U S PHYSICAL THERAPY INC /NV
Form 10-Q
August 04, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2011

OR

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

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

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

þ Yes o 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).

þ Yes o 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. (Check One):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes þ No

As of August 4, 2011, the number of shares outstanding (issued less treasury stock) of the registrant s common stock, par value $.01 per share, was: 11,888,855.

PART I FINANCIAL INFORMATION

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ITEM 1. FINANCIAL STATEMENTS.

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

	June 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash	$ 8,992	$ 9,179
Patient accounts receivable, less allowance for doubtful accounts of $2,570 and $2,190, respectively	27,468	24,814
Accounts receivable other, less allowance for doubtful accounts of $136 and $83, respectively	2,613	1,555
Other current assets	5,179	3,736
Total current assets	44,252	39,284
Fixed assets:		
Furniture and equipment	33,953	33,563
Leasehold improvements	19,733	19,590
	53,686	53,153
Less accumulated depreciation and amortization	40,940	39,230
	12,746	13,923
Goodwill	76,588	79,424
Other intangible assets, net	9,948	7,308
Other assets	3,303	922
	$ 146,837	$ 140,861
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable trade	$ 1,517	$ 1,237
Accrued expenses	12,734	12,744
Current portion of notes payable	434	250
Total current liabilities	14,685	14,231
Notes payable	334	250
Revolving line of credit	15,800	5,500
Deferred rent	849	966
Other long-term liabilities	587	3,531

Total liabilities	32,255	24,478
Commitments and contingencies		
Shareholders equity:		
U. S. Physical Therapy, Inc. shareholders equity:		
Preferred stock, $.01 par value, 500,000 shares authorized, no shares issued and outstanding		
Common stock, $.01 par value, 20,000,000 shares authorized, 14,103,592 and 13,893,157 shares issued, respectively	141	139
Additional paid-in capital	37,513	45,570
Retained earnings	96,632	89,876
Treasury stock at cost, 2,214,737 shares	(31,628)	(31,628)
Total U. S. Physical Therapy, Inc. shareholders equity	102,658	103,957
Noncontrolling interests	11,924	12,426
Total equity	114,582	116,383
	$ 146,837	$ 140,861

See notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net patient revenues	$ 56,678	$ 52,296	$ 110,550	$ 101,075
Other revenues	3,234	1,807	6,103	3,433
Net revenues	59,912	54,103	116,653	104,508
Clinic operating costs:				
Salaries and related costs	31,120	27,644	60,759	54,415
Rent, clinic supplies, contract labor and other	11,388	10,238	22,683	20,338
Provision for doubtful accounts	504	734	1,128	1,768
Closure costs	11	(14)	31	15
Total clinic operating costs	43,023	38,602	84,601	76,536
Corporate office costs	6,007	5,511	12,488	11,316
Operating income	10,882	9,990	19,564	16,656
Interest and other income, net	2	2	4	582
Interest expense	(109)	(81)	(182)	(145)
Income before taxes	10,775	9,911	19,386	17,093
Provision for income taxes	3,172	2,877	5,598	4,928
Net income including noncontrolling interests	7,603	7,034	13,788	12,165
Less: net income attributable to noncontrolling interests	(2,703)	(2,583)	(5,142)	(4,542)
Net income attributable to common shareholders	$ 4,900	$ 4,451	$ 8,646	$ 7,623
Earnings per share attributable to common shareholders:				
Basic	$ 0.42	$ 0.38	$ 0.73	$ 0.66
Diluted	$ 0.41	$ 0.38	$ 0.72	$ 0.64

Shares used in computation:								
Basic		11,807		11,622		11,767		11,618
Diluted		11,999		11,857		11,978		11,849
Dividends declared per common share	$	0.08	$		$	0.16	$	

See notes to consolidated financial statements.

