provided to U. S. Physical Therapy, Inc. and will be retained by U. S. Physical Therapy, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.