
**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 March 31, 2012

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)

(713) 297-7000

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

As of May 4, 2012, the number of shares outstanding (issued less treasury stock) of the registrant's common stock, par value \$.01 per share, was: 11,765,840.

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ITEM 1. FINANCIAL STATEMENTS.

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

	March 31, 2012 (unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash	\$ 10,440	\$ 9,983
Patient accounts receivable, less allowance for doubtful accounts of \$1,892 and \$2,154, respectively	29,456	28,333
Accounts receivable—other, less allowance for doubtful accounts of \$186 and \$883, respectively	1,979	1,614
Other current assets	5,248	5,737
Total current assets	47,123	45,667
Fixed assets:		
Furniture and equipment	35,491	35,103
Leasehold improvements	19,987	20,385
	55,478	55,488
Less accumulated depreciation and amortization	42,556	42,299
	12,922	13,189
Goodwill	93,797	92,750
Other intangible assets, net	9,515	9,603
Other assets	1,079	2,043
	\$164,436	\$ 163,252
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable—trade	\$ 1,377	\$ 1,809
Accrued expenses	10,656	14,082
Current portion of notes payable	483	433
Total current liabilities	12,516	16,324
Notes payable	334	284
Revolving line of credit	24,200	23,500
Deferred rent	946	941
Other long-term liabilities	605	623
Total liabilities	38,601	41,672
Commitments and contingencies		
Shareholders' equity:		
U. S. Physical Therapy, Inc. shareholders' equity:		
Preferred stock, \$.01 par value, 500,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$.01 par value, 20,000,000 shares authorized, 13,980,577 and 13,919,588 shares issued, respectively	140	139
Additional paid-in capital	36,563	36,133
Retained earnings	105,825	102,405
Treasury stock at cost, 2,214,737 shares	(31,628)	(31,628)
Total U. S. Physical Therapy, Inc. shareholders' equity	110,900	107,049
Noncontrolling interests	14,935	14,531
Total equity	125,835	121,580
	\$164,436	\$ 163,252

See notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2012	2011
Net patient revenues	\$ 60,499	\$ 53,872
Other revenues	2,083	2,869
Net revenues	62,582	56,741
Clinic operating costs:		
Salaries and related costs	32,799	29,639
Rent, clinic supplies, contract labor and other	12,484	11,295
Provision for doubtful accounts	1,117	624
Closure costs	49	20
Total clinic operating costs	46,449	41,578
Corporate office costs	6,262	6,481
Operating income	9,871	8,682
Interest and other income, net	2	2
Interest expense	(162)	(73)
Income before taxes	9,711	8,611
Provision for income taxes	2,899	2,426
Net income including noncontrolling interests	6,812	6,185
Less: net income attributable to noncontrolling interests	(2,334)	(2,439)
Net income attributable to common shareholders	\$ 4,478	\$ 3,746
Earnings per share attributable to common shareholders:		
Basic	\$ 0.38	\$ 0.32
Diluted	\$ 0.38	\$ 0.31
Shares used in computation:		
Basic	11,726	11,718
Diluted	11,838	11,945
Dividends declared per common share	\$ 0.09	\$ 0.08

See notes to consolidated financial statements.

U. S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(unaudited)

	Three Months Ended March 31,	
	2012	2011
OPERATING ACTIVITIES		
Net income including noncontrolling interests	\$ 6,812	\$ 6,185
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	1,334	1,330
Provision for doubtful accounts	1,117	624
Equity-based awards compensation expense	547	444
Loss on sale or abandonment of assets, net	58	56
Deferred income tax	1,610	365
Other	—	(374)
Changes in operating assets and liabilities:		
Increase in patient accounts receivable	(2,179)	(3,774)
Increase in accounts receivable—other	(426)	(409)
Decrease in other assets	38	355
(Decrease) increase in accounts payable and accrued expenses	(3,728)	685
(Decrease) increase in other liabilities	(12)	208
Net cash provided by operating activities	5,171	5,695
INVESTING ACTIVITIES		
Purchase of fixed assets	(896)	(860)
Purchase of businesses, net of cash acquired	(1,090)	—
Acquisitions of noncontrolling interests	(565)	(15)
Net proceeds on sale of fixed assets and business	6	3
Net cash used in investing activities	(2,545)	(872)
FINANCING ACTIVITIES		
Distributions to noncontrolling interests	(1,919)	(1,989)
Cash dividends to shareholders	(1,058)	(943)
Proceeds from revolving line of credit	8,400	4,000
Payments on revolving line of credit	(7,700)	(4,700)
Payment of notes payable	—	(100)
Excess tax benefit from stock options exercised	58	395
Other	50	1
Net cash used in financing activities	(2,169)	(3,336)
Net increase in cash	457	1,487
Cash—beginning of period	9,983	9,179
Cash—end of period	\$ 10,440	\$ 10,666
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income taxes	\$ 576	\$ 615
Interest	\$ 283	\$ 93
Non-cash investing and financing transactions during the period:		
Purchase of business—seller financing portion	\$ 100	\$ —

See notes to consolidated financial statements.

