U S PHYSICAL THERAPY INC /NV
Form 10-Q
August 07, 2007

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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, 2007

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.

(NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

NEVADA (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	76-0364866 (I.R.S. EMPLOYER IDENTIFICATION NO.)
1300 WEST SAM HOUSTON PARKWAY SOUTH, SUITE 300, HOUSTON, TEXAS (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	77042 (ZIP CODE)

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

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer o Accelerated filer þ Non-accelerated filer 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 6, 2007, the number of shares outstanding (issued less treasury stock) of the registrant s common stock, par value $.01 per share, was: 11,603,337.

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, 2007 (unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,968	$ 10,952
Marketable securities available for sale	1,900	500
Patient accounts receivable, less allowance for doubtful accounts of $1,745 and $1,567, respectively	22,328	21,503
Accounts receivable other	793	775
Other current assets	2,031	2,251
Total current assets	39,020	35,981
Fixed assets:		
Furniture and equipment	24,650	23,718
Leasehold improvements	16,171	15,226
	40,821	38,944
Less accumulated depreciation and amortization	27,628	25,573
	13,193	13,371
Goodwill	21,082	20,997
Other assets	1,585	1,108
	$ 74,880	$ 71,457
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable trade	$ 696	$ 1,601
Accrued expenses	6,440	7,007
Current portion of notes payable	537	562
Total current liabilities	7,673	9,170
Notes payable	516	797
Deferred rent	1,256	1,273
Other long-term liabilities	730	829
Total liabilities	10,175	12,069

Minority interests in subsidiary limited partnerships	3,994	3,871
Commitments and contingencies		
Shareholders equity:		
Preferred stock, $.01 par value, 500,000 shares authorized, no shares issued and outstanding		
Common stock, $.01 par value, 20,000,000 shares authorized, 13,800,074 and 13,681,849, shares issued, respectively	138	137
Additional paid-in capital	37,365	36,304
Retained earnings	54,836	50,704
Treasury stock at cost, 2,214,737 shares	(31,628)	(31,628)
Total shareholders equity	60,711	55,517
	$ 74,880	$ 71,457

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,	
	2007	2006	2007	2006
Net patient revenues	$ 35,171	$ 34,050	$ 69,447	$ 66,958
Management contract revenues	284	570	602	1,139
Other revenues	4	9	30	35
Net revenues	35,459	34,629	70,079	68,132
Clinic operating costs:				
Salaries and related costs	18,072	17,492	35,988	34,779
Rent, clinic supplies, contract labor and other	7,629	6,669	15,058	13,682
Provision for doubtful accounts	406	439	1,037	971
	26,107	24,600	52,083	49,432
Corporate office costs	4,136	4,487	8,493	9,002
Operating income from continuing operations	5,216	5,542	9,503	9,698
Interest and investment income, net	73	85	114	167
Loss in unconsolidated joint venture		(10)		(31)
Minority interests in subsidiary limited partnerships	(1,467)	(1,509)	(2,782)	(2,978)
Income before income taxes from continuing operations	3,822	4,108	6,835	6,856
Provision for income taxes	1,465	1,581	2,634	2,623
Net income from continuing operations	2,357	2,527	4,201	4,233
Discontinued operations:				
(Loss) income from discontinued operations	(86)	(586)	(110)	(924)
Tax benefit (expense) from discontinued operations	32	215	41	331
	(54)	(371)	(69)	(593)
Net income	$ 2,303	$ 2,156	$ 4,132	$ 3,640

Earnings per share:

Basic income from continuing operations	$ 0.20	$ 0.21	$ 0.36	$ 0.36
Basic (loss) income from discontinued operations		(0.03)		(0.05)
Total basic earnings per common share	$ 0.20	$ 0.18	$ 0.36	$ 0.31
Diluted income from continuing operations	$ 0.20	$ 0.21	$ 0.36	$ 0.35
Diluted (loss) income from discontinued operations		(0.03)		(0.05)
Total diluted earnings per common share	$ 0.20	$ 0.18	$ 0.36	$ 0.30
Shares used in computation:				
Basic earnings per common share	11,559	11,754	11,530	11,788
Diluted earnings per common share	11,648	11,894	11,616	11,965

