

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

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

As of August 5, 2003, the number of shares outstanding of the registrant's common stock, par value \$.01 per share, was: 11,994,376.

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ITEM 1. FINANCIAL STATEMENTS

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	JUNE 30, <u>2003</u> (unaudited)	DECEMBER 31, <u>2002</u>
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 12,576	\$ 7,610
Patient accounts receivable, less allowance for doubtful accounts of \$4,196 and \$4,327, respectively.....	13,156	13,235
Accounts receivable -- other.....	563	443
Other current assets.....	742	1,307
Total current assets.....	<u>27,037</u>	<u>22,595</u>
Fixed assets:		
Furniture and equipment.....	19,338	17,796
Leasehold improvements.....	10,052	9,310
	<u>29,390</u>	<u>27,106</u>
Less accumulated depreciation and amortization.....	18,173	16,693
	11,217	10,413
Goodwill, net of amortization of \$335	5,590	5,590
Other assets, net of amortization of \$430 and \$505, respectively.....	2,210	2,435
	<u>\$ 46,054</u>	<u>\$ 41,033</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable -- trade.....	\$ 415	\$ 624
Accrued expenses.....	2,133	2,188
Estimated third-party payor (Medicare) settlements.....	33	33
Notes payable.....	4	4
Convertible subordinated note payable.....	2,333	--
Total current liabilities.....	<u>4,918</u>	<u>2,849</u>
Notes payable -- long-term portion.....	15	17
Other long-term liabilities.....	217	273
Convertible subordinated note payable.....	--	2,333
Minority interests in subsidiary limited partnerships.....	3,275	3,024
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$.01 par value, 500,000 shares authorized, zero shares issued and outstanding.....	--	--
Common stock, \$.01 par value, 20,000,000 shares authorized, 11,990,674 and 11,818,711 shares issued at June 30, 2003 and December 31, 2002, respectively.....	120	118
Additional paid-in capital.....	24,423	23,313
Retained earnings.....	25,608	21,608
Treasury stock at cost, 947,100 and 945,300 shares held at June 30, 2003 and December 31, 2002, respectively.....	(12,522)	(12,502)
Total shareholders' equity.....	<u>37,629</u>	<u>32,537</u>
	<u>\$ 46,054</u>	<u>\$ 41,033</u>

See accompanying notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

(unaudited)

	<u>THREE MONTHS</u>		<u>SIX MONTHS</u>	
	<u>ENDED JUNE 30,</u>		<u>ENDED JUNE 30,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Net patient revenues.....	\$ 26,382	\$ 23,449	\$ 50,865	\$ 45,085
Management contract revenues.....	582	570	1,059	1,158
Other revenues.....	39	32	85	58
Net revenues.....	<u>27,003</u>	<u>24,051</u>	<u>52,009</u>	<u>46,301</u>
Clinic operating costs:				
Salaries and related costs.....	12,092	10,459	23,608	20,461
Rent, clinic supplies and other.....	6,131	5,022	12,030	9,763
Provision for doubtful accounts.....	418	511	756	942
	<u>18,641</u>	<u>15,992</u>	<u>36,394</u>	<u>31,166</u>
Corporate office costs.....	<u>3,344</u>	<u>2,863</u>	<u>6,522</u>	<u>5,368</u>
Operating income.....	5,018	5,196	9,093	9,767
Interest expense.....	48	61	94	120
Minority interests in subsidiary limited partnerships.....	<u>1,404</u>	<u>1,349</u>	<u>2,549</u>	<u>2,508</u>
Income before income taxes.....	3,566	3,786	6,450	7,139
Provision for income taxes.....	<u>1,353</u>	<u>1,450</u>	<u>2,450</u>	<u>2,727</u>
Net income.....	<u><u>\$ 2,213</u></u>	<u><u>\$ 2,336</u></u>	<u><u>\$ 4,000</u></u>	<u><u>\$ 4,412</u></u>
Basic earnings per common share.....	<u>\$ 0.20</u>	<u>\$ 0.21</u>	<u>\$ 0.37</u>	<u>\$ 0.40</u>
Diluted earnings per common share.....	<u>\$ 0.18</u>	<u>\$ 0.18</u>	<u>\$ 0.33</u>	<u>\$ 0.34</u>

See accompanying notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

(unaudited)