U. S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(IN THOUSANDS)
(unaudited)

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			
Balance December 31, 2011	13,919	\$ 139	\$ 36,133	\$ 102,405	(2,215)	\$ (31,628)	\$ 107,049	\$ 14,531	\$ 121,580
Issuance of restricted stock	58	—	—	—	—	—	—	—	—
Compensation expense - restricted stock	—	—	547	—	—	—	547	—	547
Transfer of compensation liability for certain stock issued pursuant to incentive plans	—	—	135	—	—	—	135	—	135
Proceeds from exercise of stock options	3	1	—	—	—	—	1	—	1
Excess tax benefit of equity grants	—	—	58	—	—	—	58	—	58
Contribution of non controlling interests partners	—	—	—	—	—	—	—	49	49
Acquisition of non controlling interests	—	—	(310)	—	—	—	(310)	(60)	(370)
Cash dividends to USPT shareholders	—	—	—	(1,058)	—	—	(1,058)	—	(1,058)
Distributions to noncontrolling interest partners	—	—	—	—	—	—	—	(1,919)	(1,919)
Net income	—	—	—	4,478	—	—	4,478	2,334	6,812
Balance March 31, 2012	<u>13,980</u>	<u>\$ 140</u>	<u>\$ 36,563</u>	<u>\$ 105,825</u>	<u>(2,215)</u>	<u>\$ (31,628)</u>	<u>\$ 110,900</u>	<u>\$ 14,935</u>	<u>\$ 125,835</u>

See notes to consolidated financial statements.

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

March 31, 2012
(unaudited)

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. 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, directly or indirectly, 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”).

The Company continues to seek to attract physical and occupational therapists who have established relationships with patients and physicians by offering therapists a competitive salary and a share of the profits of the clinic operated by that therapist. The Company has developed satellite clinic facilities of existing clinics, with the result that many Clinic Partnerships and Wholly-Owned Facilities operate more than one clinic location. In addition, the Company has acquired a majority interest in a number of clinics through acquisitions.

During the three months ended March 31, 2012, the Company acquired two clinics in two separate transactions. On January 3, 2012, the Company acquired a 100% interest in a clinic, and effective March 31, 2012, the Company acquired a 65% interest in another clinic. Also, during the three months ended March 31, 2012, the Company opened two new clinics and closed six clinics. As of March 31, 2012, the Company operated 414 clinics in 42 states.

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

The Company intends to continue to focus on developing new clinics and on opening satellite clinics where deemed appropriate. The Company will also continue to evaluate acquisition opportunities.

The accompanying unaudited consolidated financial statements were 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. However, 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. Management believes this report contains all necessary adjustments (consisting only of normal recurring adjustments) to present fairly, in all material respects, 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, please read the audited financial statements included in the Company’s Form 10-K for the year ended December 31, 2011.

The Company believes, and the Chief Executive Officer, Chief Financial Officer and Corporate Controller have certified, that the financial statements included in this report present fairly, in all material respects, the Company’s financial position, results of operations and cash flows for the interim periods presented.

Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results the Company expects for the entire year. Please also review the Risk Factors section included in our Form 10-K for the year ended December 31, 2011.

Clinic Partnerships

For Clinic Partnerships, the earnings and liabilities attributable to the non-controlling interests, typically owned by the managing therapist, directly or indirectly, are recorded within the balance sheets and income statements 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 to the profit sharing therapists. 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

Significant Accounting Policies

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 which indicate that 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 each reporting unit to the carrying value of the reporting unit including related goodwill. The Company operates a one segment business which is made up of various clinics within partnerships. A reporting unit refers to the acquired interest of a single clinic or group of clinics. Local management typically continues to manage the acquired clinic or group of clinics. For each clinic or group of clinics, the Company maintains discrete financial information and both corporate and local management regularly review the operating results.