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, 2007	Six Months Ended June 30, 2006
OPERATING ACTIVITIES		
Net income	$ 4,132	$ 3,640
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,283	2,220
Minority interests in earnings of subsidiary limited partnerships	2,782	2,954
Provision for doubtful accounts	1,132	1,024
Equity-based awards compensation expense	580	464
Loss on sale or abandonment of assets	22	71
Tax benefit from exercise of stock options	(109)	(10)
Recognition of deferred rent subsidies	(242)	(204)
Deferred income taxes	102	495
Closure costs write-off of goodwill		54
Changes in operating assets and liabilities:		
Increase in patient account receivable	(1,957)	(1,601)
Increase in accounts receivable other	(18)	(1)
Increase in other assets	(392)	(52)
Decrease in accounts payable and accrued expenses	(1,428)	(140)
Increase in other liabilities	235	229
Net cash provided by operating activities	7,122	9,143
INVESTING ACTIVITIES		
Purchase of fixed assets	(2,102)	(2,928)
Purchase of business		(54)
Acquisitions of minority interest, included in goodwill	(129)	(1,099)
Purchase of marketable securities available for sale	(2,040)	(100)
Proceeds on sale of marketable securities available for sale	640	1,200
Proceeds on sale of fixed assets	8	5
Net cash used in investing activities	(3,623)	(2,976)
FINANCING ACTIVITIES		
Distributions to minority investors in subsidiary limited partnerships	(2,659)	(2,779)
Repurchase of common stock		(2,072)
Payment of notes payable	(306)	(136)
Excess tax benefit from stock options exercised	109	10
Proceeds from exercise of stock options	373	22
Net cash used in financing activities	(2,483)	(4,955)
Net increase (decrease) in cash and cash equivalents	1,016	1,212
Cash and cash equivalents beginning of period	10,952	12,352
Cash and cash equivalents end of period	$ 11,968	$ 13,564

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income taxes	$ 2,685	$ 2,383
Interest	$ 50	$ 21

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)

	Common Stock		Additional		Treasury Stock		Total
	Shares	Amount	Paid-In Capital	Retained Earnings	Shares	Amount	Shareholders' Equity
Balance December 31, 2006	13,682	$ 137	$ 36,304	$ 50,704	(2,215)	$ (31,628)	$ 55,517
Proceeds from exercise of stock options	47	1	372				373
Tax benefit from exercise of Stock options			109				109
Issuance of restricted stock	71						
Amortization of restricted stock			90				90
Equity-based compensation expense			490				490
Net income				4,132			4,132
Balance June 30, 2007	13,800	$ 138	$ 37,365	$ 54,836	(2,215)	$ (31,628)	$ 60,711

See notes to consolidated financial statements.

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U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007
(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 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).

We continue to seek to attract physical and occupational therapists who have established relationships with physicians by offering therapists a competitive salary and a share of the profits of the clinic operated by that therapist. In addition, we have developed satellite clinic facilities of existing clinics, with the result that many clinic groups operate more than one clinic location. During the six months ended June 30, 2007, we opened nine new clinics, of which five were Clinic Partnerships, and closed three, therefore, ending June 2007 with 298 clinics. In 2007, we intend to continue to focus on developing new clinics and on opening satellite clinics where deemed appropriate. We 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. 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, 2006.

The Company believes, and the Chief Executive Officer, Chief Financial Officer and Corporate Controller have certified, that the financial statements included in this report contain 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.

Operating results for the six months ended June 30, 2007 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, 2006.

Clinic Partnerships

For Clinic Partnerships, the earnings and liabilities attributable to the minority limited partnership interest, typically owned by the managing therapist, are recorded within the balance sheets and income statements as minority interests in subsidiary limited partnerships.

