

U S PHYSICAL THERAPY INC /NV  
Form 10-Q  
August 07, 2014

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

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FORM 10-Q

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(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2014

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

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

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NEVADA  
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)

76-0364866  
(I.R.S. EMPLOYER IDENTIFICATION NO.)

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

77042  
(ZIP CODE)

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

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

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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 August 7, 2014, the number of shares outstanding (issued less treasury stock) of the registrant's common stock, par value \$.01 per share, was: 12,236,649.

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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, 2014 (unaudited)	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 12,934	\$ 12,898
Patient accounts receivable, less allowance for doubtful accounts of \$1,713 and \$1,430, respectively	34,286	30,820
Accounts receivable - other, less allowance for doubtful accounts of \$198 and \$198, respectively	1,924	1,844
Other current assets	2,703	4,098
Total current assets	51,847	49,660
Fixed assets:		
Furniture and equipment	41,310	38,965
Leasehold improvements	22,065	21,891
	63,375	60,856
Less accumulated depreciation and amortization	47,517	45,896
	15,858	14,960
Goodwill	156,207	143,955
Other intangible assets, net	15,727	14,479
Other assets	1,141	1,081
	\$ 240,780	\$ 224,135
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable - trade	\$ 1,835	\$ 1,722
Accrued expenses	20,112	20,625
Current portion of notes payable	850	825
Total current liabilities	22,797	23,172
Notes payable	450	650
Revolving line of credit	45,000	40,000
Deferred rent	1,095	996
Other long-term liabilities	6,053	4,196
Total liabilities	75,395	69,014
Commitments and contingencies		
Redeemable non-controlling interests	1,086	4,104
Shareholders' equity:		
U. S. Physical Therapy, Inc. shareholders' equity:		
Preferred stock, \$.01 par value, 500,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$.01 par value, 20,000,000 shares authorized, 14,450,836 and 14,315,882 shares issued, respectively	145	143
Additional paid-in capital	41,306	40,569

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Retained earnings	126,934	119,206
Treasury stock at cost, 2,214,737 shares	(31,628 )	(31,628 )
Total U. S. Physical Therapy, Inc. shareholders' equity	136,757	128,290
Non-controlling interests	27,542	22,727
Total equity	164,299	151,017
	\$ 240,780	\$ 224,135

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		Six Months Ended	
	Ended June 30,		June 30,	
	2014	2013	2014	2013
Net patient revenues	\$76,470	\$65,227	\$144,867	\$126,659
Other revenues	1,731	1,642	3,101	2,966
Net revenues	78,201	66,869	147,968	129,625
Clinic operating costs:				
Salaries and related costs	40,109	35,526	78,051	69,585
Rent, clinic supplies, contract labor and other	15,205	12,550	29,421	25,284
Provision for doubtful accounts	1,054	1,198	2,004	2,295
Closure costs	(2 )	8	11	26
Total clinic operating costs	56,366	49,282	109,487	97,190
Gross margin	21,835	17,587	38,481	32,435
Corporate office costs	7,614	6,528	14,746	12,941
Operating income from continuing operations	14,221	11,059	23,735	19,494
Interest and other income, net	-	1	1	3
Interest expense	(332 )	(130 )	(585 )	(265 )
Income before taxes from continuing operations	13,889	10,930	23,151	19,232
Provision for income taxes	4,469	3,288	7,408	5,781
Net income from continuing operations including non-controlling interests	9,420	7,642	15,743	13,451
Discontinued operations, net of tax	-	(268 )	-	(468 )
Net income including non-controlling interests	9,420	7,374	15,743	12,983
Less: net income attributable to non-controlling interests	(2,988 )	(2,460 )	(5,083 )	(4,348 )
Net income attributable to common shareholders	\$6,432	\$4,914	\$10,660	\$8,635
Diluted earnings per share attributable to common shareholders:				
From continuing operations	\$0.53	\$0.42	\$0.87	\$0.74
Basic earnings per share attributable to common shareholders:				
From continuing operations	\$0.53	\$0.42	\$0.88	\$0.74
Revaluation of redeemable non-controlling interests, net of tax	(0.01 )	-	(0.09 )	-
From discontinued operations	-	(0.01 )	-	(0.02 )
Basic	\$0.52	\$0.41	\$0.79	\$0.72
Diluted earnings per share attributable to common shareholders:				
From continuing operations	\$0.53	\$0.42	\$0.87	\$0.74
Revaluation of redeemable non-controlling interests, net of tax	(0.01 )	-	(0.09 )	-
From discontinued operations	-	(0.01 )	-	(0.02 )
Diluted	\$0.52	\$0.41	\$0.78	\$0.72
Shares used in computation:				
Basic	12,224	12,089	12,177	12,022
Diluted	12,226	12,110	12,184	12,044
Dividends declared per common share	\$0.12	\$0.10	\$0.24	\$0.20
Earnings attributable to common shareholders:				
From continuing operations	\$6,432	\$5,079	\$10,660	\$8,930

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From discontinued operations	-	(165 )	-	(295 )
	\$6,432	\$4,914	\$10,660	\$8,635

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,	
	2014	2013
<b>OPERATING ACTIVITIES</b>		
Net income including non-controlling interests	\$15,743	\$12,983
Adjustments to reconcile net income including non-controlling interests to net cash provided by operating activities:		
Depreciation and amortization	2,825	2,730
Provision for doubtful accounts	2,004	2,282
Equity-based awards compensation expense	1,593	1,370
Loss on sale of business and sale or abandonment of assets, net	34	84
Excess tax benefit from exercise of stock options	(215 )	-
Deferred income tax	2,422	(796 )
Other	-	33
Changes in operating assets and liabilities:		
Increase in patient accounts receivable	(4,442 )	(2,542 )
(Increase) decrease in accounts receivable - other	(80 )	4
Decrease in other assets	1,540	3,867
(Decrease) increase in accounts payable and accrued expenses	(774 )	682
Increase in other liabilities	404	19
Net cash provided by operating activities	21,054	20,716
<b>INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(2,132 )	(2,394 )
Purchase of businesses, net of cash acquired	(10,750)	(9,998 )
Acquisitions of non-controlling interests	(4,945 )	(1,064 )
Proceeds on sale of business and fixed assets, net	38	15
Net cash used in investing activities	(17,789)	(13,441)
<b>FINANCING ACTIVITIES</b>		
Distributions to non-controlling interests	(4,982 )	(4,410 )
Cash dividends to shareholders	(2,932 )	(2,418 )
Proceeds from revolving line of credit	77,000	62,550
Payments on revolving line of credit	(72,000)	(64,200)
Payment of notes payable	(575 )	(234 )
Excess tax benefit from stock options exercised	215	33
Other	45	20
Net cash used in financing activities	(3,229 )	(8,659 )
Net increase in cash	36	(1,384 )
Cash - beginning of period	12,898	11,671
Cash - end of period	\$12,934	10,287
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the period for:		
Income taxes	\$3,235	\$1,999
Interest	\$657	\$237
Non-cash investing and financing transactions during the period:		