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

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 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. Additionally, operating losses are allocated to non-controlling interests even when such allocation creates a deficit balance for the non-controlling interest partner.

Revenue Recognition

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

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

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

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

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

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

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

CMS adopted a multiple procedure payment reduction (MPPR) for therapy services in the final update to the MPFS for calendar year 2011. Under MPPR, the Medicare program pays 100% of the practice expense component of the Relative

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

Statutes, regulations, and payment rules governing the delivery of therapy services to Medicare beneficiaries are complex and subject to interpretation. The Company believes that it is in compliance in all material respects with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the Company’s financial statements as of March 31, 2012. 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.

Physician Services Revenues

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

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 for such services by both insurance companies and government sponsored healthcare programs. 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 it 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 systems may 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 shows a less than 1% difference 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 March 31, 2012.

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 basis 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 recognizes accrued interest expense and penalties associated with unrecognized tax benefits as income tax expense. The Company did not have any accrued interest or penalties associated with any unrecognized tax benefits nor was any interest expense recognized during the three months ended March 31, 2012.

Fair Value 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 Company's revolving line of credit approximates its fair value. The interest rate on the revolving line of credit, 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, purchase accounting, 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 March 31, 2012.

Restricted Stock

Restricted stock issued to employees and directors is subject to certain conditions, including continued employment or continued service on the board, respectively. 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 service period. The restricted stock issued is included in basic and diluted shares for the earnings per share computation.

Recent Accounting Pronouncements

In July 2011, the Financial Accounting Standards Board (“FASB”) issued ASU 2011-07, “Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts for Certain Health Care Entities” (“ASU 2011-07”). ASU 2011-07 requires certain health care entities to change the presentation in their statement of operations by reclassifying the provision for bad debts associated with patient service revenue that is not subject to an assessment as to the patient’s ability to pay from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. ASU 2011-07 also requires disclosure of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The Company has evaluated ASU 2011-07 and concluded that it is not required to change its presentation and disclosure. Substantially all of the Company’s patient revenue is subject to an assessment as to the patient’s ability to pay at the time the related service is provided.

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

2. EARNINGS PER SHARE

The computations of basic and diluted earnings per share for the Company are as follows (in thousands, except per share data):

	Three Months Ended	
	March 31,	
	2012	2011
Numerator:		
Net income attributable to common shareholders	<u>\$ 4,478</u>	<u>\$ 3,746</u>
Denominator:		
Denominator for basic earnings per share—weighted-average shares	11,726	11,718
Effect of dilutive securities—Stock options	<u>112</u>	<u>227</u>
Denominator for diluted earnings per share—adjusted weighted-average shares	<u>11,838</u>	<u>11,945</u>
Earnings per share attributable to common shareholders:		
Basic	<u>\$ 0.38</u>	<u>\$ 0.32</u>
Diluted	<u>\$ 0.38</u>	<u>\$ 0.31</u>

All options to purchase shares were included in the diluted earnings per share calculation for the three months ended March 31, 2012 and 2011 as the average market price of the common shares was above the exercise prices. The Company’s restricted stock issued is included in basic and diluted shares for the earnings per share computation from the date of grant.

3. ACQUISITION OF BUSINESSES

During the three months ended March 31, 2012, the Company acquired two clinics in two separate transactions. On January 3, 2012, the Company acquired a 100% interest in a clinic for \$1.0 million in cash and a \$100,000 seller note, which is payable in two principal installments totaling \$50,000 each, plus any accrued interest, in January 2013 and 2014. The purchase price of \$1.1 million was preliminarily allocated as follows: \$45,000 to non-current assets, \$25,000 to non-competition agreement, \$57,000 to referral relationships and \$973,000 to goodwill, which is tax deductible. Effective March 31, 2012, the Company acquired a 65% interest in another clinic for \$90,000 in cash. The purchase price was preliminarily allocated \$20,000 to non-current assets and the remaining \$70,000 to goodwill.

The consideration was agreed upon through arm's length negotiations. Funding for the cash portion of the purchase price was derived from proceeds from the Company's revolving credit facility.

The results of operations of these acquisitions have been included in the Company's consolidated financial statements since acquired.