	<u>SIX MONTHS</u>	
	<u>ENDED JUNE 30,</u>	
	<u>2003</u>	<u>2002</u>
OPERATING ACTIVITIES		
Net income.....	\$ 4,000	\$ 4,412
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	1,722	1,413
Minority interests in earnings of subsidiary limited partnerships.....	2,549	2,508
Provision for doubtful accounts.....	756	942
Tax benefit from exercise of stock options.....	525	3,723
Other.....	(35)	154
Changes in operating assets and liabilities:		
Increase in patient accounts receivable.....	(677)	(1,683)
(Increase) decrease in accounts receivable -- other.....	(120)	353
Decrease (increase) in other assets.....	474	(1,641)
Increase (decrease) in accounts payable and accrued expenses.....	51	(28)
Increase in (decrease) other liabilities.....	(56)	123
Decrease in estimated third-party payor (Medicare) settlements.....	--	(80)
Net cash provided by operating activities.....	<u>9,189</u>	<u>10,196</u>
INVESTING ACTIVITIES		
Purchase of fixed assets.....	(2,619)	(2,298)
Purchase of intangible assets.....	--	(773)
Other.....	129	1
Net cash used in investing activities.....	<u>(2,490)</u>	<u>(3,070)</u>
FINANCING ACTIVITIES		
Distributions to minority investors in subsidiary limited partnerships...	(2,298)	(2,557)
Payment of notes payable.....	(2)	(698)
Repurchase of common stock.....	(20)	--
Proceeds from exercise of stock options.....	587	2,454
Net cash used in financing activities.....	<u>(1,733)</u>	<u>(801)</u>
Net increase in cash and cash equivalents.....	4,966	6,325
Cash and cash equivalents -- beginning of year.....	7,610	8,121
Cash and cash equivalents -- end of period.....	<u>\$ 12,576</u>	<u>\$ 14,446</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income taxes.....	\$ 2,012	\$ 556
Interest.....	\$ 185	\$ 120

See accompanying notes to consolidated financial statements.

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

JUNE 30, 2003
(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 in the clinics. The managing therapist of each clinic owns the remaining limited partnership interest in the majority of the clinics. In some instances, the Company developed satellite clinic facilities as extensions of existing clinics, with the result that some existing clinic partnerships operate more than one clinic location. Beginning in 2003, the Company ceased its development of new clinic partnerships. New clinics opened which are not satellite clinics will be wholly owned by the Company. The clinic directors of such clinics will be compensated based upon clinic profits. See Note 6.

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.

The Company believes, and the President and Chief Financial Officer have certified, that the financial statements included in this report contain all necessary adjustments (consisting only of normal recurring adjustments) to present fairly the Company's financial position, results of operations and cash flows for the interim periods presented. For further information regarding the Company's accounting policies, please read the audited financial statements included in the Company's Form 10-K for the year ended December 31, 2002.

Operating results for the three and six months ended June 30, 2003 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, 2002.

Significant Accounting Policies

Revenue Recognition

Net patient revenues are reported in the period in which the Company renders services. Net patient revenues are reported at the estimated net realizable amounts from insurance companies, 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 established rates. Net patient revenues reflect reserves, evaluated monthly by management for contractual and other adjustments agreed to or established with payers. Net accounts receivable includes only those amounts the Company estimates to be collectible.

Reimbursement rates for outpatient therapy services provided to Medicare beneficiaries are established pursuant 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 (including speech-language pathology) or occupational therapy to any one patient is limited to \$1,500, except for services provided in hospitals. After a three year moratorium, this financial limitation on therapy services is set to be implemented for services rendered on or after September 1, 2003. The total amount paid by Medicare in any one year has been adjusted up to \$1,590 and the full amount will be available for the four month period between September 1, 2003 and December 31, 2003. Effective January 1, 2004 this financial limitation, as adjusted for inflation, will be an annual limit. See also "Factors Affecting Future Results" in Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations.

Allowance for Doubtful Accounts

We review the accounts receivable aging and rely on prior experiences with particular payors at each clinic to determine

an appropriate reserve for doubtful accounts. Historically, clinics that have large numbers of aged accounts generally have less favorable collection experience, and thus they require a higher allowance. Accounts that are ultimately determined to be uncollectible are written off against our bad debt allowance. The amount of our aggregate bad debt allowance is periodically reviewed for adequacy in light of current and historical experience.