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Purchase of business - seller financing portion	\$400	\$800
Revaluation of redeemable non-controlling interests	\$1,841	\$-

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.						Total Shareholders Equity	Non- controlling Interests	Total
	Common Shares	Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Stock Amount			
Balance December 31, 2013	14,316	\$ 143	\$ 40,569	\$ 119,206	(2,215)	\$(31,628)	\$ 128,290	\$ 22,727	\$ 151,017
Issuance of restricted stock, net of cancellations	118	1	-	-	-	-	1	-	1
Proceeds from exercise of stock options	17	1	43	-	-	-	44	-	44
Compensation expense - restricted stock	-	-	1,593	-	-	-	1,593	-	1,593
Excess tax benefit of equity grants	-	-	215	-	-	-	215	-	215
Purchase of business	-	-	-	-	-	-	-	4,725	4,725
Revaluation of redeemable non-controlling interests, net of tax	-	-	(1,086 )	-	-	-	(1,086 )	-	(1,086 )
Acquisition of non-controlling interests	-	-	(28 )	-	-	-	(28 )	(11 )	(39 )
Dividends payable to shareholders	-	-	-	(2,932 )	-	-	(2,932 )	-	(2,932 )
Distributions to noncontrolling interest partners	-	-	-	-	-	-	-	(4,982 )	(4,982 )
Net income	-	-	-	10,660	-	-	10,660	5,083	15,743
Balance June 30, 2014	14,451	\$ 145	\$ 41,306	\$ 126,934	(2,215)	\$(31,628)	\$ 136,757	\$ 27,542	\$ 164,299

See notes to consolidated financial statements.

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## U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(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 controlling interest in a number of clinics through acquisitions.

During the first six months of 2014 and the year ended 2013, the Company acquired the following clinic groups:

Acquisition	Date	% Interest Acquired	Number of Clinics
	2014		
April 2014 Acquisition	April 30	70%	13
	2013		
February 2013 Acquisition	February 28	72%	9
April 2013 Acquisition	April 30	50%	5
May 2013 Acquisition	May 24	80%	5
December 9, 2013 Acquisition	December 9	60%	12
December 13, 2013 Acquisition	December 13	90%	11

In addition to the clinic groups noted in the table above, during the six months ended June 30, 2014, the Company acquired two individual clinics in separate transactions. One of the acquired clinics will operate as a satellite of one of the Company’s partnerships and the other will be consolidated into an existing clinic. In 2013, the Company, through three of its subsidiaries, acquired three individual physical therapy clinics in separate transactions.

As of June 30, 2014, the Company operated 486 clinics in 43 states.

The results of operations of the acquired clinics have been included in the Company’s consolidated financial statements since the date of their respective acquisition.

The Company intends to continue to focus on pursuing additional acquisition opportunities, developing new clinics and opening satellite clinics.

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 Annual Report on Form 10-K for the year ended December 31, 2013.

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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 six months ended June 30, 2014 are not necessarily indicative of the results the Company expects for the entire year. Please also review the Risk Factors section included in our Annual Report on Form 10-K for the year ended December 31, 2013.

### 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 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 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 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, as applicable, is recognized as an adjustment to additional paid-in capital.

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

and are aggregated to the operating segment level for the purpose of determining our reporting units when performing our annual goodwill impairment test.

An impairment loss generally would be recognized when the carrying amount of the net assets of a reporting unit, inclusive of goodwill and other intangible assets, exceeds the estimated fair value of the reporting unit. The estimated fair value of a reporting unit is determined using two methods: (i) earnings prior to taxes, depreciation and amortization for the reporting unit multiplied by a put price/earnings ratio used in the industry and (ii) a discounted cash flow analysis. A weight is assigned to each factor and the sum of each weight times the factor is considered the estimated fair value. For 2013, the factors (i.e., price/earnings ratio, discount rate and residual capitalization rate) were updated to reflect current market conditions. The evaluations in the third quarter of 2013 and 2012 did not yield any impairment charge. During the six months ended June 30, 2014, the Company did not identify any triggering events occurring after the testing date that would impact the impairment testing results obtained.

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### 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 interest 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, as applicable, is recognized as an adjustment to additional paid-in capital. Additionally, operating losses are allocated to non-controlling interests even when such allocation creates a deficit balance for the non-controlling interest partner.

The non-controlling interests that are reflected as redeemable non-controlling interests in the consolidated financial statements consist of those owners who have certain redemption rights that are currently exercisable, and that, if exercised, require that the Company purchase the non-controlling interest of the particular limited partner. The redeemable non-controlling interests are adjusted to the fair value in the reporting period in which the Company deems it probable that the limited partner will assert the redemption rights and will be adjusted each reporting period thereafter. The adjustments are charged to additional paid-in capital and are not reflected in the statement of net income. Although the adjustments are not reflected in the statement of net income, current accounting rules require that the Company reflect the charge in the earnings per share calculation.

Typically, for acquisitions, the Company agrees to purchase the individual's non-controlling interest at a predetermined multiple of earnings before interest and taxes.