Because these acquisitions occurred during the quarter ended March 31, 2012, the purchase price plus the fair value of the noncontrolling interest was allocated to the fair value of the assets acquired and liabilities assumed based on the preliminary estimates of the fair values at the acquisition date, with the amount exceeding the estimated fair values being recorded as goodwill. The Company is in the process of completing its formal valuation analysis to identify and determine the fair value of tangible and intangible assets acquired and the liabilities assumed. Thus, the final allocation of the purchase price may differ from the preliminary estimates used at March 31, 2012 based on additional information obtained. Changes in the estimated valuation of the tangible and intangible assets acquired and the completion by the Company of the identification of any unrecorded pre-acquisition contingencies, where the liability is probable and the amount can be reasonably estimated, will likely result in adjustments to goodwill.

Unaudited proforma consolidated financial information for these acquisitions has not been included as the results were not material to current operations.

4. ACQUISITIONS OF NON-CONTROLLING INTERESTS

In three separate transactions during the three months ended March 31, 2012, the Company purchased 10% of the partnership interest in each of two partnerships and 35% of the partnership interest in a third partnership. The 35% interest was held by non controlling limited partner. After these transactions, the Company owns 75% of the partnership interest in each of the two partnerships and all of the partnership interest in the third partnership. The aggregate of the purchase prices paid was \$565,000, which included \$60,000 of undistributed earnings. The remaining purchase price of \$505,000, less future tax benefits of \$195,000, was recognized as an adjustment to additional paid-in capital.

5. GOODWILL

The changes in the carrying amount of goodwill consisted of the following (in thousands):

	Three Months Ended March 31, 2012
Beginning balance	\$ 92,750
Goodwill acquired during the period	1,043
Goodwill adjustments for purchase price allocation of business acquired in 2011	4
Ending balance	<u>\$ 93,797</u>

6. NOTES PAYABLE

Notes payable as of March 31, 2012 and December 31, 2011 consisted of the following (\$ in thousands):

	2012	2011
Revolving credit agreement average effective interest rate of 2.6% inclusive of unused fee	\$24,200	\$23,500
Promissory note payable in annual installments of \$100 plus accrued interest through December 31, 2012, interest accrues at 3.25% per annum	100	100
Promissory note payable in annual installments of \$50 plus accrued interest through December 21, 2012, interest accrues at 4.00% per annum	50	50
Promissory note payable in annual installments of \$184 plus accrued interest through June 30, 2013, interest accrues at 3.25% per annum	367	367
Promissory note payable in annual installments of \$100 plus accrued interest through July 25, 2013, interest accrues at 3.25% per annum	200	200
Promissory note payable in annual installments of \$50 plus accrued interest through January 3, 2014, interest accrues at 3.25% per annum	100	—
	<u>25,017</u>	<u>24,217</u>
Less current portion	(483)	(433)
	<u>\$24,534</u>	<u>\$23,784</u>

Effective August 27, 2007, the Company entered into a credit agreement with a commitment for a \$30.0 million revolving credit facility which was increased to \$50.0 million effective June 4, 2008 (“Credit Agreement”). Effective March 18, 2009, the Credit Agreement was amended to permit the purchase up to \$15,000,000 of the Company’s common stock subject to compliance with certain covenants, including the requirement that after giving effect to any stock purchase, the Company’s consolidated leverage ratio (as defined in the Credit Agreement) be less than 1.0 to 1.0 and that any stock repurchased be retired within seven days of purchase. Effective October 13, 2010, the Credit Agreement was amended to extend the maturity date from August 31, 2011 to August 31, 2015. In addition, the Credit Agreement was amended to adjust the pricing grid which is based on the Company’s consolidated leverage ratio with the applicable spread over LIBOR ranging from 1.6% to 2.5% or the applicable spread over the Base Rate ranging from .1% to 1%. On July 14, 2011, the Credit Agreement was amended to increase the commitment from \$50.0 million to \$75.0 million. The Credit Agreement is unsecured and has loan covenants, including requirements that the Company comply with a consolidated fixed charge coverage ratio and consolidated leverage ratio. Proceeds from the Credit Agreement may be used for working capital, acquisitions, purchases of the Company’s common stock, dividend payments to the Company’s common stockholders, capital expenditures and other corporate purposes. Fees under the Credit Agreement include an unused commitment fee ranging from .1% to .25% depending on the Company’s consolidated leverage ratio and the amount of funds outstanding under the Credit Agreement. On March 31, 2012, \$24.2 million was outstanding on the revolving credit facility resulting in \$50.8 million of availability. The Company was in compliance with all of the covenants thereunder.

The Company generally enters into various notes payable as a means of financing a portion of its acquisitions and purchases of non controlling interests. In January 2012, the Company, in conjunction with the purchase of a clinic, entered into a note payable in the amount of \$100,000 payable in two equal annual installments of \$50,000 plus any accrued and unpaid interest. Interest accrues at 3.25% per annum.