Income Taxes

The Company is required to estimate its federal and state income tax liability as well as account for temporary differences between its tax and accounting treatment of some of its expenses, such as bad debt expense, depreciation expense and amortization of leasehold improvements. The differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheets. The Company must also assess the likelihood that deferred tax assets will be recovered from future taxable income, and if not recoverable, establish a valuation reserve.

Stock Options

Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for employee stock-based compensation using the intrinsic value method as prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related FASB Interpretations, under which no compensation cost related to stock plans has been recognized in net income.

The fair value of these options was estimated at the date of grant using a Black-Scholes option pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The pro forma effect on net income for the quarters ended June 30, 2003 and 2002 is not representative of the pro forma effect on net income in future periods because it does not take into consideration pro forma compensation expense related to grants made prior to 1995. The Company's pro forma information follows (in thousands, except per share data):

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Actual net income.....	\$2,213	\$2,336	\$4,000	\$4,412
Deduct: Total stock based compensation expense determined under the fair value method, net of taxes.....	236	190	484	360
Pro forma net income.....	<u>\$1,977</u>	<u>\$2,146</u>	<u>\$3,516</u>	<u>\$4,052</u>
 Earnings per share:				
Actual basic earnings per common share.....	\$0.20	\$0.21	\$0.37	\$0.40
Actual diluted earnings per common share.....	\$0.18	\$0.18	\$0.33	\$0.34
Pro forma basic earnings per common share.....	\$0.18	\$0.19	\$0.32	\$0.37
Pro forma diluted earnings per common share.....	\$0.16	\$0.16	\$0.29	\$0.31

Carrying Value of Long-Lived Assets

Our property and equipment, intangible assets and goodwill (collectively, our "long-lived assets") comprise a significant portion of our total assets at June 30, 2003 and December 31, 2002. We account for our long-lived assets pursuant to SFAS No. 142 and SFAS No. 144. These accounting standards require that we periodically, and upon the occurrence of certain events, assess the recoverability of our long-lived assets. If the carrying value of our property and equipment or intangible assets exceeds their undiscounted cash flows, we are required to write the carrying value down to estimated fair value. Also, if the carrying value of our goodwill exceeds the estimated fair value, we are required to allocate the

estimated fair value to our assets and liabilities, as if we had just acquired it in a business combination. We then would write-down the carrying value of our goodwill to the implied fair value. Any such write-down is included as an impairment loss in our consolidated statement of operations. A degree of judgment is required to estimate the fair value of our long-lived assets. We may use quoted market prices, prices for similar assets, present value techniques and other valuation techniques to prepare these estimates. In addition, we may obtain independent appraisals in certain circumstances. We may need to make estimates of future cash flows and discount rates as well as other assumptions in order to implement these valuation techniques. Accordingly, any value ultimately derived from our long-lived assets may differ from our estimate of fair value.

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.

Reclassifications

Certain reclassifications have been made to prior period amounts to conform to current period presentation.

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):

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Numerator:				
Net income.....	\$ 2,213	\$ 2,336	\$ 4,000	\$ 4,412
Numerator for basic earnings per share.....	<u>2,213</u>	<u>2,336</u>	<u>4,000</u>	<u>4,412</u>
Effect of dilutive securities:				
Interest on convertible subordinated notes payable.....	<u>31</u>	<u>39</u>	<u>61</u>	<u>78</u>
Numerator for diluted earnings per share--income available to common stockholders after assumed conversions.....	<u>\$ 2,244</u>	<u>\$ 2,375</u>	<u>\$ 4,061</u>	<u>\$ 4,490</u>
Denominator:				
Denominator for basic earnings per share -- weighted-average shares.....	10,956	11,132	10,933	10,894
Effect of dilutive securities:				
Stock options.....	798	1,307	810	1,471
Convertible subordinated notes payable.....	<u>700</u>	<u>878</u>	<u>700</u>	<u>889</u>
Dilutive potential common shares.....	<u>1,498</u>	<u>2,185</u>	<u>1,510</u>	<u>2,360</u>
Denominator for diluted earnings per share -- adjusted weighted-average shares and assumed conversions.....	<u>12,454</u>	<u>13,317</u>	<u>12,443</u>	<u>13,254</u>
Basic earnings per common share.....	<u>\$ 0.20</u>	<u>\$ 0.21</u>	<u>\$ 0.37</u>	<u>\$ 0.40</u>
Diluted earnings per common share.....	<u>\$ 0.18</u>	<u>\$ 0.18</u>	<u>\$ 0.33</u>	<u>\$ 0.34</u>