Wholly-Owned Facilities

For Wholly-Owned Facilities with profit sharing arrangements, an appropriate accrual is recorded for the amount of profit sharing due 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 Equivalents

The Company considers all highly liquid investments with an original maturity or remaining maturity at the time of purchase of three months or less to be cash equivalents. Based upon its investment policy, the Company invests its cash primarily in deposits with major financial institutions, in highly rated commercial paper, short-term United States treasury obligations, United States and municipal government agency securities and United States government sponsored enterprises. The Company held approximately $8.5 million and $4.2 million in highly liquid investments included in cash and cash equivalents at June 30, 2007 and December 31, 2006, respectively.

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

Marketable Securities

Management determines the appropriate classification of its investments at the time of purchase and reevaluates such determination at each balance sheet date. As of June 30, 2007 and December 31, 2006, all marketable securities were classified as available for sale. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses, net of tax, reported as a separate component of shareholders equity. Since the fair value of the marketable securities available for sale equals the cost basis for such securities, there is no effect on comprehensive income for the periods reported.

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. Leasehold improvements are amortized over the shorter of the related lease term or estimated useful lives of the assets, which is generally three to five years.

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

The Company reviews property and equipment and intangible assets with finite lives for impairment upon the occurrence of certain events or circumstances which indicate that the related amounts may be impaired. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Goodwill

Goodwill represents the excess of costs over the fair value of the acquired business assets. Historically, goodwill has been derived from the purchase of some or all of a particular local management s equity interest in an existing clinic or from acquisitions.

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 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. 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 on behalf of the Company. For each clinic or group of clinics, the Company maintains discrete financial information and both corporate and local management regularly review the operating results. For each purchase of the equity interest, goodwill is assigned to the respective clinic or group of clinics, if deemed appropriate.

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 has been made according to a fee schedule 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 and/or occupational therapy (including speech-language pathology) to any one patient was initially limited to $1,500 (the Medicare Cap or Limit), except for services provided in hospitals. After a three-year moratorium, this Medicare Limit on therapy services was implemented for services rendered on or after September 1, 2003 subject to an adjusted total of $1,590 (the Adjusted Medicare Limit). Effective December 8, 2003, a moratorium was again placed on the Adjusted Medicare Limit for the remainder of 2003 and for years 2004 and 2005. Under the Medicare Prescription Drug, Improvement and Modernization Act of 2003, the Adjusted Medicare Limit was reinstated effective as of January 1, 2006. Outpatient therapy services rendered to Medicare beneficiaries by the Company s therapists are subject to the cap, except to the extent these services are rendered pursuant to certain management and professional services agreements with inpatient facilities, in which case the caps do not apply. The Medicare Limit for 2006 was $1,740.

In 2006, Congress passed the Deficit Reduction Act (DRA), which allowed the Centers for Medicare and Medicaid Services (CMS) to grant exceptions to the Medicare Cap for services provided during the year, as long as those services met certain qualifications (as more fully defined in the February 15, 2006 Medicare Fact Sheet). The exception process allowed for automatic and manual exceptions to the Medicare Cap for medically necessary services. The exception process specified diagnosis that qualified for an automatic exception to the Medicare Cap if the condition or complexity has a direct and significant impact on the course of therapy being provided and the additional treatment was medically necessary. The exception process further provided that manual exceptions could be granted if the condition or complexity did not allow for an automatic exception, but was believed to require medically necessary services. This exception process adopted as part of the DRA was scheduled to expire on December 31, 2006.

In December 2006, Congress passed and the President signed the Tax Relief and Health Care Act of 2006, which extends the Medicare Cap exceptions process for 2007. The Medicare Cap continues to apply in 2007, and the Adjusted Medicare Limit for 2007 is $1,780. After Congress extended the exceptions process for another year, CMS revised the exceptions procedures. These procedures eliminate the manual exceptions process and expand the use of automatic exceptions. Thus, as of January 1, 2007, all services that require exceptions to the Medicare Cap are processed as automatic exceptions. While the basic procedure for obtaining an automatic exception remains the same, CMS expanded requirements for documentation related to the medical necessity of services provided above the cap. Since the Medicare Cap was implemented, patients who have been impacted by the cap and those who do not qualify for an exception may choose to pay for services in excess of the cap themselves; however, it is assumed that the Medicare Cap will continue to result in lost revenues to the Company.

