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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2001

☐ 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	76-0364866
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3040 Post Oak Blvd., Suite 222, Houston, Texas	77056
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (713) 297-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

As of August 10, 2001, the number of shares outstanding of the registrant’s common stock, par value $.01 per share, was:

10,264,889

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands)

	June 30, 2001 (unaudited)	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,612	$ 2,071
Patient accounts receivable, less allowance for doubtful accounts of $3,427 and $2,780, respectively	11,792	10,701
Accounts receivable - other	468	452
Other current assets	586	519
Total current assets	19,458	13,743
Fixed assets:		
Furniture and equipment	13,136	12,141
Leasehold improvements	6,954	6,313
	20,090	18,454
Less accumulated depreciation and amortization	12,670	11,463
	7,420	6,991
Goodwill, net of amortization of $322 and $291, respectively	866	897
Other assets, net of amortization of $499 and $483, respectively	1,175	1,339
	$ 28,919	$ 22,970

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	June 30, 2001 (unaudited)	December 31, 2000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade	$ 376	$ 434
Accrued expenses	2,101	1,622
Estimated third-party payor (Medicare) settlements	283	355
Notes payable	8	912
Total current liabilities	2,768	3,323
Notes payable - long-term portion	24	26
Convertible subordinated notes payable	3,000	7,200
Minority interests in subsidiary limited partnerships	3,510	2,858
Commitments and contingencies	-	-
Shareholders' equity:		
Preferred stock, $.01 par value, 500,000 shares authorized, -0- shares outstanding	-	-
Common stock, $.01 par value, 20,000,000 shares authorized, 10,164,337 and 8,548,374 shares issued at June 30, 2001 and December 31, 2000, respectively	102	85
Additional paid-in capital	10,214	3,476
Retained earnings	9,348	6,049
Treasury stock at cost, 14,700 shares held at June 30, 2001 and December 31, 2000	(47)	(47)
Total shareholders' equity	19,617	9,563
	$ 28,919	$ 22,970

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000
	(unaudited)	
Net patient revenues	$ 19,256	$ 15,124
Management contract revenues	577	638
Other revenues	33	63
Net revenues	19,866	15,825
Clinic operating costs:		
Salaries and related costs	8,547	7,076
Rent, clinic supplies and other	4,287	3,801
Provision for doubtful accounts	502	407
	13,336	11,284
Corporate office costs:		
General and administrative	1,827	1,445
Recruitment and development	373	443
	2,200	1,888
Operating income before non-operating expenses	4,330	2,653
Interest expense	60	181
Minority interests in subsidiary limited partnerships	1,370	930
Income before income taxes	2,900	1,542
Provision for income taxes	1,113	604
Net income	$ 1,787	$ 938
Basic earnings per common share	$ .18	$ .10
Diluted earnings per common share	$ .14	$ .09

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
	(unaudited)	
Net patient revenues	$ 37,588	$ 29,352
Management contract revenues	1,142	1,199
Other revenues	66	96
Net revenues	38,796	30,647
Clinic operating costs:		
Salaries and related costs	16,920	13,780
Rent, clinic supplies and other	8,462	7,406
Provision for doubtful accounts	951	792
	26,333	21,978
Corporate office costs:		
General and administrative	3,577	2,831
Recruitment and development	742	1,077
	4,319	3,908
Operating income before non-operating expenses	8,144	4,761
Interest expense	144	362
Minority interests in subsidiary limited partnerships	2,634	1,743
Income before income taxes	5,366	2,656
Provision for income taxes	2,067	1,047
Net income	$ 3,299	$ 1,609
Basic earnings per common share	$ .33	$ .16
Diluted earnings per common share	$ .26	$ .15

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
	(unaudited)	
Operating activities		
Net income	$ 3,299	$ 1,609
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,280	1,129
Minority interests in earnings of subsidiary limited partnerships	2,634	1,743
Provision for doubtful accounts	951	792
Loss on disposal of fixed assets	4	45
Changes in operating assets and liabilities:		
Increase in patient accounts receivable	(2,042)	(1,264)
Increase in accounts receivable - other	(16)	(235)
Increase in other assets	(102)	(12)
Increase in accounts payable and accrued expenses	421	553
Decrease in estimated third-party payor (Medicare) settlements	(72)	(88)
Net cash provided by operating activities	6,357	4,272