Options to purchase 464,240 and 67,615 shares for the three months ended June 30, 2003 and June 30, 2002, respectively, and 454,487 and 33,994 shares for the six months ended June 30, 2003 and June 30, 2002, respectively, were excluded from the diluted earnings per share calculations for the respective periods because the options' exercise prices exceeded the average market price of the common shares during the periods.

3. NOTES PAYABLE

In May 1994, the Company issued a \$3 million 8% Convertible Subordinated Note, Series C, due June 30, 2004 (the "Series C Note"). The Series C Note is convertible at the option of the holder into shares of the Company common stock determined by dividing the principal amount of the Note being converted by \$3.33. The Series C Note bears interest from the date of issuance at a rate of 8% per annum, payable quarterly. In June 2002, \$667,000 of the Series C Note was converted by the note holder into 200,100 shares of common stock. The remaining principal amount under the Series C Note was \$2.3 million at June 30, 2003 and December 31, 2002.

The Series C Note is unsecured and subordinated in right of payment to all other indebtedness for borrowed money incurred by the Company.

4. PURCHASE OF COMMON STOCK

In September 2001, the Board of Directors ("Board") authorized the Company to purchase, in the open market or in privately negotiated transactions, up to 1,000,000 shares of its common stock. Shares purchased are held as treasury shares and may be used for such valid corporate purposes or retired as the Board deems advisable. As of December 31, 2002, the Company had purchased 795,600 shares of its common stock on the open market for \$10.5 million. During the quarter ended March 31, 2003, the Company purchased additional 1,800 shares of its common stock on the open market for a total of \$20,000.

On February 26, 2003, the Board authorized a new share repurchase program of up to 250,000 additional shares of the Company's outstanding common stock. As there is no expiration for this Board authorization, additional shares may be purchased from time to time in the open market or private transactions depending on price, availability and the Company's cash position. As of June 30, 2003, no shares have been repurchased under the new share repurchase program.

5. ACQUISITION OF MINORITY INTERESTS

On January 31, 2002, the Company purchased a 10% minority interest in a limited partnership that owns four clinics in Michigan for \$447,000. As part of the purchase, the Company paid the minority partner \$65,000 in undistributed earnings.

On June 1, 2002, the Company purchased the 35% minority interest in a limited partnership for \$220,000. Additional consideration may be paid in the future based upon clinic performance. The Company paid the minority partner \$73,000 in undistributed earnings. In July, the Company sold 17.5% of the total limited partnership interest to another therapist for \$220,000, payable from future profits of the partnership. The Company discounted the note receivable by 50% and is recognizing the gain as payments are made.

On June 1, 2002, the Company purchased a 5% minority interest in a limited partnership for \$95,000. The Company also paid the minority partner \$8,000 in undistributed earnings.

On August 31, 2002, the Company purchased the 30% minority interest in a limited partnership for \$244,000 cash plus forgiveness of a \$75,000 note receivable from the minority partner. The Company also paid the minority partner \$19,000 in undistributed earnings.

On September 1, 2002, the Company purchased the 35% minority interest in a limited partnership for \$54,000. Also on September 1, 2002, the Company purchased 65% of a speech therapy company for \$26,000.

The Company's minority interest purchases were accounted for as purchases and accordingly, the results of operations of the acquired minority interest percentage are included in the accompanying financial statements from the dates of purchase. In addition, the Company is permitted to make, and has occasionally made, changes to preliminary purchase price allocation during the first year after completing the purchase. Goodwill has been recognized for the amount of the excess of the purchase price paid over the fair value of the net tangible assets of the minority interest acquired and accounted for in accordance with SFAS 142.