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

	Six Months Ended June 30, 2011	2010
OPERATING ACTIVITIES		
Net income including noncontrolling interests	$ 13,788	$ 12,165
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	2,752	2,865
Provision for doubtful accounts	1,128	1,768
Equity-based awards compensation expense	963	578
(Gain) loss on sale of business and sale or abandonment of assets, net	75	(408)
Deferred income tax	950	453
Other	(591)	(162)
Changes in operating assets and liabilities:		
Increase in patient accounts receivable	(3,728)	(2,059)
Increase in accounts receivable other	(1,112)	(234)
Increase in other assets	(1,251)	(401)
Decrease in accounts payable and accrued expenses	(548)	(2,086)
Increase in other liabilities	415	61
Net cash provided by operating activities	12,841	12,540
INVESTING ACTIVITIES		
Purchase of fixed assets	(1,484)	(1,588)
Purchase of businesses, net of cash acquired		(8,878)
Acquisitions of noncontrolling interests	(15,885)	(215)
Net proceeds on sale of fixed assets and business	4	895
Net cash used in investing activities	(17,365)	(9,786)
FINANCING ACTIVITIES		
Distributions to noncontrolling interests	(4,597)	(4,831)
Cash dividends to shareholders	(1,890)	
Proceeds from revolving line of credit	42,300	27,800
Payments on revolving line of credit	(32,000)	(24,600)
Payment of notes payable	(100)	(476)
Excess tax benefit from stock options exercised	622	12
Proceeds from exercise of stock options	2	88
Net cash provided by (used in) financing activities	4,337	(2,007)
Net increase (decrease) in cash	(187)	747
Cash beginning of period	9,179	6,429
Cash end of period	$ 8,992	$ 7,176

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the period for:				
Income taxes	$	3,367	$	4,787
Interest	$	188	$	115
Non-cash investing and financing transactions during the period:				
Purchase of business seller financing portion	$		$	225
Acquisition of noncontrolling interest seller financing portion	$	367	$	

See notes to consolidated financial statements.

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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, 2010	13,893	$ 139	$ 45,570	$ 89,876	(2,215)	$ (31,628)	$ 103,957	$ 12,426	$ 116,383
Issuance of restricted stock	102								
Cancellation of restricted stock	(9)								
Proceeds from exercise of stock options	118	2					2		2
Tax benefit from exercise of stock options			622				622		622
Compensation expense restricted stock			963				963		963
Transfer of compensation liability for certain stock issued pursuant to long-term incentive plans			199				199		199
Purchase of noncontrolling interests, net of tax			(9,841)				(9,841)	(1,047)	(10,888)
Distributions to noncontrolling interest partners								(4,597)	(4,597)
Cash dividends to shareholders				(1,890)			(1,890)		(1,890)
Net income				8,646			8,646	5,142	13,788
Balance June 30, 2011	14,104	$ 141	$ 37,513	$ 96,632	(2,215)	$ (31,628)	$ 102,658	$ 11,924	$ 114,582

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(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. 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 June 30, 2011, the Company opened two new clinics, one as satellite of an existing clinic and one with a new partner. During the same three month period, the Company closed one clinic. During the six months ended June 30, 2011, the Company opened eight new clinics, four as satellites of existing clinics and four with new partners. During the same six month period, the Company closed two clinics.

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

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 and six months ended June 30, 2011 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, 2010.

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.

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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

Cash

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

Long-Lived Assets

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

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

The Company reviews property and equipment and intangible assets with finite lives for impairment upon the occurrence of certain events or circumstances 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

For 2010 acquisitions, 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. Historically, the Company has not combined any of the reporting units for impairment testing because they have not met the criteria for aggregation. For each purchase of the equity interest, goodwill, if any, is assigned to the respective clinic or group of clinics, if deemed appropriate. The evaluation of goodwill in 2010 did not result in any goodwill amounts that were deemed impaired. An impairment loss generally would be recognized when the carrying amount of the net assets of the reporting unit, inclusive of goodwill and other intangible assets, exceed the estimated fair value of the reporting unit. The estimated fair value of a reporting unit is determined using two factors: (i) earnings prior to taxes, depreciation and amortization for the reporting unit multiplied by a price/earnings ratio used in the industry and (ii) a discounted cash flow analysis. A weight is assigned to each factor and the sum of each weight times the factor is considered the estimated fair value. For 2010, 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.