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended June 30, 2001	2000
	(unaudited)	
Investing activities		
Purchase of fixed assets	(1,670)	(1,576)
Purchase of intangibles	-	(18)
Proceeds on sale of fixed assets	4	17
Net cash used in investing activities	(1,666)	(1,577)
Financing activities		
Payment of notes payable	(906)	(16)
Purchase of fractional shares on three-for-two stock split	(11)	-
Proceeds from investment of minority investors in subsidiary limited partnerships	2	87
Proceeds and tax benefit from exercise of stock options	2,749	-
Distributions to minority investors in subsidiary limited partnerships	(1,984)	(1,473)
Net cash used in financing activities	(150)	(1,402)
Net increase in cash and cash equivalents	4,541	1,293
Cash and cash equivalents - beginning of period	2,071	4,030
Cash and cash equivalents - end of period	$ 6,612	$ 5,323
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Income taxes	$ 667	$ 1,296
Interest	$ 146	$ 324

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2001

1. Basis of Presentation and Significant Accounting Policies

The consolidated financial statements include the accounts of U.S. Physical Therapy, Inc. and its subsidiaries (the "Company"). All significant intercompany transactions and balances have been eliminated. As of June 30, 2001, the Company, through its wholly-owned subsidiaries, owned a 1% general partnership interest, with the exception of one clinic in which the Company owned a 6% general partnership interest, and limited partnership interests ranging from 49% to 99% in the clinics it operates (with respect to 87% of the Company’s clinics, the Company owned a limited partnership interest of 64%). For the majority of the clinics, the managing therapist of the clinic owns the remaining limited partnership interest in the clinic. In some instances, the Company develops satellite clinic facilities which are extensions of existing clinics, and thus, clinic partnerships may consist of one or more clinic locations. The minority interests in the equity and earnings of the subsidiary clinic limited partnerships are presented separately in the consolidated financial statements.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions for Form 10-Q. Accordingly, the statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

In the opinion of management, the accompanying unaudited financial statements contain all necessary adjustments (consisting only of normal recurring adjustments) to present fairly the Company's financial position, results of operations and cash flows for the interim periods presented. For further information regarding the Company's accounting policies, refer to the audited financial statements included in the Company's Form 10-K/A for the year ended December 31, 2000.

Operating results for the three and six months ended June 30, 2001 are not necessarily indicative of the results expected for the entire year.

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133 (“SFAS 133"), “Accounting for Derivative Instruments and Hedging Activities,” as amended by SFAS No. 138. SFAS 133 standardizes the accounting for derivative instruments, including certain derivative instruments embedded in other contracts. Under the standard, entities are required to carry all derivative instruments in the statement of financial position at fair value. Adoption of SFAS 133 did not have a material effect on the Company’s financial condition or results of operations because the Company historically has not entered into derivative or other financial instruments for trading or speculative purposes nor does it use or intend to use derivative financial instruments or derivative commodity instruments.

Use of Estimates

Management is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Common Stock

On January 5, 2001, the Company effected a two-for-one common stock split in the form of a 100% stock dividend to stockholders of record as of December 27, 2000. On June 28, 2001, the Company effected a three-for-two common stock split in the form of a 50% stock dividend to stockholders of record as of June 7, 2001. Fractional shares resulting from the three-for-two stock split were paid to shareholders in cash. All share and per share information included in the accompanying consolidated financial statements and related notes has been adjusted to reflect these stock splits.

2. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
	(in thousands, except per share data)			
Numerator:				
Net income	$1,787	$ 938	$3,299	$1,609
Numerator for basic earnings per share	$1,787	$ 938	$3,299	$1,609
Effect of dilutive securities:				
Interest on convertible subordinated notes payable	40	119	86	237
Numerator for diluted earnings per share-income available to common stockholders after assumed conversions	$1,827	$1,057	$3,385	$1,846
Denominator:				
Denominator for basic earnings per share--weighted-average shares	10,006	9,858	9,858	9,858
Effect of dilutive securities:				
Stock options	2,186	225	2,131	219
Convertible subordinated notes payable	900	2,316	969	2,316
Dilutive potential common shares	3,086	2,541	3,100	2,535
Denominator for diluted earnings per share--adjusted weighted-average shares and assumed conversions	13,092	12,399	12,958	12,393
Basic earnings per common share	$ .18	$ .10	$ .33	$ .16
Diluted earnings per common share	$ .14	$ .09	$ .26	$ .15