Aggregate annual payments of principal required pursuant to the revolving credit facility and the above notes payable subsequent to March 31, 2012 are as follows:

During the twelve months ended March 31, 2013	\$ 483
During the twelve months ended March 31, 2014	334
During the twelve months ended March 31, 2015	—
During the twelve months ended March 31, 2016	<u>24,200</u>
	<u>\$25,017</u>

7. COMMON STOCK

From September 2001 through December 31, 2008, the Board of Directors (“Board”) authorized the Company to purchase, in the open market or in privately negotiated transactions, up to 2,250,000 shares of 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 its bank 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. Since there is no expiration date for the two share repurchase programs, additional shares may be purchased from time to time in the open market or private transactions depending on price, availability and the Company’s cash position. The Company did not purchase any shares of its common stock during the three months ended March 31, 2012. Using the March 30, 2012 closing price (last business day of the three months ended March 31, 2012) of \$23.05 per share, there were approximately 147,000 shares remaining that could be purchased under these programs.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

EXECUTIVE SUMMARY

Our Business

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

On January 3, 2012, we acquired a 100% interest in a clinic and, effective March 31, 2012, the Company acquired a 65% interest in another clinic. On July 25, 2011, we acquired a 51% interest in a 20 clinic multi-partner physical therapy group (“July 2011 Acquisition”). During the three months ended March 31, 2012, the Company opened two new clinics and closed six clinics.

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

In addition to our owned clinics, we also manage physical therapy facilities for third parties, primarily physicians, with 15 third-party facilities under management as of March 31, 2012.

Selected Operating and Financial Data

The following table presents selected operating and financial data that we believe are key indicators of our operating performance.

	For the Three Months Ended March 31,	
	2012	2011
Number of clinics, at the end of period	414	397
Working days	64	64
Average visits per day per clinic	21.8	20.4
Total patient visits	578,670	515,161
Net patient revenue per visit	\$ 104.55	\$ 104.57

RESULTS OF OPERATIONS

Three Months Ended March 31, 2012 Compared to the Three Months Ended March 31, 2011

- Net revenues increased to \$62.6 million for the three months ended March 31, 2012 (“2012 First Quarter”) from \$56.7 million for the three months ended March 31, 2011 (“2011 First Quarter”) primarily due to an increase in patient visits from 515,000 to 579,000. The average net patient revenue per visit for the 2012 First Quarter was \$104.55 as compared to \$104.57 in the 2011 First Quarter.
- Net income attributable to our common shareholders for the 2012 First Quarter was \$4.5 million versus \$3.7 million for the 2011 First Quarter. Net income was \$0.38 per diluted share for the 2012 First Quarter as compared to \$0.31 per diluted share for the 2011 First Quarter. Total diluted shares were 11.8 million for the 2012 First Quarter and 11.9 million for the 2011 First Quarter.

Net Patient Revenues

- Net patient revenues increased to \$60.5 million for the 2012 First Quarter from \$53.9 million for the 2011 First Quarter, an increase of \$6.6 million, or 12.3%, primarily due to an increase in patient visits from 515,000 to 579,000.
- The growth in patient visits was primarily attributable to 44,000 visits in clinics opened or acquired between April 1, 2011 and March 31, 2012 (“New Clinics”). For clinics opened or acquired prior to April 1, 2011 (“Mature Clinics”), patient visits increased 20,000 in the 2012 First Quarter as compared to the 2011 First Quarter.
- Net patient revenues related to New Clinics amounted to \$4.6 million for the 2012 First Quarter and net patient revenues for Mature Clinics increased \$2.0 million for the 2012 First Quarter as compared to the 2011 First Quarter.

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

Other Revenues

Other revenues decreased by \$0.8 million from \$2.9 million to \$2.1 million due to lower revenues from physician services, which include clinical services related to intra articular joint and lumbar osteoarthritis programs as well as electro-diagnostic analysis.

Clinic Operating Costs

Clinic operating costs as a percentage of net revenues were 74.2% for the 2012 First Quarter and 73.3% for the 2011 First Quarter.

Clinic Operating Costs—Salaries and Related Costs

Salaries and related costs increased to \$32.8 million for the 2012 First Quarter from \$29.6 million for the 2011 First Quarter, an increase of \$3.2 million, or 10.7%. Salaries and related costs for New Clinics amounted to \$2.8 million for the 2012 First Quarter. Salaries and related costs for Mature Clinics increased by \$0.4 million for the 2012 First Quarter as compared to the 2011 First Quarter. Salaries and related costs as a percentage of net revenues were 52.4% for the 2012 First Quarter and 52.2% for the 2011 First Quarter.