The changes in the carrying amount of goodwill consisted of the following for the six months and year ended June 30, 2003 and December 31, 2002, respectively (in thousands):

	June 30, <u>2003</u>	December 31, <u>2002</u>
Beginning balance.....	\$ 5,590	\$ 4,519
Goodwill acquired during the period.....	--	1,052
Purchase accounting adjustments.....	<u>--</u>	<u>19</u>
Ending balance.....	<u>\$ 5,590</u>	<u>\$ 5,590</u>
	=====	=====

Goodwill represents the excess of costs over the fair value of the acquired business's assets. In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," ("SFAS 142"). Provisions of SFAS 142 that were effective for the Company January 1, 2002, require that goodwill and other intangible assets with indefinite lives no longer be amortized. SFAS 142 further requires the fair value of goodwill and other intangible assets with indefinite lives be tested for impairment upon adoption of this statement, annually and upon the occurrence of certain events and be written down to fair value if considered impaired. In accordance with SFAS 142, the Company did not have any amortization expense related to goodwill during 2003 and 2002 and no impairment of assets was recognized.

6. MINORITY INTEREST

In the majority of the Company's partnership agreements, the therapist partner begins with a 20% profit interest in his or her clinic partnership, which increases by 3% at the end of each year until his or her profits interest reaches 35%. Within the balance sheet and statement of operations the Company records partner therapist's profit interest in the clinic partnerships as minority interest in earning of subsidiary limited partnerships. The Emerging Issues Task Force ("EITF") issued EITF 00-23, "Issues Related to the Accounting for Stock Compensation under APB No. 25 and FASB Interpretation No. 44", which provides specific accounting guidance relating to various incentive compensation issues. The Company has reviewed EITF 00-23 with respect to the partnership structure and the accounting for minority interest and concluded that for partnerships formed after January 18, 2001, EITF 00-23 requires the Company to expense as compensation rather than as a minority interest in earnings, the clinic partner's interest in profits. Moreover, EITF 00-23 also requires, for clinic partnerships formed after January 18, 2001, that the Company expense as compensation rather than capitalizing as goodwill, the purchase of any minority interest in the partnerships. At this time, the Company operates 52 wholly owned clinics without any minority interest. Beginning in 2003, the Company ceased its development of new clinic partnerships. New clinics opened which are not satellite clinics will be wholly owned by the Company. The clinic directors of such clinics will be compensated based upon clinic profits.

Pursuant to EITF 00-23, for the three months ended June 30, 2003 and June 30, 2002, the Company classified \$42,000 and \$51,000, respectively of the minority interest in earnings of subsidiary limited partnerships relating to the 29 partnerships formed after January 18, 2001, as salaries and related costs and for the six months ended June 30, 2003 and June 30, 2002, the Company classified \$128,000 and \$123,000, respectively,. As of June 30, 2003 and December 31, 2002, \$217,000 and \$273,000, respectively, in undistributed minority interests related to the 29 partnerships are classified as other long-term liabilities.

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

Overview

We operate outpatient physical and occupational therapy clinics that provide pre- and post-operative care and treatment for a variety of orthopedic-related disorders and sports-related injuries. At June 30, 2003, we operated 217 outpatient physical and occupational therapy clinics in 34 states. During the first half of 2003, we opened 23 clinics, 22 of which had treated patients as of June 30, and closed 7 clinics. The average age of our clinics at June 30, 2003, was 4.04 years.

In addition to our owned clinics, we also manage physical therapy facilities for third parties, primarily physicians, with five third-party facilities under management as of June 30, 2003.

Selected Operating and Financial Data

The following table presents selected operating and financial data:

	For The Three Months		For The Six Months	
	Ended June 30,		Ended June 30,	
	2003	2002	2003	2002
Working days.....	64	64	127	127
Average visits per day per clinic.....	20.7	23.5	20.7	22.8
Total patient visits.....	285,000	256,000	550,000	493,000
Per visit:				
Net revenues.....	\$ 94.75	\$ 93.95	\$ 94.56	\$ 93.92
Salaries and related costs.....	(42.43)	(40.85)	(42.92)	(41.50)
Rent, clinic supplies and other.....	(21.51)	(19.62)	(21.87)	(19.81)
Provision for doubtful accounts.....	<u>(1.47)</u>	<u>(2.00)</u>	<u>(1.38)</u>	<u>(1.91)</u>
Contribution from clinics.....	29.34	31.48	28.39	30.70
Corporate office costs.....	<u>(11.73)</u>	<u>(11.18)</u>	<u>(11.86)</u>	<u>(10.89)</u>
Operating income per visit.....	<u>\$ 17.61</u>	<u>\$ 20.30</u>	<u>\$ 16.53</u>	<u>\$ 19.81</u>
	=====	=====	=====	=====