3. Income Taxes

Significant components of the provision for income taxes were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	(in thousands)			
Current:				
Federal	$ 939	$ 540	$1,734	$1,064
State	174	105	333	191
Total current	1,113	645	2,067	1,255
Deferred:				
Federal	-	(41)	-	(208)
State	-	-	-	-
Total deferred	-	(41)	-	(208)
Total income tax provision	$1,113	$ 604	$2,067	$1,047

4. Bank Loan Agreement

In July 2000, the Company entered into a Loan Agreement with a bank providing for borrowings up to $2,500,000 on a line of credit, convertible to a term loan on December 31, 2000. The loan bore interest at a rate per annum of prime plus one-half percentage point and was repayable in quarterly installments of $250,000 beginning March 2001. The Company borrowed $2,115,000 under the convertible line of credit in August 2000. In November 2000, the Company repaid $1,215,000 of the $2,115,000 borrowed under the convertible line of credit. In March 2001, the Company repaid the remaining principal balance of $900,000.

The Company also had a revolving line of credit with a bank which provided for borrowings up to $500,000, as needed, at a rate of prime. The Company did not borrow under this line of credit, which expired on July 1, 2001.

5. Convertible Subordinated Debt

In June 1993, the Company completed the issuance and sale at par in a private placement of $3,050,000 of 8% Convertible Subordinated Notes due June 30, 2003 (the “Initial Series Notes”). In May 1994, the

Company completed the issuance and sale at par in a private placement of $2,000,000 of 8% Convertible Subordinated Notes, Series B due June 30, 2004 (the “Series B Notes”) and $3,000,000 of 8% Convertible Subordinated Notes, Series C due June 30, 2004 (the “Series C Notes” and collectively, the Initial Series Notes, the Series B Notes and the Series C Notes are hereinafter referred to as the “Convertible Subordinated Notes”).

The Convertible Subordinated Notes are convertible at the option of the holders thereof into the number of whole shares of Company

common stock determined by dividing the principal amount of the Notes so converted by $3.33 in the case of the Initial Series Notes and the Series C Notes or $4.00 in the case of the Series B Notes. Holders of Series B Notes were entitled to receive an interest enhancement payable in shares of Company common stock based upon the market value of the Company's common stock at June 30, 1996. In July 1996, the Company issued 213,000 shares of its common stock in connection with the interest enhancement provision.

During 2000, $100,000 of the Initial Series Notes and $750,000 of the Series B Notes were converted by the note holders into 30,000 and 187,500 shares of common stock, respectively. This resulted in balances of $2,950,000, $1,250,000 and $3,000,000 for the Initial Series Notes, the Series B Notes and the Series C Notes, respectively, at December 31, 2000.

In January 2001, an additional $650,000 of the Initial Series Notes was converted by a note holder into 195,000 shares of common stock. In addition, the Company exercised its right to convert the remaining balances of $2,300,000 of the Initial Series Notes and $1,250,000 of the Series B Notes into 690,000 and 312,500 shares of common stock, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

The Company operates outpatient physical and/or occupational therapy clinics which provide post-operative care and treatment for a variety of orthopedic-related disorders and sports-related injuries. At June 30, 2001, the Company operated 149 outpatient physical and occupational therapy clinics in 30 states. The average age of the 149 clinics in operation at June 30, 2001 was 3.99 years.

In addition to the facilities in which the Company has ownership, it also manages physical therapy facilities for third parties, including physicians, with six such third-party facilities under management as of June 30, 2001.

The Company had taken steps to enter the surgery center business in 1999. In March 2000, the Company discontinued efforts to enter the surgery center business. See “Six Months Ended June 30, 2001 Compared to the Six Months Ended June 30, 2000 - Corporate Office Costs - Recruitment and Development.”

Results of Operations

Three Months Ended June 30, 2001 Compared to the Three Months Ended June 30, 2000

Net Patient Revenues

Net patient revenues increased to $19,256,000 for the three months ended June 30, 2001 (“2001 Second Quarter”) from $15,124,000 for the three months ended June 30, 2000 (“2000 Second Quarter”), an increase of $4,132,000, or 27%. Total patient visits increased 40,000, or 23%, to 214,000 for the 2001 Second Quarter from 174,000 for the 2000 Second Quarter. Net patient revenues from the 22 clinics developed since the 2000 Second Quarter (the “New Clinics”) accounted for approximately 30% of the increase, or $1,232,000. The remaining increase of $2,900,000 in net patient revenues comes from those 127 clinics opened before the 2000 Second Quarter (the “Mature Clinics”). Of the $2,900,000 increase in net patient revenues from the Mature Clinics, $2,291,000 was due to a 15% increase in the number of patient visits, while $609,000 was due to a 3.5% increase in the average net revenue per visit.