Clinic Operating Costs—Rent, Clinic Supplies, Contract Labor and Other

Rent, clinic supplies, contract labor and other were \$12.5 million for the 2012 First Quarter and \$11.3 million for the 2011 First Quarter. For New Clinics, rent, clinic supplies, contract labor and other amounted to \$1.3 million for the 2012 First Quarter. For Mature Clinics, rent, clinic supplies, contract labor and other decreased slightly (\$0.1 million) in the 2012 First Quarter compared to the 2011 First Quarter. Rent, clinic supplies, contract labor and other as a percentage of net revenues was 19.9% for the 2012 First Quarter and for the 2011 First Quarter.

Clinic Operating Costs—Provision for Doubtful Accounts

The provision for doubtful accounts was \$1.1 million for the 2012 First Quarter and \$0.7 million for the 2011 First Quarter. The provision for doubtful accounts for patients accounts receivable as a percentage of net patient revenues was 1.8% for the 2012 First Quarter and 1.2% for the 2011 First Quarter.

Our allowance for doubtful accounts for patient accounts receivable as a percentage of total patient accounts receivable was 6.0% at March 31, 2012, as compared to 7.1% at December 31, 2011. Our days sales outstanding was 48 days at March 31, 2012 and December 31, 2011.

Corporate Office Costs

Corporate office costs, consisting primarily of salaries and benefits of corporate office personnel, rent, insurance costs, depreciation and amortization, travel, legal, professional, and recruiting fees, were \$6.3 million for the 2012 First Quarter and \$6.5 million for the 2011 First Quarter. As a percentage of net revenues, corporate office costs were 10.0% for the 2012 First Quarter and 11.4% for the 2011 First Quarter.

Interest Expense

Interest expense increased to \$162,000 in the 2012 First Quarter compared to \$73,000 in the 2011 First Quarter due to an increase in the average borrowings outstanding under our revolving credit facility during the 2012 period compared to the 2011 period. At March 31, 2012, \$24.2 million was outstanding under our revolving credit facility.

Provision for Income Taxes

The provision for income taxes increased to \$2.9 million for the 2012 First Quarter from \$2.4 million for the 2011 First Quarter. During the 2012 and 2011 First Quarters, the Company accrued state and federal income taxes at an effective tax rate (provision for taxes divided by the difference between income before taxes and net income attributable to non-controlling interests) of 39.3%.

Non-controlling Interests

Net income attributable to non-controlling interests was \$2.3 million for the 2012 First Quarter and \$2.4 million for the 2011 First Quarter. The reduction is attributable to the Company's increased ownership interest in certain physical therapy partnerships. Net income attributable to non-controlling interests as a percentage of operating income before corporate office costs was 14.5% for the 2012 First Quarter and 16.1% for the 2011 First Quarter.

LIQUIDITY AND CAPITAL RESOURCES

We believe that our business is generating sufficient cash flow from operating activities to allow us to meet our short-term and long-term cash requirements, other than those with respect to future acquisitions. At March 31, 2012, we had \$10.4 million in cash compared to cash of \$10.0 million at December 31, 2011. We believe that our cash and unused availability under our \$75.0 million revolving credit facility are sufficient to fund the working capital needs of our operating subsidiaries, corporate costs, dividends, purchases of our common stock, accrued clinic closure costs, future clinic development and investments through at least March 2013. Significant acquisitions of clinics and/or non-controlling interests would likely require financing under our existing revolving credit agreement (defined below).

During the 2012 First Quarter, \$5.2 million was provided by operations, \$0.7 million was derived from net proceeds from our revolving credit facility and \$0.1 million was obtained from the exercise of stock options and related tax benefits and contributions of capital from a limited partner. The major uses of cash included: distributions to non-controlling interest partners (\$1.9 million), purchase of businesses (\$1.1 million), payments of cash dividends to our shareholders (\$1.1 million), purchases of fixed assets (\$0.9 million) and payments for acquisitions of non-controlling interests (\$0.6 million).