RESULTS OF OPERATIONS

Three Months Ended June 30, 2003 Compared to the Three Months Ended June 30, 2002

- Net revenues rose 12% to \$27 million from \$24.1 million primarily due to an 11% increase in patient visits to 285,000 and a \$1.11 increase in patient revenues per visit to \$92.64.
- Net income declined 5% to \$2.2 million from \$2.3 million.
- Earnings per share were \$0.18 per diluted share for the current and prior year quarters. Total outstanding shares at June 30, 2003 were 11 million, a reduction of 500,000 shares from 11.5 million at June 30, 2002 primarily due to the repurchase of approximately 800,000 shares in the second half of 2002.

Net Patient Revenues

- Net patient revenues increased to \$26.3 million for the three months ended June 30, 2003 (“2003 Second Quarter”) from \$23.4 million for the three months ended June 30, 2002 (“2002 Second Quarter”), an increase of \$2.9 million, or 13%.
- Total patient visits increased 29,000, or 11%, to 285,000 for the 2003 Second Quarter from 256,000 for the 2002 Second Quarter. The growth in visits for the quarter was primarily attributable to the clinics opened subsequent to June 30, 2002.
- Net patient revenues from clinics developed and seeing patients since the 2002 Second Quarter (the “New Clinics”) accounted for approximately 96% of the increase, or \$2.8 million.

- The remaining increase of \$120,000 in net patient revenues was from the 168 clinics opened before the end of the 2002 Second Quarter (the “Mature Clinics”). Of the \$120,000 increase in net patient revenues from the Mature Clinics, \$168,000 was due to a 1% increase in the average net revenue per visit, offset by a \$48,000 decrease related to a less than 1% decline in patient visits.

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

Clinic Operating Costs

Clinic operating costs as a percent of net revenues were 69% for the 2003 Second Quarter and 66% the 2002 Second Quarter.

Clinic Operating Costs - Salaries and Related Costs

Salaries and related costs increased to \$12.1 million for the 2003 Second Quarter from \$10.5 million for the 2002 Second Quarter, an increase of \$1.6 million, or 16%. Approximately 88% of the increase, or \$1.4 million, was incurred at the New Clinics. The remaining 12% increase, or \$200,000, was due principally to Mature Clinics opened in the first half of 2002 that experienced increases in staffing to meet the increase in patient visits, coupled with an increase in bonuses earned by the these clinic directors. Such bonuses are based on the net revenues or operating profit generated by the individual clinics. Salaries and related costs as a percent of net revenues were 45% for the 2003 Second Quarter and 43% for the 2002 Second Quarter.

Clinic Operating Costs - Rent, Clinic Supplies and Other

Rent, clinic supplies and other increased to \$6.1 million for the 2003 Second Quarter from \$5 million for the 2002 Second Quarter, an increase of \$1.1 million, or 22%. Approximately 91% of the increase, or \$1 million, was incurred at the New Clinics, while 9%, or \$100,000, of the increase was incurred at Mature Clinics opened in the first half of 2002. Rent, clinic supplies and other as a percent of net revenues increased to 23% for the 2003 Second Quarter from 21% for the 2002 Second Quarter.

Clinic Operating Costs - Provision for Doubtful Accounts

The provision for doubtful accounts decreased to \$418,000 for the 2003 Second Quarter from \$511,000 for the 2002 Second Quarter, a decrease of \$93,000, or 18%. This decrease was due to a \$173,000 decrease at the Mature Clinics as a result of better collection efforts, offset by an \$80,000 increase at the New Clinics. The provision for doubtful accounts as a percent of net patient revenues decreased to 1.6% for the 2003 Second Quarter from 2.2% for the 2002 Second Quarter. Our allowance for bad debts as a percent of total patient accounts receivable was 24% at June 30, 2003, as compared to 25% at December 31, 2002.