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

Management Contract Revenues

Management contract revenues decreased $61,000, or 10%, to $577,000 for the 2001 Second Quarter from $638,000 for the 2000 Second Quarter. This decrease was primarily due to the discontinuance of a third-party management contract in February 2001.

Other Revenues
Other revenues, consisting of interest and real estate commission income, decreased $30,000, or 48%, to $33,000 for the 2001 Second Quarter from $63,000 for the 2000 Second Quarter. This decrease was due to a decrease in interest income as a result of both lower average amounts of cash and cash equivalents available for investment and lower interest rates earned on invested cash for the 2001 Second Quarter compared to the 2000 Second Quarter, offset, in part, by an $8,000 increase in real estate commission income to $11,000 in the 2001 Second Quarter from $3,000 in the 2000 Second Quarter.

Clinic Operating Costs
Clinic operating costs as a percent of net patient revenues and management contract revenues combined decreased to 67% for the 2001 Second Quarter from 72% for the 2000 Second Quarter.

Clinic Operating Costs - Salaries and Related Costs
Salaries and related costs increased to $8,547,000 for the 2001 Second Quarter from $7,076,000 for the 2000 Second Quarter, an increase of $1,471,000, or 21%. Approximately 39% of the increase, or $579,000, was due to the New Clinics. The remaining 61% increase, or $892,000, was due principally to increased staffing to meet the increase in patient visits for the Mature Clinics, coupled with an increase in bonuses earned by the clinic directors at the Mature Clinics. Such bonuses are based on the net revenues or operating profit generated by the individual clinics. Salaries and related costs as a percent of net patient revenues and management contract revenues combined decreased to 43% for the 2001 Second Quarter from 45% for the 2000 Second Quarter.

Clinic Operating Costs - Rent, Clinic Supplies and Other
Rent, clinic supplies and other increased to $4,287,000 for the 2001 Second Quarter from $3,801,000 for the 2000 Second Quarter, an increase of $486,000, or 13%. Approximately 86% of the increase, or $421,000, was due to the New Clinics, while 14%, or $65,000, of the increase was due to the Mature Clinics. The increase in rent, clinic supplies and other for the Mature Clinics was primarily due to increased rent expense. Rent, clinic supplies and other as a percent of net patient revenues and management contract revenues combined declined to 22% for the 2001 Second Quarter from 24% for the 2000

Second Quarter.

Clinic Operating Costs - Provision for Doubtful Accounts
The provision for doubtful accounts increased to $502,000 for the 2001 Second Quarter from $407,000 for the 2000 Second Quarter, an increase of $95,000, or 23%. Approximately 25% of the increase, or $24,000, was due to the New Clinics. The remaining 75% increase, or $71,000, was due to the Mature Clinics. The provision for doubtful accounts as a percent of net patient revenues decreased slightly to 2.6% for the 2001 Second Quarter from 2.7% for the 2000 Second Quarter.

Corporate Office Costs - General and Administrative
General and administrative costs, consisting primarily of salaries and benefits of corporate office personnel, rent, insurance costs, depreciation and amortization, travel and legal and professional fees, increased to $1,827,000 for the 2001 Second Quarter from $1,445,000 for the 2000 Second Quarter, an increase of $382,000, or 26%. General and administrative costs increased primarily as a result of increased travel, recruiting fees and salaries and benefits related to additional personnel hired to support an

increasing number of clinics. General and administrative costs as a percent of net patient revenues and management contract revenues combined remained unchanged at 9% for the 2001 and 2000 Second Quarters.

Corporate Office Costs - Recruitment and Development
Recruitment and development costs primarily represent salaries and benefits of recruitment and development personnel, rent, travel, marketing and recruiting fees attributed directly to the Company's activities in the development and acquisition of new clinics. Recruitment and development personnel have no involvement with a facility following opening. All recruitment and development personnel are located at the corporate office in Houston, Texas. Recruitment and development costs decreased $70,000, or 16%, to $373,000 for the 2001 Second Quarter from $443,000 for the 2000 Second Quarter. The decrease in recruitment and development costs was due to fewer clinics opened in the 2001 Second Quarter as compared to the 2000 Second Quarter. In addition, the 2000 Second Quarter contained $28,000 of residual surgery center expenses. Recruitment and development costs as a percent of net patient revenues and management contract revenues combined decreased to 2% for the 2001 Second Quarter from 3% for the 2000 Second Quarter.