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, 2007. 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.

Contractual Allowances

Contractual allowances result from the differences between the rates charged for services performed and expected reimbursements by both insurance companies and government sponsored healthcare programs for such services. Medicare regulations and the various third party payors and managed care contracts are often complex and may include multiple reimbursement mechanisms payable for the services provided in Company clinics. The Company estimates contractual allowances based on its interpretation of the applicable regulations, payor contracts and historical calculations. Each month the Company estimates its contractual allowance for each clinic based on payor contracts and the historical collection experience of the clinic and applies an appropriate contractual allowance reserve percentage to the gross accounts receivable balances for each payor of the clinic. Based on the Company s historical experience, calculating the contractual allowance reserve percentage at the payor level is sufficient to allow us 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 our estimates. Payor terms are periodically revised necessitating continual review and assessment of the estimates made by management. The Company s billing system does not capture the exact change in our contractual allowance reserve estimate from period to period in order to assess the accuracy of our revenues and hence our 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 been less than 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, we believe that a reasonable likely change in the contractual allowance reserve estimate would not likely be more than 1% at June 30, 2007.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In June 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a model for how a company is to recognize, measure, present and disclose in its financial statements uncertain positions that a company has taken or plans to take on a future tax return. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company did not have any unrecognized tax benefits for Federal, state and local tax jurisdictions. In addition, there was no effect on our financial condition or results of operations due to the implementation of FIN 48.

Estimated interest and penalties related to potential underpayment on any unrecognized tax benefits are to be classified as a component of tax expense in the Consolidated Statement of Operations. As of the date of adoption of FIN 48, the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor was any interest expense recognized during the six months ended June 30, 2007.

Fair Values of Financial Instruments

The carrying amounts reported in the balance sheet for cash and cash equivalents, accounts receivable, accounts payable and notes payable approximate their fair values due to the short-term maturity of these financial instruments. The carrying amounts for marketable securities available for sale approximate the fair value on the respective balance sheet dates.

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 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 limit 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.

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Reclassifications

In accordance with Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections A Replacement of APB Opinion No. 20 and FASB Statement No. 3 , the prior period financial statements have been reclassified to conform with the current year presentation of reporting all earnings allocated to the minority limited partners within the line item in the balance sheets and income statements entitled minority interests in subsidiary limited partnerships. The earnings allocated to the minority limited partners are shown as an adjustment to net income in the statements of cash flows. The payments of the distributions related to these allocated earnings are shown as an use of cash in the financing activities section of the statement of cash flows. In prior years, based upon an interpretation of the Emerging Issues Task Force issue 00-23, Issues Related to the Accounting for Stock Compensation under APB No. 25 and FASB Interpretation No. 44 , the Company reported the earnings allocated to minority limited partners for partnerships formed after January 18, 2001 as clinic costs salaries and related expense. After a detailed review of our previous accounting policy and our Clinic Partnerships, management has determined that reporting such amounts in this line item was incorrect. The effect of reclassifying the prior period financials statements did not change total assets, shareholders equity, net income or earnings per share. The minority interests previously recorded as expense in clinic costs salaries and related, after reclassification, have the effect of increasing operating income from continuing operations by $344,000 and $587,000 for the three months and six months ended June 30, 2006, respectively, and increasing minority interest in subsidiary limited partnerships by $735,000 at June 30, 2006.

In accordance with current accounting literature, the results of operations and closure costs for the 31 clinics closed in 2006 and the results of operations for the clinic sold in 2006 are presented as discontinued operations for all periods presented, net of tax benefit.

The following table reconciles the amounts previously reported to the amounts reported in these financial statements by major line item for the statements of net income and cash flows for the three months and six months ended June 30, 2006:

	Three Months Ended June 30, 2006			Six Months Ended June 30, 2006	
Statement of Net Income	**As Previously Reported (1)**	**Reclasses**	**As Reclassed**	**As Previously Reported (1)**	**Reclasses**