### Revenue Recognition

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

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

### Medicare Reimbursement

The Medicare program reimburses outpatient rehabilitation providers based on the Medicare Physician Fee Schedule ("MPFS"). The MPFS rates are automatically updated annually based on a formula, called the sustainable growth rate ("SGR") formula. The use of the SGR formula would have resulted in calculated automatic reductions in rates in every year since 2002; however, for each year through June 30, 2014, Centers for Medicare & Medicaid Services ("CMS") or Congress has taken action to prevent the implementation of SGR formula reductions. The Bipartisan Budget Act of 2013 froze the Medicare physician fee schedule rates at 2013 levels through June 30, 2014, averting a scheduled 20.1% cut in the MPFS as a result of the SGR formula that would have taken effect on January 1, 2014. The Protecting Access to Medicare Act of 2014 temporarily blocks this reduction through March 31, 2015 and replaces it with a 0.5% payment increase for services provided through December 31, 2014 and a 0% payment update from

January 1, 2015 through March 31, 2015. Automatic reductions in the Medicare physician fee schedule payment rates will commence on April 1, 2015, unless Congress again takes legislative action to prevent the SGR formula reductions from going into effect.

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

As a result of the Balanced Budget Act of 1997, the formula for determining the total amount paid by Medicare in any one year for outpatient physical therapy, occupational therapy, and/or speech-language pathology services provided to any Medicare beneficiary (i.e., the "Therapy Cap" or "Limit") was established. Based on the statutory definitions which constrained how the Therapy Cap would be applied, there is one Limit for Physical Therapy and Speech Language Pathology Services combined, and one Limit for Occupational Therapy. Since January 1, 2014, the annual Limit on outpatient therapy services is \$1,920 for Physical and Speech Language Pathology Services combined and \$1,920 for Occupational Therapy Services. Historically, these Therapy Caps applied to outpatient therapy services provided in all settings, except for services provided in departments of hospitals. However, the Protecting Access to Medicare Act of 2014, and prior legislation, extended the annual limits on therapy expenses and the manual medical review thresholds to services furnished in hospital outpatient department settings through March 31, 2015. The application of annual limits will no longer apply to hospital outpatient department settings commencing as of March 31, 2015 unless Congress extends it.

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In the Deficit Reduction Act of 2005, Congress implemented an exceptions process to the annual Limit for therapy expenses for therapy services above the annual Limit. Therapy services above the annual Limit that are medically necessary satisfy an exception to the annual Limit and such claims are payable by the Medicare program. The Protecting Access to Medicare Act of 2014 extended the exceptions process for outpatient therapy caps through March 31, 2015. Unless Congress extends the exceptions process further, the therapy caps will apply to all outpatient therapy services beginning April 1, 2015, except those services furnished and billed by outpatient hospital departments. For any claim above the annual Limit, the claim must contain a modifier indicating that the services are medically necessary and justified by appropriate documentation in the medical record.

Furthermore, under the Middle Class Tax Relief and Job Creation Act of 2012 ("MCTRA"), since October 1, 2012, patients who met or exceeded \$3,700 in therapy expenditures during a calendar year have been subject to a manual medical review to determine whether applicable payment criteria are satisfied. The \$3,700 threshold is applied to Physical Therapy and Speech Language Pathology Services; a separate \$3,700 threshold is applied to the Occupational Therapy. The Protecting Access to Medicare Act of 2014 extended through March 31, 2015 the requirement that Medicare perform manual medical review of therapy services beyond the \$3,700 threshold.

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

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

Statutes, regulations, and payment rules governing the delivery of therapy services to Medicare beneficiaries are complex and subject to interpretation. The Company believes that it is in 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, 2014. 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.



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### 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, the difference between net revenues and corresponding cash collections has historically 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, 2014.

### 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, 2014 and 2013.

On September 13, 2013, the U.S. Treasury Department and the I.R.S. issued final regulations that address costs incurred in acquiring, producing, or improving tangible property (the “Tangible Property Regulations”). The Tangible Property Regulations are generally effective for tax years beginning on or after January 1, 2014, and may be adopted in earlier years. The Company adopted the tax treatment of expenditures to improve tangible property and the capitalization of inherently facilitative costs to acquire tangible property as of January 1, 2014. Historically, the Company has treated the expenditures to improve tangible property and the capitalization of inherently facilitative costs to acquire tangible property similar for tax and book. Management does not anticipate the impact of these changes to be material to the Company’s consolidated financial statements.

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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 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 (as defined in Note 9).

### 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 June 30, 2014.

### Restricted Stock

Restricted stock issued to employees and directors is subject to certain conditions, including continued employment or continued service on our Board of Directors (the "Board"), respectively. The transfer restrictions for shares granted to directors lapse in four equal quarterly installments and those 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.

### Reclassifications

Prior period amounts have been reclassified to conform to current period presentation due to discontinued operations recognized in 2013.

### Recently Issued Accounting Guidance

In April 2014, the Financial Accounting Standards Board issued changes to reporting discontinued operations and disclosures of disposals of components of an entity. These changes require a disposal of a component to meet a higher threshold in order to be reported as a discontinued operation in an entity's financial statements. The threshold is defined as a strategic shift that has, or will have, a major effect on an entity's operations and financial results such as a

disposal of a major geographical area or a major line of business. Additionally, the following two criteria have been removed from consideration of whether a component meets the requirements for discontinued operations presentation: (i) the operations and cash flows of a disposal component have been or will be eliminated from the ongoing operations of an entity as a result of the disposal transaction, and (ii) an entity will not have any significant continuing involvement in the operations of the disposal component after the disposal transaction. Furthermore, equity method investments now may qualify for discontinued operations presentation. These changes also require expanded disclosures for all disposals of components of an entity, whether or not the threshold for reporting as a discontinued operation is met, related to profit or loss information and/or asset and liability information of the component. These changes become effective for the Company on January 1, 2015. Management has determined that the adoption of these changes will not have an immediate impact on the Consolidated Financial Statements.