Interest Expense
Interest expense decreased $121,000, or 67%, to $60,000 for the 2001 Second Quarter from $181,000 for the 2000 Second Quarter. This

decrease in interest was primarily due to the conversion of $5,050,000 of convertible subordinated debt into shares of Company common stock. See "Factors Affecting Future Results - Convertible Subordinated Debt."

Minority Interests in Earnings of Subsidiary Limited Partnerships
Minority interests in earnings of subsidiary limited partnerships increased $440,000, or 47%, to $1,370,000 for the 2001 Second Quarter from $930,000 for the 2000 Second Quarter due to the increase in aggregate profitability of those clinics in which partners have achieved positive retained earnings and are accruing partnership income.

Provision for Income Taxes
The provision for income taxes increased to $1,113,000 for the 2001 Second Quarter from $604,000 for the 2000 Second Quarter, an increase of $509,000, or 84%. During the 2001 and 2000 Second Quarters, the Company accrued income taxes at effective tax rates of 38% and 39%, respectively. These rates exceeded the U.S. statutory tax rate of 34% due primarily to state income taxes.

Six Months Ended June 30, 2001 Compared to the Six Months Ended June 30, 2000

Net Patient Revenues
Net patient revenues increased to $37,588,000 for the six months ended June 30, 2001 ("2001 Six Months") from $29,352,000 for the six months ended June 30, 2000 ("2000 Six Months"), an increase of $8,236,000, or 28%. Total patient visits increased 80,000, or 24%, to 419,000 for the 2001 Six Months from 339,000 for the 2000 Six Months. Net patient revenues from the 22 clinics developed since the 2000 Six Months (the "New Clinics") accounted for approximately 21% of the increase, or $1,762,000. The remaining increase of $6,474,000 in net patient revenues comes from those 127 clinics opened before the 2000 Six Months (the "Mature Clinics"). Of the $6,474,000 increase in net patient revenues from the Mature Clinics, $5,269,000 was due to an 18% increase in the number of patient visits, while $1,205,000 was due to a 3% increase in the average net revenue per visit.

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

Other Revenues
Other revenues, consisting of interest and real estate commission income, decreased $30,000, or 31%, to $66,000 for the 2001 Six Months from $96,000 for the 2000 Six Months. This decrease was due to a decrease in interest income as a result of both lower average amounts of cash and cash equivalents available for investment and lower interest rates earned on invested cash for the 2001 Six Months compared to the 2000 Six Months, offset, in part, by a $31,000 increase in real estate commission income to $34,000 for the 2001 Six Months from $3,000 for the 2000 Six Months.

Clinic Operating Costs
Clinic operating costs as a percent of net patient revenues and management contract revenues combined decreased to 68% for the 2001 Six Months from 72% for the 2000 Six Months.

Clinic Operating Costs - Salaries and Related Costs
Salaries and related costs increased to $16,920,000 for the 2001 Six Months from $13,780,000 for the 2000 Six Months, an increase of $3,140,000, or 23%. Approximately 27% of the increase, or $862,000, was due to the New Clinics. The remaining 73% increase, or $2,278,000, was due principally to increased staffing to meet

the increase in patient visits for the Mature Clinics, coupled with an increase in bonuses earned by the clinic directors at the Mature Clinics. Such bonuses are based on the net revenues or operating profit generated by the individual clinics. Salaries and related costs as a percent of net patient revenues and management contract revenues combined decreased to 44% for the 2001 Six Months from 45% for the 2000 Six Months.

Clinic Operating Costs - Rent, Clinic Supplies and Other
Rent, clinic supplies and other increased to $8,462,000 for the 2001 Six Months from $7,406,000 for the 2000 Six Months, an increase of $1,056,000, or 14%. Approximately 64% of the increase, or $680,000, was due to the New Clinics, while 36%, or $376,000, of the increase was due to the Mature Clinics. The increase in rent, clinic supplies and other for the Mature Clinics related primarily to an increase in rent expense during the 2001 Six Months. Rent, clinic supplies and other as a percent of net patient revenues and management contract revenues combined declined to 22% for the 2001 Six

Months from 24% for the 2000 Six Months.