Since 1999, reimbursement for outpatient therapy services provided to Medicare beneficiaries has been made according to a Medicare Physician Fee Schedule (MPFS) published by the Department of Health and Human Services (HHS). Under the Balanced Budget Act of 1997, the total amount paid by Medicare in any one year for outpatient physical therapy or occupational therapy to any one patient is subjected to a stated dollar amount (the Medicare Cap or Limit), except for services provided by hospitals. Outpatient therapy services rendered to Medicare beneficiaries by the Company s therapists are subject to the Medicare Cap, except to the extent these services are rendered pursuant to certain management and professional services agreements with inpatient facilities. In 2006, Congress passed the Deficit Reduction Act (DRA), which allowed the Centers for Medicare & Medicaid Services (CMS) to grant exceptions to the Medicare Cap for services provided during the year, as long as those services met certain qualifications. The exception process initially allowed for automatic and manual exceptions to the Medicare Cap for medically necessary services. The Temporary Extension Act of 2010, enacted on March 2, 2010, extended the therapy cap exceptions process through March 31, 2010, retroactive to January 1, 2010. With respect to the MPFS, in April 2010, the Continuing Extension Act of 2010 was signed into law which extended the zero percent update through May 31, 2010. On March 23, 2010, the President signed into law the Patient Protection and Affordable Care Act (PPACA), which extended the exceptions process for the outpatient therapy Medicare Cap. For physical therapy and speech language pathology service combined, and for occupational therapy services, the Medicare Cap for 2010 was $1,860. On June 25, 2010, the President signed into law the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act (PACMBPRA). The legislation increased reimbursement to providers of outpatient physical therapy for Medicare patients by 2.2% effective June 1, 2010 through November 30, 2010.

On November 2, 2010, CMS released a final ruling on the Multiple Procedure Payment Reduction (MPPR) that included changes to the reimbursement for Medicare related therapy services that became effective January 1, 2011. Under MPPR, the practice expense of second and subsequent therapy codes billed in a single day will be reduced by 25%. This reduction will result in an estimated 5% to 7% rate reduction for therapy services provided in calendar year 2011 for Medicare patients.

On December 15, 2010, the President signed into law the Medicare and Medicaid Extenders Act of 2010 (MMEA) which tabled for one year the scheduled Medicare rate reduction for physicians, physical therapists and various other healthcare service providers. Further, under the Physician Fee Schedule, during December 2010, CMS released corrected payment amounts for 2011 that incorporated the changes included in the MMEA. Effective January 1, 2011, pursuant to CMS s ruling on the MPPR, the practice expense of second and subsequent therapy codes billed in a single day was reduced by 20% to 25%. This reduction will result in an estimated 5% to 7% rate reduction for the Company s reimbursement for therapy services provided in calendar year 2011 for Medicare patients. For physical therapy and speech language pathology service combined, and for occupational therapy services, the Medicare Cap for 2011 is $1,870.

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Laws and regulations governing the Medicare program 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 June 30, 2011. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare program.

Other revenues are derived from contractual arrangements whereby the Company manages a clinic for third party owners and physician services revenue. The Company does not have any ownership interest in these clinics with the contractual arrangements. Typically, revenues from contractual arrangements are determined based on the number of visits conducted at the clinic and recognized when services are performed. Revenues from physician services are recognized over the period services are provided.

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 June 30, 2011.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax 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 and six months ended June 30, 2011 and June 30, 2010.

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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 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, 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 June 30, 2011.

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.

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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Numerator:				
Net income attributable to common shareholders	$ 4,900	$ 4,451	$ 8,646	$ 7,623
Denominator:				
Denominator for basic earnings per share - weighted-average shares	11,807	11,622	11,767	11,618
Effect of dilutive securities - Stock options	192	235	211	231
Denominator for diluted earnings per share - adjusted weighted-average shares	11,999	11,857	11,978	11,849
Earnings per share attributable to common shareholders:				
Basic	$ 0.42	$ 0.38	$ 0.73	$ 0.66

Diluted	$ 0.41	$ 0.38	$ 0.72	$ 0.64

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All options to purchase shares were included in the diluted earnings per share calculation for the three and six months ended June 30, 2011 as the average market price of the common shares was above the exercise prices. However, options to purchase 107,250 shares for the three and six months ended June 30, 2010 were excluded from the diluted earnings per share calculations for the period because the options exercise prices were greater than the average market price of the common shares during the period.