Corporate Office Costs

Corporate office costs, consisting primarily of salaries and benefits of corporate office personnel, rent, insurance costs, depreciation and amortization, travel, legal, professional, marketing and recruiting fees, increased to \$3.3 million for the 2003 Second Quarter from \$2.8 million for the 2002 Second Quarter, an increase of \$481,000, or 17%. Corporate office costs increased primarily as a result of the increase in additional personnel to support the increased number of clinics and an increase in directors and officer’s insurance costs. Corporate office costs as a percent of net revenues increased to 12.4% for the 2003 Second Quarter from 11.9% for the 2002 Second Quarter.

Minority Interests in Earnings of Subsidiary Limited Partnerships

Minority interests in earnings of subsidiary limited partnerships increased to \$1.4 million for the 2003 Second Quarter from \$1.3 million for the 2002 Second Quarter, an increase of \$55,000, or 4%. As a percentage of operating income, minority interest increased to 28% for the 2003 Second Quarter from 26% for the Second Quarter of 2002. The increase in minority interests in earnings resulted from an increase in the limited partnerships’ profit interest in Mature Clinics opened prior to January 18, 2001 offset by a decrease in operating income. See Note 6.

Provision for Income Taxes

The provision for income taxes decreased to \$1.4 million for the 2003 Second Quarter from \$1.5 million for the 2002 Second Quarter, a decrease of approximately \$100,000, or 7% as a result of lower pre-tax income. During the 2003 Second Quarter and the 2002 Second Quarter, we accrued state and federal income taxes at an effective tax rate of 38%.

Six Months Ended June 30, 2003 Compared to the Six Months Ended June 30, 2002

- Net revenues rose 12% to \$52 million from \$46.3 million primarily due to a 12% increase in patient visits to 550,000 and a \$0.97 increase in patient revenues per visit to \$92.43.
- Net income declined 9% to \$4 million from \$4.4 million.
- Earnings per share decreased 3% to \$0.33 per diluted share from \$0.34 per diluted share primarily due to a 9% decrease in net income from the same period in prior year. Total outstanding shares at June 30, 2003 were 11 million, a reduction of 500,000 shares from 11.5 million at June 30, 2002 primarily due to the repurchase of approximately 800,000 shares in the second half of 2002.

Net Patient Revenues

- Net patient revenues increased to \$50.9 million for the six months ended June 30, 2003 ("2003 Six Months") from \$45.1 million for the six months ended June 30, 2002 ("2002 Six Months"), an increase of \$5.8 million, or 13%.
- Total patient visits increased 57,000, or 12%, to 550,000 for the 2003 Six Months from 493,000 for the 2002 Six Months. The growth in visits for the 2003 Six Months was primarily attributable to the clinics opened subsequent to June 30, 2002.
- Net patient revenues from clinics developed and seeing patients since the 2002 Six Months (the "New Clinics") accounted for approximately 79% of the increase, or \$4.6 million.
- The remaining increase of \$1.2 million in net patient revenues was from the 168 clinics opened before the end of the 2002 Six Months (the "Mature Clinics"). Of the \$1.2 million increase in net patient revenues from the Mature Clinics, \$857,000 was due to a 2% increase in the number of patient visits, while \$372,000 was due to a 1% increase in the average net revenue per visit.

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

Clinic Operating Costs

Clinic operating costs as a percent of net revenues were 70% for the 2003 Six Months and 67% the 2002 Six Months.

Clinic Operating Costs - Salaries and Related Costs

Salaries and related costs increased to \$23.6 million for the 2003 Six Months from \$20.5 million for the 2002 Six Months, an increase of \$3.1 million, or 15%. Approximately 77% of the increase, or \$2.4 million, was incurred at the New Clinics. The remaining 23% increase, or \$700,000, was due principally to increased staffing to meet the increase in patient visits for the Mature Clinics, coupled with an increase in bonuses earned by the clinic directors at the Mature Clinics. Such bonuses are based on the net revenues or operating profit generated by the individual clinics. Salaries and related costs as a percent of net revenues were 45% for the 2003 Six Months and 44% for the 2002 Six Months.

Clinic Operating Costs - Rent, Clinic Supplies and Other

Rent, clinic supplies and other increased to \$12 million for the 2003 Six Months from \$9.8 million for the 2002 Six Months, an increase of \$2.2 million, or 23%. Approximately 82% of the increase, or \$1.8 million, was incurred at the New Clinics, while 18%, or \$400,000, of the increase was incurred at the Mature Clinics. Rent, clinic supplies and other as a percent of net revenues increased to 23% for the 2003 Six Months from 21% for the 2002 Six Months.