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## 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		Six Months Ended	
	Ended		June 30,	
	June 30,	2013	2014	2013
Earnings attributable to common shareholders:				
From continuing operations	\$6,432	\$5,079	\$10,660	\$8,930
From discontinued operations	-	(165 )	-	(295 )
	6,432	4,914	10,660	8,635
Revaluation of redeemable non-controlling interests, net of tax	(119 )	-	(1,086 )	-
	\$6,313	\$4,914	\$9,574	\$8,635
Diluted earnings per share attributable to common shareholders:				
From continuing operations	\$0.53	\$0.42	\$0.87	\$0.74
Basic earnings per share attributable to common shareholders:				
From continuing operations	\$0.53	\$0.42	\$0.88	\$0.74
Charges to additional-paid-in-capital - revaluation of redeemable non-controlling interests, net of tax	(0.01 )	-	(0.09 )	-
From discontinued operations	-	(0.01 )	-	(0.02 )
Basic	\$0.52	\$0.41	\$0.79	\$0.72
Diluted earnings per share attributable to common shareholders:				
From continuing operations	\$0.53	\$0.42	\$0.87	\$0.74
Charges to additional-paid-in-capital - revaluation of redeemable non-controlling interests, net of tax	(0.01 )	-	(0.09 )	-
From discontinued operations	-	(0.01 )	-	(0.02 )
Diluted	\$0.52	\$0.41	\$0.78	\$0.72
Shares used in computation:				
Basic earnings per share - weighted-average shares	12,224	12,089	12,177	12,022
Effect of dilutive securities - stock options	2	21	7	22
Denominator for diluted earnings per share - adjusted weighted-average shares	12,226	12,110	12,184	12,044

All options to purchase shares were included in the diluted earnings per share calculation for the six months ended June 30, 2014 and 2013 as the average market prices of the common stock 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.

The charges to additional paid-in capital – revaluation of redeemable non-controlling interests, net of tax represent the increase in the fair value of the redeemable non-controlling interest that were deemed probable that the owners would assert the redemption rights. See Note 1 – Basis of Presentation and Significant Accounting Policies – Non-controlling Interests.

## 3. ACQUISITIONS OF BUSINESSES

On April 30, 2014, the Company acquired a 70% interest in a 13-clinic physical therapy practice. The purchase price for the 70% interest was \$10,625,000 in cash and \$400,000 in a seller note, that is payable in two principal installments totaling \$200,000 each, plus accrued interest, in April 2015 and 2016. In addition, during the six months ended June 30, 2014, the Company acquired two individual clinic practices for an aggregate of \$125,000 in cash.

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The purchase prices for the 2014 acquisitions have been preliminarily allocated as follows (in thousands):

Cash paid, net of cash acquired	\$10,750
Seller notes	400
Total consideration	\$11,150
Estimated fair value of net tangible assets acquired:	
Total current assets	\$1,203
Total non-current assets	1,200
Total liabilities	(374 )
Net tangible assets acquired	2,029
Referral relationships	-
Non-competition agreements	-
Tradename	-
Goodwill	13,846
Fair value of non-controlling interest	(4,725 )
	\$11,150

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

Acquisition	Date	% Interest Acquired	Number of Clinics
February 2013 Acquisition	February 28	72%	9
April 2013 Acquisition	April 30	50%	5
May 2013 Acquisition	May 24	80%	5
December 9, 2013 Acquisition	December 9	60%	12
December 13, 2013 Acquisition	December 13	90%	11

In addition to the five multi-clinic acquisitions detailed above, in 2013, the Company acquired three individual clinics in separate transactions.

The purchase price for the 72% interest in the February 2013 Acquisition was \$4.3 million in cash and \$400,000 in a seller note, that is payable in two principal installments totaling \$200,000 each, plus accrued interest, in February 2014 and 2015. The purchase price for the 50% interest in the April 2013 Acquisition was \$2.4 million in cash and \$200,000 in a seller note, that is payable in two principal installments totaling \$100,000 each, plus accrued interest, in April of 2014 and 2015. The purchase price for the 80% interest in the May 2013 Acquisition was \$3.6 million in cash and \$200,000 in a seller note, that is payable in two principal installments totaling \$100,000 each, plus accrued interest, in May of 2014 and 2015. The purchase price for the 60% interest in the December 9, 2013 Acquisition was \$1.7 million in cash. The purchase price for the 90% interest in the December 13, 2013 Acquisition was \$35.5 million in cash and \$500,000 in a seller note, that is payable in two principal installments totaling \$250,000 each, plus accrued interest, in December 2014 and 2015.

On February 1, 2013, through a subsidiary, the Company acquired a 100% interest in a clinic for \$5,000. On June 1, 2013, the Company acquired a 100% interest in a clinic for \$95,000. On September 16, 2013, the Company acquired a 100% interest in a clinic for \$130,000.

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

Cash paid, net of cash acquired	\$46,628
Seller notes	1,300
Total consideration	\$47,928
Estimated fair value of net tangible assets acquired:	
Total current assets	\$3,756
Total non-current assets	2,283
Total liabilities	(1,082 )
Net tangible assets acquired	4,957
Referral relationships	940
Non-competition agreements	400
Tradename	1,500
Goodwill	50,672
Fair value of non-controlling interest	(10,541)
	\$47,928

The consideration for each transaction was agreed upon through arm's length negotiations. Funding for the cash portion of the purchase price for the 2014 and 2013 acquisitions was derived from proceeds under the Credit Agreement.

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

For the 2014 acquisitions and the two acquisitions which occurred in December, 2013, the purchase price plus the fair value of the non-controlling interest for those two acquisitions 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 identifiable intangible assets acquired and the liabilities assumed. Thus, the final allocation of the purchase price may differ from the preliminary estimates used 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.

Except for the December 13, 2013 Acquisition, unaudited proforma consolidated financial information for acquisitions occurring in 2013 have not been included as the results were not material to current operations.

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

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Net revenues	\$69,563	\$135,024
Net income attributable to common shareholders from continuing operations	\$5,717	\$9,750

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Earnings per share:

Basic - net income attributable to common shareholders from continuing operations	\$0.47	\$0.81
Diluted - net income attributable to common shareholders from continuing operations	\$0.47	\$0.81

Shares used in computation:

Basic - net income attributable to common shareholders from continuing operations	12,089	12,022
Diluted - net income attributable to common shareholders from continuing operations	12,110	12,044

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## 4 ACQUISITIONS AND REVALUATIONS OF NON-CONTROLLING INTERESTS

In four separate transactions during the six months ended June 30, 2014, the Company purchased interests in two partnerships which were previously classified as redeemable non-controlling interest. The interests in the partnerships purchased ranged from 10.0% to 35.0%. The aggregate of the purchase prices paid was \$4.9 million, which included \$3.0 million of net book value. The remaining purchase price of \$1.9 million, less future tax benefits of \$0.8 million, was recognized as an adjustment to additional paid-in capital.