The restricted stock issued is included in basic and diluted shares for the earnings per share computation from the date of grant.

3. ACQUISITIONS OF NON-CONTROLLING INTERESTS

Effective February 28, 2011, in two separate transactions, the Company purchased a total of 16.3% of the 30% non-controlling interest in STAR Physical Therapy, LP, a subsidiary of the Company (STAR). The aggregate purchase price paid in April 2011 for the 16.3% interest was $12.3 million which included $0.6 million of undistributed earnings. The remaining purchase price of $11.7 million, less future tax benefits of $4.6 million, was recognized as an adjustment to additional paid-in capital. Effective May 31, 2011, the Company purchased an additional 1.3% non-controlling interest in STAR. The purchase price paid in July 2011 for the 1.3% interest was $1.0 million which included $49,000 of undistributed earnings. The remaining purchase price of approximately $1.0 million, less future tax benefits of $0.4 million, was recognized as an adjustment to additional paid-in capital. After these transactions, the Company owns 87.6% and the non-controlling interest limited partners in aggregate own the remaining 12.4% in the partnership. The payable of $1.0 million related to the May transaction appears in accrued expenses in the accompanying balance sheet for June 30, 2011. Of the 16.3% aggregate non-controlling interests purchased, 15% was held by Regg Swanson, the Managing Director and a founder of STAR and a member of the Company s Board of Directors. The purchase price was determined based on the contractual terms in the Reorganization of Securities Purchase Agreement dated as of September 6, 2007 between the Company, STAR, the limited partners of STAR and Regg Swanson as Seller Representative and in his individual capacity, which was filed as Exhibit 10.1 to the Company s Current Report on Form 8-K filed with the SEC on September 7, 2007. After the sale of his 15% interest, Mr. Swanson owns 3.3% of STAR.

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

In addition, during the six months ended June 30, 2011, the Company purchased the non-controlling interests of two other partners for $112,000, which included $47,000 of undistributed earnings. The remaining purchase price of approximately $60,000, less future tax benefits of $23,000, was recognized as an adjustment to additional paid-in capital.

4. GOODWILL

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

	Six Months Ended June 30, 2011
Beginning balance	$ 79,424
Goodwill allocated to specific assets for businesses acquired in 2010	(2,990)
Goodwill adjustments for purchase price allocation of businesses acquired in 2010	168
Goodwill written off	(14)
Ending balance	$ 76,588

The Company has substantially finalized its valuations for the Mid-Atlantic Acquisition and the Southeast Acquisition which occurred in December 2010. While the valuations associated with the acquired fixed assets are still in process, the Company does not expect there to be significant adjustments to the amounts recorded as of June 30, 2011 upon completion of the process. Of the amount paid and included in goodwill at December 31, 2010, $2,990,000 was allocated to intangible assets as follows: $1.7 million to tradenames; $1.0 million to referral relationships and $290,000 to non compete agreements. The value assigned to tradenames has an indefinite life and is tested at least annually for impairment in conjunction with the Company s annual goodwill impairment test. The value assigned to referral relationships is being amortized over their respective estimated useful lives of 12 years. Non compete agreements are amortized over the respective term of the agreements which range from five to six years.

In addition, the Company adjusted the amount of the value initially assigned to the clinic equipment which resulted in a reduction of the value by $175,000 and an increase in goodwill of the same amount.

The goodwill written off in the amount of $14,000 relates to a clinic that was closed.

5. COMMON STOCK

In September 2001 through December 31, 2008, the Board of Directors (Board) authorized the Company to purchase, in the open market or in privately negotiated transactions, up to 2,250,000 shares of 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. During the six months ended June 30, 2011, the Company did not purchase any shares of its common stock. Using the June 30, 2011 closing price of $24.73 per share, there were approximately 325,000 shares remaining that could be purchased under these programs.

6. SUBSEQUENT EVENTS

On July 14, 2011, the Company amended its Credit Agreement with Bank of America (Credit Agreement) to increase the commitment amount under the Credit Agreement from $50,000,000 to $75,000,000. The Credit Agreement matures August 31, 2015.