Clinic Operating Costs - Provision for Doubtful Accounts
The provision for doubtful accounts increased to $951,000 for the 2001 Six Months from $792,000 for the 2000 Six Months, an increase of $159,000, or 20%. Approximately 22% of the increase, or $35,000, was due to the New Clinics. The remaining 78% increase, or $124,000, was due to the Mature Clinics. The provision for doubtful accounts as a percent of net patient revenues decreased slightly to 2.5% for the 2001 Six Months from 2.7% for the 2000 Six Months.

Corporate Office Costs - General and Administrative
General and administrative costs, consisting primarily of salaries and benefits of corporate office personnel, rent, insurance costs, depreciation and amortization, travel and legal and professional fees, increased to $3,577,000 for the 2001 Six Months from $2,831,000 for the 2000 Six Months, an increase of $746,000, or 26%. General and administrative costs increased primarily as a result of increased travel, recruiting fees, legal and professional fees and salaries and benefits related to additional personnel hired to support an increasing number of clinics. General and administrative costs as a percent of net patient revenues and management contract revenues combined remained unchanged at 9% for the 2001 and 2000 Six Months.

Corporate Office Costs - Recruitment and Development
Recruitment and development costs primarily represent salaries and benefits of recruitment and development personnel, rent, travel, marketing and recruiting fees attributed directly to the Company's activities in the development and acquisition of new clinics. Recruitment and development personnel have no involvement with a facility following opening. All recruitment and development

personnel are located at the corporate office in Houston, Texas. Recruitment and development costs decreased $335,000, or 31%, to $742,000 for the 2001 Six Months from $1,077,000 for the 2000 Six Months. The 2000 Six Months included $329,000 related to the discontinued surgery center initiative. The majority of the $329,000 surgery center costs related to salaries of development personnel, including severance pay associated with the discontinuance of the surgery center initiative, consulting fees, legal fees and travel associated with potential acquisitions of surgery centers. Excluding expenses related to the surgery centers, recruitment and development costs as a percent of net patient revenues and management contract revenues combined remained unchanged at 2% for the 2001 and 2000 Six Months.

Interest Expense
Interest expense decreased $218,000, or 60%, to $144,000 for the 2001 Six Months from $362,000 for the 2000 Six Months. This decrease in interest was primarily due to the conversion of $5,050,000 of convertible subordinated debt into shares of Company common stock. See "Factors Affecting Future Results - Convertible Subordinated Debt."

Minority Interests in Earnings of Subsidiary Limited Partnerships
Minority interests in earnings of subsidiary limited partnerships increased $891,000, or 51%, to $2,634,000 for the 2001 Six Months from $1,743,000 for the 2000 Six Months due to the increase in aggregate profitability of those clinics in which partners have achieved positive retained earnings and are accruing partnership income.

Provision for Income Taxes
The provision for income taxes increased to $2,067,000 for the 2001 Six Months from $1,047,000 for the 2000 Six Months, an increase of $1,020,000, or 97%. During the 2001 and 2000 Six Months, the Company accrued income taxes at an effective tax rate of 39%. This rate exceeded the U.S. statutory tax rate of 34% due primarily to state income taxes.

Liquidity and Capital Resources
At June 30, 2001, the Company had $6,612,000 in cash and cash equivalents available to fund the working capital needs of its operating subsidiaries, future clinic developments, acquisitions and investments. Included in cash and cash equivalents at June 30, 2001 was $3,844,000 in money market funds invested in short-term debt instruments issued by an agency of the U.S. Government.

The increase in cash and cash equivalents of $4,541,000 from December 31, 2000 to June 30, 2001 was due primarily to cash provided by operating activities of $6,357,000 and proceeds and tax benefits from the exercise of stock options of $2,749,000, offset,

in part, by the payment of notes payable of $906,000, capital expenditures for physical therapy equipment and leasehold improvements in the amount of $1,670,000 and distributions of $1,984,000 to minority investors in subsidiary limited partnerships.

The Company's current ratio increased to 7.03 to 1.00 at June 30, 2001 from 4.14 to 1.00 at December 31, 2000. The increase in the current ratio was due primarily to the increase in cash and cash equivalents, an increase in net patient revenues, which, in turn, caused an increase in patient accounts receivable and a decrease in notes payable.

At June 30, 2001, the Company had a debt-to-equity ratio of 0.15 to 1.00 compared to 0.85 to 1.00 at December 31, 2000. The decrease in the debt-to-equity ratio from December 31, 2000 to June 30, 2001 resulted from net income of $3,299,000, the conversion of $4,200,000 subordinated notes payable into common stock and the proceeds and tax benefits from the exercise of stock options of $2,749,000.