For the six months ended June 30, 2014, the following table details the changes in the carrying amount of redeemable non-controlling interest:

	Six Months Ended June 30, 2014
Beginning balance	\$4,104
Increase due to revaluation and operating results of redeemable non-controlling interests	1,869
Purchases of redeemable non-controlling interests	(4,887)
Ending balance	\$ 1,086

The non-controlling interests that are reflected as redeemable non-controlling interests in the consolidated financial statements consist of those owners who have certain redemption rights that are currently exercisable, and that, if exercised, require that the Company purchase the non-controlling interest of those owners. The redeemable non-controlling interests are adjusted to the fair value in the reporting period in which the Company deems it probable that the limited partner will assert the redemption rights and it will be adjusted each reporting period thereafter. The adjustments are charged to additional paid-in capital and are not reflected in the statement of net income. Although the adjustments are not reflected in the statement of net income, current accounting rules require that the Company reflect the charge in the earnings per share calculation.

## 5. DISCONTINUED OPERATIONS

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

The following table details the losses from discontinued operations reported for the physician services business:

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Net revenues	\$ 355	\$ 696
Operating costs	636	1,168
Gross margin	(281 )	(472 )
Direct general and administrative expenses less proceeds	94	187
	(375 )	(659 )

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Tax benefit	107	191
Loss from discontinued operations	\$ (268 )	\$ (468 )

The cash flow impact of the sale and closures is deemed immaterial for the consolidated statements of cash flows.

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## 6. GOODWILL

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

	Six Months Ended June 30, 2014
Beginning balance	\$ 143,955
Goodwill acquired during the period	13,846
Goodwill allocated to specific assets for business acquired in first six months of 2013	(1,680 )
Goodwill adjustments for purchase price allocation of businesses acquired	86
Ending balance	\$ 156,207

## 7. INTANGIBLE ASSETS, NET

Intangible assets, net as of June 30, 2014 and December 31, 2013 consisted of the following (in thousands):

	June 30, 2014	December 31, 2013
Tradenames	\$10,714	\$ 9,814
Referral relationships, net of accumulated amortization of \$1,865 and \$1,582, respectively	4,216	3,959
Non-competition agreements, net of accumulated amortization of \$2,099 and \$1,950, respectively	797	706
	\$15,727	\$ 14,479

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

The following table details the amount of amortization expense recorded for intangible assets for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Referral relationships	\$ 128	\$ 116	\$ 283	\$ 266
Non-competition agreements	62	85	149	191
	\$ 190	\$ 201	\$ 432	\$ 457

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Based on the balance of referral relationships and non-competition agreements as of June 30, 2014, the expected amount to be amortized in 2014 and thereafter by year is as follows (in thousands):

Referral Relationships		Non Competition Agreements	
Years	Annual Amount	Years	Annual Amount
2014	535	2014	272
2015	486	2015	246
2016	486	2016	185
2017	486	2017	140
2018	449	2018	84
2019	413	2019	19
2020	413		
2021	413		
2022	364		
2023	257		
2024	137		
2025	49		
2026	11		

## 8. ACCRUED EXPENSES

Accrued expenses as of June 30, 2014 and December 31, 2013 consisted of the following (in thousands):

	June 30, 2014	December 31, 2013
Salaries and related costs	\$12,373	\$ 11,686
Group health insurance claims	2,227	2,023
Credit balances and overpayments due to patients and payors	1,581	2,371
Other	3,931	4,545
Total	\$20,112	\$ 20,625

## 9. NOTES PAYABLE AND CREDIT AGREEMENT

Amounts outstanding under the Credit Agreement and notes payable as of June 30, 2014 and December 31, 2013 consisted of the following (in thousands):

	2014	2013
Credit Agreement average effective interest rate of 2.5% inclusive of unused fee	\$45,000	\$40,000
Various notes payable with \$850 plus accrued interest due in the next year, interest accrues at 3.25% per annum	1,300	1,475
	46,300	41,475
Less current portion	(850 )	(825 )
	\$45,450	\$40,650

Effective December 5, 2013, the Company entered into an Amended and Restated Credit Agreement with a commitment for a \$125.0 million revolving credit facility with a maturity date of November 30, 2018 ("Credit

Agreement”). The Credit Agreement is unsecured and has loan covenants, including requirements that the Company comply with a consolidated fixed charge coverage ratio and consolidated leverage ratio. Proceeds from the Credit Agreement may be used for working capital, acquisitions, purchases of the Company’s common stock, dividend payments to the Company’s common shareholders, capital expenditures and other corporate purposes. The pricing grid is based on the Company’s consolidated leverage ratio with the applicable spread over LIBOR ranging from 1.5% to 2.5% or the applicable spread over the Base Rate ranging from 0.1% to 1%. Fees under the Credit Agreement include an unused commitment fee ranging from 0.1% to 0.25% depending on the Company’s consolidated leverage ratio and the amount of funds outstanding under the Credit Agreement.

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On June 30, 2014, \$45.0 million was outstanding on the Credit Agreement resulting in \$80.0 million of availability. As of June 30, 2014, 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. In conjunction with the acquisition in 2014, the Company entered into a note payable in the amount of \$400,000, payable in two annual equal installments of \$200,000 plus any accrued and unpaid interest. Interest accrues at 3.25% per annum. In conjunction with the acquisitions in 2013, the Company entered into notes payable in the aggregate amount of \$1.3 million, each payable in two annual equal installments totaling \$650,000 plus any accrued and unpaid interest. Interest accrues at 3.25% per annum, subject to adjustment. In conjunction with the acquisitions in 2012, the Company entered into notes payable in the aggregate amount of \$350,000, each payable in two annual equal installments totaling \$175,000 plus any accrued and unpaid interest. Interest accrues at 3.25% per annum.

Aggregate annual payments of principal required pursuant to the Credit Agreement and the above notes payable subsequent to June 30, 2014 are as follows (in thousands):

During the twelve months ended June 30, 2015	\$850
During the twelve months ended June 30, 2016	450
During the twelve months ended June 30, 2019	45,000
	\$46,300

10. COMMON STOCK

From September 2001 through December 31, 2008, the Board authorized the Company to purchase, in the open market or in privately negotiated transactions, up to 2,250,000 shares of the Company’s common stock. In March 2009, the Board authorized the repurchase of up to 10% or approximately 1,200,000 shares of its common stock (“March 2009 Authorization”). In connection with the March 2009 Authorization, the Company amended the Credit Agreement to permit share repurchases of up to \$15,000,000. The Company is required to retire shares purchased under the March 2009 Authorization.