Effective July 25, 2011, the Company acquired a 51% interest in a 20 clinic physical therapy group. The purchase price for the 51% interest was $8,426,000 of which $8,226,000 was paid in cash and $200,000 in the form of seller notes.

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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.

During the three months ended June 30, 2011, we opened two new clinics, one as satellite of an existing clinic and one with a new partner. During the same three month period, we closed one clinic. During the six months ended June 30, 2011, we opened eight new clinics, four as satellites of existing clinics and four with new partners. During the same six month period, we closed two clinics.

During 2010, we completed the following acquisitions (2010 Acquisitions):

Acquisition	Date 2010	% Interest Acquired	Number of Clinics
Northeast Acquisition	February 26	70%	5
2010 Mid-Atlantic Acquisition	December 21	70%	6
Southeast Acquisition	December 31	65%	14

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 16 third-party facilities under management as of June 30, 2011.

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 June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Number of clinics, at the end of period	398	369	398	369
Working days	64	64	128	127
Average visits per day per clinic	21.2	21.2	20.8	20.7
Total patient visits	540,982	497,478	1,056,143	966,129
Net patient revenue per visit	$ 104.77	$ 105.12	$ 104.67	$ 104.62
Statement of operations per visit:				
Net revenues	$ 110.75	$ 108.76	$ 110.45	$ 108.17
Salaries and related costs	57.53	55.57	57.53	56.32
Rent, clinic supplies, contract labor and other	21.05	20.58	21.48	21.05
Provision for doubtful accounts	0.93	1.48	1.07	1.83
Closure costs	0.02	(0.03)	0.03	0.02
Contribution from clinics	31.22	31.16	30.34	28.95
Corporate office costs	11.10	11.08	11.82	11.71
Operating income from continuing operations	$ 20.12	$ 20.08	$ 18.52	$ 17.24

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RESULTS OF OPERATIONS

Three Months Ended June 30, 2011 Compared to the Three Months Ended June 30, 2010

Net revenues increased to $59.9 million for the three months ended June 30, 2011 (2011 Second Quarter) from $54.1 million for the three months ended June 30, 2010 (2010 Second Quarter) due to an increase in patient visits from 497,000 to 541,000, offset by slight decrease of $0.35 in net patient revenue per visit from $105.12 to $104.77, as well as an increase of $1.3 million in revenue from physician services recorded in Other revenues .

Net income attributable to our common shareholders for the 2011 Second Quarter was $4.9 million versus $4.5 million for the 2010 Second Quarter. Net income was $0.41 per diluted share for the 2011 Second Quarter as compared to $0.38 per diluted share for the 2010 Second Quarter. Total diluted shares were 12.0 million for the 2011 Second Quarter and 11.9 million for the 2010 Second Quarter.

Net Patient Revenues

Net patient revenues increased to $56.7 million for the 2011 Second Quarter from $52.3 million for the 2010 Second Quarter, an increase of $4.4 million, or 8.4%, primarily due to an increase in patient visits from 497,000 to 541,000.

The growth in patient visits was attributable to 52,000 visits in clinics opened or acquired between July 1, 2010 and June 30, 2011 (New Clinics), primarily due to the 2010 Acquisitions. This increase was offset by a decrease of 8,000 visits for clinics opened or acquired prior to July 1, 2010 (Mature Clinics).

Net patient revenues related to New Clinics amounted to $5.2 million, primarily due to the 2010 Acquisitions. Net patient revenues for Mature Clinics decreased $0.8 million for the 2011 Second Quarter as compared to the 2010 Second 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 increased by $1.4 million from $1.8 million to $3.2 million primarily due to higher 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 71.8% for the 2011 Second Quarter and 71.3% for the 2010 Second Quarter.

Clinic Operating Costs Salaries and Related Costs

Salaries and related costs increased to $31.1 million for the 2011 Second Quarter from $27.6 million for the 2010 Second Quarter, an increase of $3.5 million, or 12.6%. The $3.5 million increase was attributable to the New Clinics. Salaries and related costs as a percentage of net revenues were 51.9% for the 2011 Second Quarter and 51.1% for the 2010 Second Quarter.