In August 2000, the Company completed the purchase of 1,695,000 shares for a total aggregate cost of $6,275,000 (including expenses). The Company utilized cash on hand and a bank loan in the amount of $2,115,000 to fund the purchase of the stock.

In conjunction with the stock purchase, the Company entered into a Loan Agreement with a bank to borrow up to $2,500,000 on a line of credit, convertible to a term loan on December 31, 2000. The loan bore interest at a rate per annum of prime plus one-half percentage point and was repayable in quarterly installments of $250,000 beginning March 2001.

In November 2000, the Company repaid $1,215,000 of the $2,115,000 borrowed under the convertible line of credit. In March 2001, the Company repaid the remaining balance of $900,000 on the bank loan.

Management believes that existing funds, supplemented by cash flows from operations, will be sufficient to meet its current operating needs and its development plans through at least 2002.

Recently Promulgated Accounting Standards

In July 2001, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 141 (“SFAS 141”), “Business Combinations.” SFAS 141 eliminates the pooling of interests method of accounting and requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method. The Company does not expect the adoption of SFAS 141 to have a material impact on its business because it currently has no planned or pending acquisitions.

Also in July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 “Goodwill and Other Intangible Assets,” (“SFAS 142“) which will be effective for our company as of the beginning of fiscal 2002. SFAS 142 requires goodwill and other intangible assets with indefinite lives no longer be amortized. SFAS 142 further requires the fair value of goodwill and other intangible assets with indefinite lives be tested for impairment upon adoption of this statement, annually and upon the occurrence of certain events and be written down to fair value if considered impaired. Our management estimates the adoption of SFAS 142 will result in the elimination of annual amortization expense related to goodwill and other intangible assets, including trademarks, in the amount of approximately $70,000, or $46,000 net of tax; however, because of the extensive effort needed to comply with this statement, the impact of related impairment, if any, on our financial position or results of operations has not been determined.

Factors Affecting Future Results

Clinic Development
As of June 30, 2001, the Company had 149 clinics in operation, 14 of which opened in the 2001 Six Months. The Company's goal for 2001 is to open between 30 and 35 clinics. The opening of these clinics is subject to, among other things, the Company's ability to identify suitable geographic locations and physical therapy clinic partners. The Company's operating results will be impacted by initial operating losses from the new clinics. During the initial period of operation, operating margins for newly opened clinics tend to be lower than more seasoned clinics due to the start-up costs of newly opened clinics (including, without limitation, salaries and related costs of the physical therapist and other clinic personnel, rent and equipment and other supplies required to open the clinic) and the fact that patient revenues tend to be lower in the first year of a new clinic's operation and increase significantly over the subsequent two to three years. Based on historical performance of the Company's new clinics, the clinics opened since the 2000 Second Quarter are expected to favorably impact the Company's results of operations for 2001 and beyond.

Convertible Subordinated Debt
In June 1993, the Company completed the issuance and sale at par in a private placement of $3,050,000 of 8% Convertible Subordinated Notes due June 30, 2003 (the "Initial Series Notes"). In May 1994, the Company completed the issuance and sale at par in a private placement of $2,000,000 of 8% Convertible Subordinated Notes, Series B due June 30, 2004 (the "Series B Notes") and $3,000,000 of 8% Convertible Subordinated Notes, Series C due June 30, 2004 (the "Series C Notes" and collectively, the Initial Series Notes, the Series B Notes and the Series C Notes are hereinafter referred to as the "Convertible Subordinated Notes").

The Convertible Subordinated Notes are convertible at the option of the holders thereof into the number of whole shares of Company common stock determined by dividing the principal amount of the Notes so converted by $3.33 in the case of the Initial Series Notes and the Series C Notes or $4.00 in the case of the Series B Notes. Holders of Series B Notes were entitled to receive an interest enhancement payable in shares of Company common stock based upon the market value of the Company's common stock at June 30, 1996. In July 1996, the Company issued 213,000 shares of its common stock in connection with the interest enhancement provision.

During 2000, $100,000 of the Initial Series Notes and $750,000 of the Series B Notes were converted by the note holders into 30,000 and 187,500 shares of common stock, respectively. This resulted in a balance of $2,950,000, $1,250,000 and $3,000,000 for the Initial Series Notes, the Series B Notes and the Series C Notes, respectively, at December 31, 2000.