Under the March 2009 Authorization, the Company has purchased a total of 859,499 shares. There is no expiration date for the share repurchase program. The Credit Agreement was further amended to permit the Company to purchase, commencing on October 24, 2012 and at all times thereafter, up to \$15,000,000 of its common stock subject to compliance with covenants. There are currently an additional estimated 340,501 shares that may be purchased from time to time in the open market or private transactions depending on price, availability and the Company’s cash position. The Company did not purchase any shares of its common stock during the six months ended June 30, 2014.

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

The following is a discussion of our historical consolidated financial condition and results of operations, and should be read in conjunction with (i) our historical consolidated financial statements and accompanying notes thereto included elsewhere in this Quarterly Report on Form 10-Q; (ii) our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission (the "SEC") on March 11, 2014; and (iii) our management's discussion and analysis of financial condition and results of operations included in our 2013 Form 10-K. This discussion includes forward-looking statements that are subject to risk and uncertainties. This discussion includes forward-looking statements that are subject to risk and uncertainties. Actual results may differ substantially from the statements we make in this section due to a number of factors that are discussed in "Forward-Looking Statements" herein and "Part I – Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2013.

References to "we," "us," "our" and the "Company" shall mean U.S. Physical Therapy, Inc. and its subsidiaries.  
EXECUTIVE SUMMARY

## Our Business

We operate outpatient physical 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. As of June 30, 2014, we operated 486 clinics in 43 states.

We also manage physical therapy facilities for third parties, primarily physicians, with 17 third-party facilities under management as of June 30, 2014.

On September 30, 2013, we sold the remainder of our physician services business. The results of operations and the loss on the sale of the physician services business have been reclassified to discontinued operations for all periods presented.

The following discussion refers to continuing operations unless otherwise noted.

During the first six months of 2014 and the year ended 2013, we acquired the following clinic groups:

Acquisition	Date	% Interest Acquired	Number of Clinics
	2014		
April 2014 Acquisition	April 30	70%	13
	2013		
February 2013 Acquisition	February 28	72%	9
April 2013 Acquisition	April 30	50%	5
May 2013 Acquisition	May 24	80%	5
December 9, 2013 Acquisition	December 9	60%	12
December 13, 2013 Acquisition	December 13	90%	11

In addition to the above clinic group acquisitions, in 2014, we acquired two individual clinic practices in separate transactions. One of the acquired clinics will operate as a satellite of one of our partnerships and the other will be consolidated into an existing clinic. Also, in 2013, we acquired three physical therapy clinic practices in separate

transactions.

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

#### 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		For the Six Months	
	Months		Ended June 30,	
	2014	2013	2014	2013
Number of clinics, at the end of period	486	449	486	449
Working days	64	64	127	127
Average visits per day per clinic	23.3	21.6	22.4	21.3
Total patient visits	718,767	613,893	1,362,636	1,191,469
Net patient revenue per visit	\$106.39	\$106.25	106.31	\$106.31

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RESULTS OF OPERATIONS

Three Months Ended June 30, 2014 Compared to the Three Months Ended June 30, 2013

Net revenues increased to \$78.2 million for the three months ended June 30, 2014 (“2014 Second Quarter”) from \$66.9 million for the three months ended June 30, 2013 (“2013 Second Quarter”) primarily due to an increase in visits of 104,800 from 613,900 for the 2013 Second Quarter to 718,700 for the 2014 Second Quarter and a slight increase in the average net patient revenue per visit for the 2014 Second Quarter to \$106.39 from \$106.25 in the 2013 Second Quarter.

Net income attributable to our common shareholders for the 2014 Second Quarter was \$6.4 million versus \$5.1 million for the 2013 Second Quarter. Net income was \$0.53 per diluted share for the 2014 period and \$0.42 for the 2013 period. Total diluted shares were 12.2 million for the 2014 Second Quarter and 12.1 million for the 2013 Second Quarter.

Net Patient Revenues

Net patient revenues increased to \$76.5 million for the 2014 Second Quarter from \$65.2 million for the 2013 Second Quarter, an increase of \$11.3 million, or 17.2%, due to an increase in visits of 70,800 from clinics opened and acquired between July 1, 2013 and June 30, 2014 (“New Clinics”) and an increase in visits of 34,000 from clinics opened or acquired prior to July 1, 2013 (“Mature Clinics”) and an increase in the net patient revenue per visit of \$0.14.

Net patient revenues related to New Clinics amounted to \$8.6 million for the 2014 Second Quarter and net patient revenues for Mature Clinics increased by \$2.7 million for the 2014 Second Quarter as compared to the 2013 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 determined 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.

Other Revenues

Other revenues increased \$0.1 million in the 2014 Second Quarter to \$1.7 million from \$1.6 million in the 2013 Second Quarter.

Clinic Operating Costs

Clinic operating costs were \$56.4 million, or 72.1% of net revenues, for the 2014 Second Quarter and \$49.3 million, or 73.7% of net revenues, for the 2013 Second Quarter. The increase was primarily attributable to \$6.7 million in operating costs of New Clinics and by an increase in operating costs of \$0.4 million for Mature Clinics. Each component of clinic operating costs is discussed below:

Clinic Operating Costs—Salaries and Related Costs

Salaries and related costs increased to \$40.1 million for the 2014 Second Quarter from \$35.5 million for the 2013 Second Quarter, an increase of \$4.6 million, or 12.9%. Salaries and related costs for New Clinics amounted to \$4.5 million for the 2014 Second Quarter. Salaries and related costs for Mature Clinics increased by \$0.1 million for the 2014 Second Quarter as compared to the 2013 Second Quarter. Salaries and related costs as a percentage of net revenues were 51.3% for the 2014 Second Quarter and 53.1 % for the 2013 Second Quarter.

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

Rent, clinic supplies, contract labor and other were \$15.2 million for the 2014 Second Quarter and \$12.6 million for the 2013 Second Quarter. For New Clinics, rent, clinic supplies, contract labor and other amounted to \$2.1 million for the 2014 Second Quarter. For Mature Clinics, rent, clinic supplies, contract labor and other increased by \$0.5 million in the 2014 Second Quarter compared to the 2013 Second Quarter. Rent, clinic supplies, contract labor and other as a percentage of net revenues was 19.4% for the 2014 Second Quarter and 18.8% for the 2013 Second Quarter.