Effective August 27, 2007, we entered into a credit agreement with a commitment for a \$30.0 million revolving credit facility which was increased to \$50.0 million effective June 4, 2008 ("Credit Agreement"). Effective March 18, 2009, we amended the Credit Agreement to permit us to purchase up to \$15,000,000 of our common stock subject to compliance with certain covenants, including the requirement that after giving effect to any stock purchase, our consolidated leverage ratio (as defined in the Credit Agreement) be less than 1.0 to 1.0 and that any stock repurchased be retired within seven days of purchase. Effective October 13, 2010, we amended the Credit Agreement to extend the maturity date from August 31, 2011 to August 31, 2015. In addition, the Credit Agreement was amended to adjust the pricing grid which is

based on our consolidated leverage ratio with the applicable spread over LIBOR ranging from 1.6% to 2.5% or the applicable spread over the Base Rate ranging from .1% to 1%. On July 14, 2011, we amended the Credit Agreement to increase the commitment from \$50.0 million to \$75.0 million. The Credit Agreement is unsecured and has loan covenants, including requirements that we comply with a consolidated fixed charge coverage ratio and consolidated leverage ratio. Proceeds from the Credit Agreement may be used for working capital, acquisitions, purchases of our common stock, dividend payments to our common stockholders, capital expenditures and other corporate purposes. Fees under the Credit Agreement include an unused commitment fee ranging from .1% to .25% depending on our consolidated leverage ratio and the amount of funds outstanding under the Credit Agreement. On March 31, 2012, \$24.2 million was outstanding on the revolving credit facility resulting in \$50.8 million of availability, and we were in compliance with all of the covenants thereunder.

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

We make reasonable and appropriate efforts to collect accounts receivable, including applicable deductible and co-payment amounts, in a consistent manner for all payor types. Claims are submitted to payors daily, weekly or monthly in accordance with our policy or payor's requirements. When possible, we submit our claims electronically. The collection process is time consuming and typically involves the submission of claims to multiple payors whose payment of claims may be dependent upon the payment of another payor. Claims under litigation and vehicular incidents can take a year or longer to collect. Medicare and other payor claims relating to new clinics awaiting Medicare Rehab Agency status approval initially may not be submitted for six months or more. When all reasonable internal collection efforts have been exhausted, accounts are written off prior to sending them to outside collection firms. With managed care, commercial health plans and self-pay payor type receivables, the write-off generally occurs after the account receivable has been outstanding for at least 120 days.

We generally enter into various notes payable as a means of financing our acquisitions. Our presently outstanding notes payable relate to acquisitions that occurred in 2012, 2011 and 2010. At March 31, 2012, the balance on these notes payable was \$817,000.

In conjunction with acquisitions that occurred in 2010 and 2011, in the event that a limited minority partner's employment ceases at any time after three years from the acquisition date, we have agreed to repurchase that individual's non-controlling interest at a predetermined multiple of earnings before interest and taxes.

From September 2001 through December 31, 2008, the Board authorized us to purchase, in the open market or in privately negotiated transactions, up to 2,250,000 shares of our common stock. In March 2009, the Board authorized the repurchase of up to 10% or approximately 1,200,000 shares of our common stock ("March 2009 Authorization"). In connection with the March 2009 Authorization, we amended our bank credit agreement to permit the share repurchases of up to \$15,000,000. We are required to retire shares purchased under the March 2009 Authorization. Since there is no expiration date for these share repurchase programs, additional shares may be purchased from time to time in the open market or private transactions depending on price, availability and our cash position. We did not purchase any shares of our common stock during the three months ended March 31, 2012. Using the March 30, 2012 closing price of our common stock (last business day of the three months ended March 31, 2012) of \$23.05 per share, there were approximately 147,000 shares remaining that could be purchased under these programs.

FACTORS AFFECTING FUTURE RESULTS

The risks related to our business and operations include:

- The uncertain economic conditions and the historically high unemployment rate in the United States may have material adverse impacts on our business and financial condition that we currently cannot predict.
- We depend upon reimbursement by third-party payors including Medicare and Medicaid.
- Changes as a result of healthcare reform legislation may affect our business.
- We depend upon the cultivation and maintenance of relationships with the physicians in our markets.
- We also depend upon our ability to recruit and retain experienced physical and occupational therapists.
- Our revenues may fluctuate due to weather.
- Our operations are subject to extensive regulation.
- We operate in a highly competitive industry.
- We may incur closure costs and losses.

- Future acquisitions may use significant resources, may be unsuccessful and could expose us to unforeseen liabilities.
- Certain of our internal controls, particularly as they relate to billings and cash collections, are largely decentralized at our clinic locations.

See Risk Factors in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011.