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

Rent, clinic supplies, contract labor and other were $11.4 million for the 2011 Second Quarter and $10.2 million for the 2010 Second Quarter. For New Clinics, rent, clinic supplies, contract labor and other amounted to $1.4 million for the 2011 Second Quarter. For Mature Clinics, rent, clinic supplies, contract labor and other decreased by $0.2 million in the 2011 Second Quarter. Rent, clinic supplies, contract labor and other as a percentage of net revenues was 19.0% for the 2011 Second Quarter and 18.9% for the 2010 Second Quarter.

Clinic Operating Costs Provision for Doubtful Accounts

The provision for doubtful accounts was $0.5 million for the 2011 Second Quarter and $0.7 million for the 2010 Second Quarter. The provision for doubtful accounts for patients accounts receivable as a percentage of net patient

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revenues was 0.9% for the 2011 Second Quarter and 1.4% for the 2010 Second Quarter. Our allowance for doubtful accounts for patient accounts receivable as a percentage of total patient accounts receivable was 8.6% at June 30, 2011, as compared to 8.1% at December 31, 2010. Our days sales outstanding was 48 days at June 30, 2011 compared to 45 days at December 31, 2010.

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 $6.0 million for the 2011 Second Quarter and $5.5 million for the 2010 Second Quarter. As a percentage of net revenues, corporate office costs were 10.0% for the 2011 Second Quarter and 10.2% for the 2010 Second Quarter.

Interest Expense

Interest expense increased to $109,000 in the 2011 Second Quarter compared to $81,000 in the 2010 Second Quarter due to an increase in the average borrowings outstanding under our revolving credit facility during the 2011 period compared to the 2010 period. At June 30, 2011, $15.8 million was outstanding under our revolving credit facility.

Provision for Income Taxes

The provision for income taxes increased to $3.2 million for the 2011 Second Quarter from $2.9 million for the 2010 Second Quarter. During the 2011 and 2010 Second 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%.

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Non-controlling Interests

Net income attributable to non-controlling interests was $2.7 million for the 2011 Second Quarter and $2.6 million for the 2010 Second Quarter. Net income attributable to non-controlling interests as a percentage of operating income before corporate office costs was 16.0% for the 2011 Second Quarter and 16.7% for the 2010 Second Quarter.

Six Months Ended June 30, 2011 Compared to the Six Months Ended June 30, 2010

Net revenues increased to $116.7 million for the six months ended June 30, 2011 (2011 Six Months) from $104.5 million for the six months ended June 30, 2010 (2010 Six Months) due to an increase in patient visits from 966,000 to 1,056,000 and a slight increase of $0.05 in net patient revenue per visit from $104.62 to $104.67, as well as an increase of $2.4 million in revenue from physician services recorded in Other revenues .

Net income attributable to our common shareholders for the 2011 Six Months was $8.6 million versus $7.6 million for the 2010 Six Months. Net income was $0.72 per diluted share for the 2011 Six Months as compared to $0.64 per diluted share for the 2010 Six Months. Total diluted shares were 12.0 million for the 2011 Six Months and 11.8 million for the 2010 Six Months.

Net Patient Revenues

Net patient revenues increased to $110.6 million for the 2011 Six Months from $101.1 million for the 2010 Six Months, an increase of $9.5 million, or 9.4%, primarily due to an increase in patient visits from 966,000 to 1,056,000.

The growth in patient visits was attributable to 98,000 visits in New Clinics, primarily due to the 2010 Acquisitions. This increase was offset by a decrease of 8,000 visits for Mature Clinics.

The increase in net patient revenues of $9.5 million related to New Clinics, primarily due to the 2010 Acquisitions.

Net patient revenues are based on established billing rates less allowances and discounts for patients covered by contractual programs and workers compensation. Net patient revenues 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 increased by $2.7 million from $3.4 million to $6.1 million due to higher 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 72.5% for the 2011 Six Months and 73.2% for the 2010 Six Months.

Clinic Operating Costs Salaries and Related Costs

Salaries and related costs increased to $60.8 million for the 2011 Six Months from $54.4 million for the 2010 Six Months, an increase of $6.3 million, or 11.7%. The $6.3 million increase included costs of $5.9 million attributable to the New Clinics and an increase of $0.4 million in costs related to Mature Clinics. Salaries and related costs as a percentage of net revenues were 52.1% for the 2011 Six Months and for the 2010 Six Months.