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Clinic Operating Costs—Provision for Doubtful Accounts

The provision for doubtful accounts was \$1.1 million for the 2014 Second Quarter and \$1.2 million for the 2013 Second Quarter. The provision for doubtful accounts for patient accounts receivable as a percentage of net patient revenues was 1.4% for the 2014 Second Quarter and 1.8% for the 2013 Second Quarter.

Our allowance for doubtful accounts for patient accounts receivable as a percentage of total patient accounts receivable was 4.8% at June 30, 2014, as compared to 4.4% at December 31, 2013. Our day's sales outstanding were 41 days at June 30, 2014 and 39 days at December 31, 2013.

Corporate Office Costs

Corporate office costs, consisting primarily of salaries and benefits of corporate office personnel, rent, insurance costs, depreciation and amortization, travel, legal, accounting, professional, and recruiting fees, were \$7.6 million for the 2014 Second Quarter and \$6.5 million for the 2013 Second Quarter. The increase was primarily due to increase in the number of employees and the amount of accrued incentive compensation. As a percentage of net revenues, corporate office costs were 9.7% for the 2014 Second Quarter and 9.8% for the 2013 Second Quarter.

Interest Expense

Interest expense increased to \$332,000 in the 2014 Second Quarter compared to \$130,000 in the 2013 Second Quarter due to a higher average outstanding balance under our revolving credit agreement during the 2014 period as compared to the 2013 period due to acquisitions. At June 30, 2014, \$45,000,000 was outstanding under our revolving credit agreement.

Provision for Income Taxes

The provision for income taxes was \$4.5 million for the 2014 Second Quarter and \$3.3 million for the 2013 Second Quarter. During the 2014 and 2013 Second Quarters, we 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 41.0% and 38.8%, respectively.

Non-controlling Interests

Net income attributable to non-controlling interests, inclusive of discontinued operations, was \$3.0 million for the 2014 Second Quarter and \$2.5 million for the 2013 Second Quarter. Net income attributable to non-controlling interests, exclusive of discontinued operations, was \$3.0 million for the 2014 Second Quarter and \$2.6 million for the 2013 Second Quarter or as a percentage of operating income before corporate office costs was 13.6% for the 2014 Second Quarter and 14.6% for the 2013 Second Quarter.

Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013

Net revenues increased to \$ 148.0 million for the six months ended June 30, 2014 ("2014 First Six Months") from \$ 129.6 million for the six months ended June 30, 2013 ("2013 First Six Months") primarily due to an increase in visits of 171,100 from 1,191,500 for the 2013 First Six Months to 1,362,600 for the 2014 First Six Months.

Net income attributable to our common shareholders for the 2014 First Six Months was \$10.7 million versus \$8.9 million for the 2013 First Six Months. Net income was \$0.87 per diluted share for the 2014 period and \$0.74 for the 2013 period. Total diluted shares were 12.2 million for the 2014 First Six Months and 12.0 million for the 2013 First Six Months.

## Net Patient Revenues

Net patient revenues increased to \$144.9 million for the 2014 First Six Months from \$126.7 million for the 2013 First Six Months, an increase of \$18.2 million, or 14.4%, due to an increase in visits of 113,200 from New Clinics and an increase in visits of 57,900 from Mature Clinics. The average net revenue per visit remained relatively the same for the two periods at \$106.31 for the current period and \$106.30 for the comparable 2013 period.

Net patient revenues related to New Clinics amounted to \$13.9 million for the 2014 First Six Months and net patient revenues for Mature Clinics increased by \$4.3 million for the 2014 First Six Months as compared to the 2013 First Six Months primarily due to the two acquisitions that occurred in December 2013.

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 determined 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.

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Other Revenues

Other revenues increased \$0.1 million in the 2014 First Six Months to \$3.1 million from \$3.0 million in the 2013 First Six Months.

Clinic Operating Costs

Clinic operating costs as a percentage of net revenues were \$109.5 million, or 74.0% of net revenues, for the 2014 First Six Months and \$97.2 million, or 75.0% of net revenues, for the 2013 First Six Months. The increase was primarily attributable to \$11.1 million in operating costs of New Clinics and an increase in operating costs of \$1.2 million for Mature Clinics. Each component of clinic operating costs is discussed below:

Clinic Operating Costs—Salaries and Related Costs

Salaries and related costs increased to \$78.1 million for the 2014 First Six Months from \$69.6 million for the 2013 First Six Months, an increase of \$8.5 million, or 12.2%. Salaries and related costs for New Clinics amounted to \$7.4 million for the 2014 First Six Months. Salaries and related costs for Mature Clinics increased by \$1.1 million for the 2014 First Six Months as compared to the 2013 First Six Months. Salaries and related costs as a percentage of net revenues were 52.7% for the 2014 First Six Months and 53.7% for the 2013 First Six Months.

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

Rent, clinic supplies, contract labor and other were \$29.4 million for the 2014 First Six Months and \$25.3 million for the 2013 First Six Months. For New Clinics, rent, clinic supplies, contract labor and other amounted to \$3.6 million for the 2014 First Six Months. For Mature Clinics, rent, clinic supplies, contract labor and other increased by \$0.5 million in the 2014 First Six Months compared to the 2013 First Six Months. Rent, clinic supplies, contract labor and other as a percentage of net revenues was 19.9% for the 2014 First Six Months and 19.5% for the 2013 First Six Months.

Clinic Operating Costs—Provision for Doubtful Accounts

The provision for doubtful accounts was \$2.0 million for the 2014 First Six Months and \$2.3 million for the 2013 First Six Months. The provision for doubtful accounts for patient accounts receivable as a percentage of net patient revenues was 1.4% for the 2014 First Six Months and 1.8% for the 2013 First Six Months.

Our allowance for doubtful accounts for patient accounts receivable as a percentage of total patient accounts receivable was 4.8% at June 30, 2014, as compared to 4.4% at December 31, 2013. Our days sales outstanding was 41 days at June 30, 2014 and 39 days at December 31, 2013.