In January 2001, an additional $650,000 of the Initial Series Notes was converted by a note holder into 195,000 shares of common stock. In addition, the Company exercised its right to require conversion of the remaining balance of $2,300,000 of the Initial Series Notes and $1,250,000 of the Series B Notes into 690,000 and 312,500 shares of common stock, respectively.

The debt conversions increased the Company’s shareholders’ equity by the carrying amount of the debt converted, thus improving the Company’s debt to equity ratio and will favorably impact results of operations and cash flow due to the interest savings of approximately $400,000 per year, before income tax, on the debt.

Forward-Looking Statements

We make statements in this report that are considered to be forward-looking statements within the meaning of the Securities and Exchange Act of 1934. Such statements involve risks and uncertainties that could cause actual results to differ materially from those we project. When used in this report, the words “anticipates”, “believes”, “estimates”, “intends”, “expects”, “plans”, “should” and “goal” and similar expressions are intended to identify such forward-looking statements. The forward-looking statements are based on the Company’s current views and assumptions and involve risks and uncertainties that include, among other things, general economic, business, and regulatory conditions, competition, federal and state regulations, availability, terms, and use of capital and weather. Some or all of these factors are beyond the Company’s control.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. Please see the other sections of this report and our other periodic reports filed with the

Securities and Exchange Commission (the “SEC”) for more information on these factors. These forward-looking statements represent our estimates and assumptions only as of the date of this report. The Company undertakes no obligation to update any forward-looking statement, whether as the result of actual results, changes in assumptions, new information, future events, or otherwise.

Item 3. Quantitative and Qualitative Disclosure About Market Risk.

As of June 30, 2001, the Company had outstanding $3,000,000 of 8% Convertible Subordinated Notes, Series C, due June 30, 2004 (the “Series C Notes”). The Series C Notes, which were issued in private placement transactions, bear interest at 8% per annum, payable quarterly, and are convertible at the option of the holders thereof into common stock of the Company at any time during the term of the Series C Notes. The conversion price is $3.33 per share, subject to adjustment as provided in the Notes. Based upon the closing price of the Company’s common stock on August 8, 2001 of $15.49, as reported by the National Market of Nasdaq, the fair value of the Series C Notes was $13,941,000.

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

(a) The Company held its 2001 annual meeting of shareholders ("Annual Meeting") on May 23, 2001. At the Annual Meeting, nine directors were elected for one-year terms, the Company's shareholders voted for approval under the Company's 1992 Stock Option Plan to increase by 340,000 the number of shares of Company common stock reserved for issuance and to amend the Company's Articles of Incorporation to increase the authorized common stock of the Company to 20,000,000 shares.

(b) The names of the nine directors elected at the Annual Meeting are as follows: J. Livingston Kosberg, Mark J. Brookner, Roy W. Spradlin, Daniel C. Arnold, Bruce D. Broussard, James B. Hoover, Marlin W. Johnston, Albert L. Rosen and Eddy J. Rogers, Jr.

(c) The following votes were cast in the election of directors:

Nominees	For	Withhold Authority
J. Livingston Kosberg	6,129,654	44,100
Mark J. Brookner	6,129,654	44,100
Roy W. Spradlin	5,506,079	667,675
Daniel C. Arnold	6,128,804	44,950
Bruce D. Broussard	6,130,054	43,700
James B. Hoover	6,130,054	43,700
Marlin W. Johnston	6,129,354	44,400
Albert L. Rosen	6,128,804	44,950
Eddy J. Rogers, Jr.	6,130,054	43,700

There were a total of 6,173,754 shares represented by person or by proxy at the Annual Meeting.

(d) Not applicable.

Item 6. Exhibits and Reports on Form 8-K.

(a) List of Exhibits

3.1 Articles of Incorporation of the Company.

3.2 Amendment to the Articles of Incorporation of the Company.

10.1 Consulting agreement between the Company and J. Livingston Kosberg.

10.2 Second Amended and Restated Employment Agreement between the Company and Roy W. Spradlin.

10.3 1992 Stock Option Plan, as amended.

10.4 Nonstatutory Stock Option Agreement dated February 7, 2000.

10.5 Nonstatutory Stock Option Agreement dated February 17, 2000.

(b) Reports on Form 8-K

No reports on Form 8-K were filed with the Securities and Exchange Commission during the quarter ended June 30, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

U.S. PHYSICAL THERAPY, INC.

Date: August 14, 2001

By: /s/ J. MICHAEL MULLIN
J. Michael Mullin
Chief Financial Officer
(duly authorized officer and principal financial officer)