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

Rent, clinic supplies, contract labor and other were $22.7 million for the 2011 Six Months and $20.3 million for the 2010 Six Months. For New Clinics, rent, clinic supplies, contract labor and other amounted to $2.8 million for the 2011 Six Months. For Mature Clinics, rent, clinic supplies, contract labor and other decreased by $0.4 million in the 2011 Six Months. Rent, clinic supplies, contract labor and other as a percentage of net revenues was 19.4% for the 2011 Six Months and 19.5% for the 2010 Six Months.

Clinic Operating Costs Provision for Doubtful Accounts

The provision for doubtful accounts was $1.1 million for the 2011 Six Months and $1.8 million for the 2010 Six Months. The provision for doubtful accounts for patients accounts receivable as a percentage of net patient revenues was 1.0% for the 2011 Six Months and 1.7% for the 2010 Six Months. Our allowance for doubtful accounts for patient accounts receivable as a percentage of total patient accounts receivable was 8.6% at June 30, 2011, as compared to 8.1% at December 31, 2010. Our days sales outstanding was 48 days at June 30, 2011 compared to 45 days at December 31, 2010.

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 $12.5 million for the 2011 Six Months and $11.3 million for the 2010 Six Months. As a percentage of net revenues, corporate office costs were 10.7% for the 2011 Six Months and 10.8% for the 2010 Six Months.

Interest and Other Income, net

Other income in the 2010 Six Months included a pre-tax gain of $578,000 from the sale of our 51% interest in a five clinic Texas joint venture.

Interest Expense

Interest expense increased to $182,000 in the 2011 Six Months compared to $145,000 in the 2010 Six Months due to an increase in the average borrowings outstanding under our revolving credit facility during the 2011 period compared to the 2010 period. At June 30, 2011, $15.8 million was outstanding under our revolving credit facility.

Provision for Income Taxes

The provision for income taxes increased to $5.6 million for the 2011 Six Months from $4.9 million for the 2010 Six Months. During the 2011 and 2010 Six Months, 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 $5.1 million for the 2011 Six Months and $4.5 million for the 2010 Six Months. Net income attributable to non-controlling interests as a percentage of operating income before corporate office costs was 16.0% for the 2011 Six Months and 16.2% for the 2010 Six Months.

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 June 30, 2011, we had $9.0 million in cash compared to cash of $9.2 million at December 31, 2010. Although start-up costs associated with opening new clinics and our planned capital expenditures are significant, 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 June 2012. Significant acquisitions of clinics and/or non-controlling interests would likely require financing under our existing revolving credit agreement (defined below).

During the 2011 Six Months, $12.8 million was provided by operations, $10.3 million was derived from net proceeds from our revolving credit facility and $0.6 million was obtained from the exercise of stock options and related tax benefits. The major uses of cash included: payments for acquisitions of non-controlling interests ($15.9 million), distributions to non-controlling interest partners ($4.6 million), purchase of fixed assets ($1.5 million) and payment of cash dividends to our shareholders ($1.9 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

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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 June 30, 2011, $15.8 million was outstanding on the revolving credit facility resulting in $34.2 million of availability, and we were in compliance with all of the covenants thereunder.

Effective February 28, 2011, in two separate transactions, we purchased a total of 16.3% of the 30% non-controlling interest in STAR Physical Therapy, LP, a subsidiary of the Company (STAR). The aggregate purchase price paid in April 2011 for the 16.3% interest was $12.3 million, which included $0.6 million of undistributed earnings. The remaining purchase price of $11.7 million, less future tax benefits of $4.6 million, was recognized as an adjustment to additional paid-in capital. Effective May 31, 2011, we purchased an additional 1.3% non-controlling interest in STAR. The purchase price paid in July 2011 for the 1.3% interest was $1.0 million, which included $49,000 of undistributed earnings. The remaining purchase price of approximately $1.0 million, less future tax benefits of $0.4 million, was recognized as an adjustment to additional paid-in capital. After these transactions, we own 87.6%, and the non-controlling interest limited partners in aggregate own the remaining 12.4% in the partnership. The payable of $1.0 million related to the May transaction appears in accrued expenses in the accompanying balance sheet for June 30, 2011.