Corporate Office Costs

Corporate office costs, consisting primarily of salaries and benefits of corporate office personnel, rent, insurance costs, depreciation and amortization, travel, legal, accounting, professional, and recruiting fees, were \$14.7 million for the 2014 First Six Months and \$12.9 million for the 2013 First Six Months. The increase was primarily due to increase in the number of employees and the amount of accrued incentive compensation. As a percentage of net revenues, corporate office costs were 10.0% for both the 2014 First Six Months and 2013 First Six Months.

Interest Expense



Interest expense increased to \$585,000 in the 2014 First Six Months compared to \$265,000 in the 2013 First Six Months due to a higher average outstanding balance under our revolving credit agreement during the 2014 period compared to the 2013 period due to acquisitions. At June 30, 2014, \$45.0 million was outstanding under our revolving credit agreement.

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Provision for Income Taxes

The provision for income taxes was \$7.4 million for the 2014 First Six Months and \$5.8 million for the 2013 First Six Months. During the 2014 and 2013 First Six Months, we 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 41.0% and 38.8%, respectively.

Non-controlling Interests

Net income attributable to non-controlling interests, inclusive of discontinued operations, was \$5.1 million for the 2014 First Six Months and \$4.3 million for the 2013 First Six Months. Net income attributable to non-controlling interests, exclusive of discontinued operations, was \$5.1 million for the 2014 First Six Months and \$4.5 million for the 2013 First Six Months or as a percentage of operating income before corporate office costs was 13.7% for the 2014 First Six Months and 13.9% for the 2013 First Six Months.

LIQUIDITY AND CAPITAL RESOURCES

We believe that our business is generating sufficient cash flow from operations to allow us to meet our short-term and long-term cash requirements, other than those with respect to future acquisitions. At June 30, 2014 and December 31, 2013, we had \$12.9 million in cash. Although the 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 revolving credit agreement 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 2015. The amount outstanding under our revolving credit facility was \$45.0 million at June 30, 2014 compared to \$40.0 million at December 31, 2013. At June 30, 2014, we had \$80 million available under our revolving credit facility. Significant acquisitions would likely require financing under our revolving credit facility.

During the six months ended June 30, 2014, \$21.1 million was provided by operations and \$5.0 million was drawn on our revolving credit agreement. The major uses of cash included: purchases of businesses (\$10.8 million) purchases of non-controlling interests (\$4.9 million), distributions to non-controlling interest partners (\$5.0 million), payment of dividends to our shareholders (\$2.9 million), purchases of fixed assets (\$2.1 million) and payments on notes payable (\$0.6 million).

Effective December 5, 2013, we entered into an Amended and Restated Credit Agreement with a commitment for a \$125.0 million revolving credit facility with a maturity date of November 30, 2018 ("Credit Agreement"). The Credit Agreement is unsecured and has loan covenants, including requirements that 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 shareholders, capital expenditures and other corporate purposes. The pricing grid is based on our consolidated leverage ratio with the applicable spread over LIBOR ranging from 1.5% to 2.5% or the applicable spread over the Base Rate ranging from 0.1% to 1%. Fees under the Credit Agreement include an unused commitment fee ranging from 0.1% to 0.25% depending on our consolidated leverage ratio and the amount of funds outstanding under the Credit Agreement. On June 30, 2014, \$45.0 million was outstanding on the revolving credit facility resulting in \$80.0 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 present outstanding notes payable related to certain of the acquisitions of businesses that occurred in 2014 and 2013. For those acquisitions, we entered into several notes payables aggregating \$1.7 million. The notes are payable in equal annual installments of principal over two years plus any accrued and unpaid interest. Interest accrues at various interest rates ranging from 3.25% to 4.0% per annum, subject to adjustment. In addition, we assumed leases with remaining terms of 1 month to 6 years for the operating facilities. At June 30, 2014, the balance on these notes payable was \$1.3 million.

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

As of June 30, 2014, we have accrued \$1.6 million related to credit balances and overpayments due to patients and payors. This amount is expected to be paid in 2014.

From September 2001 through December 31, 2008, our Board of Directors ("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 share repurchases of up to \$15,000,000. We are required to retire shares purchased under the March 2009 Authorization. Effective October 24, 2012, we amended the Credit Agreement to permit us to purchase, commencing on October 24, 2012 and at all times thereafter, up to \$15,000,000 of our common stock subject to compliance with covenants.

There is no expiration date for the share repurchase program. As of June 30, 2014, there are currently an additional estimated 341,000 shares that 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 six months ended June 30, 2014.

### FACTORS AFFECTING FUTURE RESULTS

The risks related to our business and operations include:

~~Changes~~ as a result of healthcare reform legislation, and implementation thereof, may affect our business.

- ~~—~~ We depend upon reimbursement by third-party payors including Medicare and Medicaid.

~~Changes~~ in economic conditions in the United States may have a material adverse impact on our business and financial condition.

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

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

~~Our~~ revenues may fluctuate seasonally 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, 2013.

#### 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, as amended. These statements contain forward-looking information relating to our financial condition, results of operations, plans, objectives, future performance and business. 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 as the result of government enacted national healthcare reform;

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changes in Medicare guidelines and reimbursement or failure of our clinics to maintain their Medicare certification status,

business and regulatory conditions including federal and state regulations;

changes in reimbursement rates or payment methods from third party payors including government agencies and deductibles and co-pays owed by patients;

revenue and earnings expectations;

general economic conditions;

availability and cost of qualified physical and occupational therapists;

personnel productivity;

competitive, economic or reimbursement conditions in our markets which may require us to reorganize or close certain clinics and thereby incur losses and/or closure costs including the possible write-down or write-off of goodwill and other intangible assets;

acquisitions, purchase of non-controlling interests (minority interests) and the successful integration of the operations of the acquired businesses;

maintaining adequate internal controls;

availability, terms, and use of capital; 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. Our primary market risk exposure is the changes in interest rates obtainable on our Credit Agreement. The interest on our Credit Agreement is based on a variable rate. At June 30, 2014, \$45.0 million was outstanding under our Credit Agreement. Based on the balance of the Credit Agreement at June 30, 2014, any change in the interest rate of 1% would yield a decrease or increase in annual interest expense of \$450,000.

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, as amended, 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.

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PART II—OTHER INFORMATION

ITEM 6. EXHIBITS.

Exhibit Number	Description
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 7, 2014 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

INDEX OF EXHIBITS

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\*Filed herewith