FORWARD LOOKING STATEMENTS

Forward-Looking Statements

We make statements in this report that are considered to be forward-looking within the meaning under Section 21E of the Securities Exchange Act of 1934. These statements contain forward-looking information relating to the financial condition, results of operations, plans, objectives, future performance and business of our Company. These statements (often using words such as “believes”, “expects”, “intends”, “plans”, “appear”, “should” and similar words) involve risks and uncertainties that could cause actual results to differ materially from those we project. Included among such statements are those relating to opening new clinics, availability of personnel and the reimbursement environment. The forward-looking statements are based on our current views and assumptions and actual results could differ materially from those anticipated in such forward-looking statements as a result of certain risks, uncertainties, and factors, which include, but are not limited to:

- changes in Medicare guidelines and reimbursement or failure of our clinics to maintain their Medicare certification status,
- revenue and earnings expectations;
- general economic conditions;
- business and regulatory conditions including federal and state regulations;
- changes as the result of government enacted national healthcare reform;
- 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 clinics and thereby incur losses and/or closure costs including the possible write-down or write-off of goodwill and other intangible assets;
- changes in reimbursement rates or payment methods from third party payors including government agencies and deductibles and co-pays owed by patients;
- maintaining adequate internal controls;
- availability, terms, and use of capital;
- acquisitions, purchase of non-controlling interests (minority interests) and the successful integration of the operations of the acquired businesses; and
- weather and other seasonal factors.

Many factors are beyond our control. Given these uncertainties, you should not place undue reliance on our forward-looking statements. Please see our periodic reports filed with the Securities and Exchange Commission (the “SEC”) for more information on these factors. Our forward-looking statements represent our estimates and assumptions only as of the date of this report. Except as required by law, we are under no obligation to update any forward-looking statement, regardless of the reason the statement is no longer accurate.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We do not maintain any derivative instruments, interest rate swap arrangements, hedging contracts, futures contracts or the like. The Company’s primary market risk exposure is the changes in interest rates obtainable on our revolving credit agreement. The interest on our revolving credit agreement is based on a variable rate. At March 31, 2012, \$24.2 million was outstanding on our revolving credit facility. Based on the balance of the revolving credit facility at March 31, 2012, any change in the interest rate of 1% would yield a decrease or increase in annual interest expense of \$242,000.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company's management completed an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded (i) that our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure and (ii) that our disclosure controls and procedures are effective.

(b) Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 6. EXHIBITS.

<u>Exhibit Number</u>	<u>Description</u>
10.1	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).
10.2	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).
10.3	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).
10.4	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).
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
31.3*	Rule 13a-14(a)/15d-14(a) Certification of Corporate Controller.
32*	Certification Pursuant to 18 U.S.C 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

SIGNATURES

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

Date: May 4, 2012

U.S. PHYSICAL THERAPY, INC.

By: /s/ LAWRENCE W. MCAFEE

Lawrance W. McAfee
Chief Financial Officer
(duly authorized officer and principal financial
and accounting officer)

By: /s/ JON C. BATES

Jon C. Bates
Vice President/Corporate Controller

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EXHIBIT 31.1
CERTIFICATION

I, Christopher Reading, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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.

/s/ CHRISTOPHER READING

Christopher Reading
President and Chief Executive Officer
(principal executive officer)

Date: May 4, 2012

EXHIBIT 31.2
CERTIFICATION

I, Lawrance W. McAfee, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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.

/s/ LAWRENCE W. MCAFEE

Lawrance W. McAfee
Chief Financial Officer
(principal financial and accounting officer)

Date: May 4, 2012

EXHIBIT 31.3
CERTIFICATION

I, Jon C. Bates, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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.

/s/ JON C. BATES

Jon C. Bates

Vice President/Corporate Controller

Date: May 4, 2012

EXHIBIT 32
CERTIFICATION OF PERIODIC REPORT

In connection with the Quarterly Report of U.S. Physical Therapy, Inc. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher J. Reading, President and Chief Executive Officer of the Company, Lawrance W. McAfee, Chief Financial Officer of the Company, and Jon C. Bates, Vice President and Corporate Controller of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 4, 2012

/s/ CHRISTOPHER J. READING

Christopher J. Reading
Chief Executive Officer

/s/ LAWRENCE W. MCAFEE

Lawrance W. McAfee
Chief Financial Officer

/s/ JON C. BATES

Jon C. Bates
Vice President/Corporate Controller

This certification is made solely pursuant to the requirement of Section 1350 of 18 U.S.C., and is not for any other purpose. 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.