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

In addition, during the six months ended June 30, 2011, we purchased the non-controlling interests of two other partners for $112,000, which included $47,000 of undistributed earnings. The remaining purchase price of approximately $60,000, less future tax benefits of $23,000, was recognized as an adjustment to additional paid-in capital.

Historically, we have generated sufficient cash from operations to fund our development activities and to cover operational needs. We plan to continue developing new clinics and making additional acquisitions. 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 our 2010 Acquisitions and the June 2011 Noncontrolling Interest Purchase. For the 2010 Acquisitions, we entered into several notes payables aggregating $500,000. The notes are payable in equal annual installments of principal over two years plus any accrued and unpaid interest. Interest accrues at various interest rates ranging from 3.25% to 4.0% per annum. At June 30, 2011, the balance on these notes payable was $400,000. In addition, we assumed leases with remaining terms of one month to six years for the operating facilities. For the June 2011 Noncontrolling Interest Purchase, we entered into a note payable in the amount of $367,272 payable in equal annual installments of $183,636 plus any accrued and unpaid interest. Interest accrues at 3.25% per annum.

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

The purchase agreement related to the physician services business in which we acquired a majority interest in October 2008 provides for possible contingent consideration of up to $3,781,000 based on the achievement of a designated level of operating results within a three-year period following the acquisition. In 2009 and 2010, we paid $1,200,000 and $1,080,000, respectively, of additional consideration related to the operating results for the first and second years. Such amounts were recorded as additional goodwill.

The purchase agreement related to the acquisition of a nine clinic practice in June 2008 also provides for possible contingent consideration of up to $1,500,000 based on the achievement of a designated level of operating results within a three-year period following the acquisition. There was no contingent consideration earned based on the operating results of this acquisition during the three-year period.

From September 2001 through December 31, 2008, the Board authorized us to purchase, in the open market or in privately negotiated transactions, up to 2,250,000 shares of our common stock. In March 2009, the Board authorized the repurchase of up to 10% or approximately 1,200,000 shares of our common stock (March 2009 Authorization). In connection with the March 2009 Authorization, we amended our bank credit agreement to permit the share repurchases of up to $15,000,000. We are required to retire shares purchased under the March 2009 Authorization. Since there is no expiration date for these share repurchase programs, additional shares may be purchased from time to time in the open market or private transactions depending on price, availability and our cash position. During the three months ended June 30, 2011, we did not purchase any shares of our common stock. Using the June 30, 2011 closing price of $24.73 per share, there were approximately 325,000 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, 2010.

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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 a 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 June 30, 2011, $15.8 million was outstanding on our revolving credit facility. Based on the balance of the revolving credit facility at June 30, 2011, any change in the interest rate of 1% would yield a decrease or increase in annual interest expense of $158,000.

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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.

Exhibit Number	Description
10.1	U. S. Physical Therapy, Inc. Objective Long-Term Incentive Plan for Senior Management, effective March 31, 2011 (incorporated by reference to Exhibit 99.1 to the Company s Current Report on Form 8-K filed with the SEC on April 6, 2011).
10.2	U. S. Physical Therapy, Inc. Discretionary Long-Term Incentive Plan for Senior Management for 2011, effective March 31, 2011 (incorporated by reference to Exhibit 99.2 to the Company s Current Report on Form 8-K filed with the SEC on April 6, 2011).
10.3	U. S. Physical Therapy, Inc. Objective Cash Bonus Plan for 2011, effective March 31, 2011 (incorporated by reference to Exhibit 99.3 to the Company s Current Report on Form 8-K filed with the SEC on April 6, 2011).
10.4	U. S. Physical Therapy, Inc. Discretionary Cash Bonus Plan for 2011, effective March 31, 2011 (incorporated by reference to Exhibit 99.4 to the Company s Current Report on Form 8-K filed with the SEC on April 6, 2011).
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

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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.

	U.S. PHYSICAL THERAPY, INC.
Date: August 4, 2011	By: /s/ LAWRANCE 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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