Clinic Operating Costs - Provision for Doubtful Accounts

The provision for doubtful accounts decreased to \$756,000 for the 2003 Six Months from \$942,000 for the 2002 Six Months, a decrease of \$186,000, or 20%. This decrease was due to a \$307,000 decrease at the Mature Clinics as a result of better collection efforts, offset by a \$121,000 increase at the New Clinics. The provision for doubtful accounts as a percent of net patient revenues decreased to 1.5% for the 2003 Six Months from 2.1% for the 2002 Six Months. Our allowance for bad debts as a percent of total patient accounts receivable was 24% at June 30, 2003, as compared to 25% at December 31, 2002.

Corporate Office Costs

Corporate office costs, consisting primarily of salaries and benefits of corporate office personnel, rent, insurance costs, depreciation and amortization, travel, legal, professional, marketing and recruiting fees, increased to \$6.5 million for the 2003 Six Months from \$5.4 million for the 2002 Six Months, an increase of \$1.1 million, or 22%. Corporate office costs increased primarily as a result of an increase in additional personnel to support the increased number of clinics and an increase in directors and officer's insurance costs. Corporate office costs as a percent of net revenues increased to 12.6% for the 2003 Six Months from 11.6% for the 2002 Six Months.

Minority Interests in Earnings of Subsidiary Limited Partnerships

Minority interests in earnings of subsidiary limited partnerships was \$2.5 million for both 2003 Six Months and 2002 Six Months. As a percentage of operating income, minority interest increased to 28% for the 2003 Six Months from 26% for the Six Months of 2002. The increase in minority interests in earnings resulted from an increase in the limited partnerships' profit interest in Mature Clinics opened prior to January 18, 2001 offset by a decrease in operating income. See Note 6.

Provision for Income Taxes

The provision for income taxes decreased to \$2.4 million for the 2003 Six Months from \$2.7 million for the 2002 Six Months, a decrease of approximately \$277,000, or 10% as a result of lower pre-tax income. During the 2003 Six Months and the 2002 Six Months, we accrued state and federal income taxes at an effective tax rate of 38%.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2003, we had \$12.6 million in cash and cash equivalents compared to \$7.6 million at December 31, 2002. Our cash and cash equivalents are available to fund the working capital needs of our operating subsidiaries, future clinic development, acquisitions and investments.

The increase in cash of \$5 million from December 31, 2002 to June 30, 2003 is due primarily to cash provided by operating activities of \$9.2 million, offset by \$2.6 million of cash used for the purchase of fixed assets and \$1.7 million of cash used in financing activities. In 2003, we had \$2.5 million of cash provided by minority interest in earnings of subsidiary limited partnerships and made \$2.3 million in distributions to minority investors in subsidiary limited partnerships. In addition, cash of \$587,000 was provided by the exercise of stock options.

Our current ratio decreased to 5.50 to 1.00 at June 30, 2003 from 7.93 to 1.00 at December 31, 2002. The decrease in the current ratio is due primarily to the reclassification of \$2.3 million in convertible debt to current liabilities at June 30, 2003.

The debt-to-equity ratio decreased to .06 to 1.00 at June 30, 2003 from .07 to 1.00 at December 31, 2002. We do not currently have credit lines or other credit arrangements. Historically, we have generated sufficient cash from operations to fund our development activities and cover operational needs. We generally do not acquire physical and occupational clinics through acquisitions of existing clinics, but prefer developing and opening new clinics, which we believe generally requires less capital. We currently plan to continue developing new clinics, although this strategy may change if other

attractive opportunities become available. We have from time to time purchased the minority interests of limited partners in our clinic partnerships. We may purchase additional minority interests in the future. We believe that existing funds, supplemented by cash flows from operations, will be sufficient to meet our current operating needs, development plans and any purchases of minority interests through at least 2004.

In September 2001, the Board of Directors ("Board") authorized us to purchase, in the open market or in privately negotiated transactions, up to 1,000,000 shares of our common stock. Shares purchased are held as treasury shares and may be used for such valid corporate purposes or retired as the Board deems advisable. During the year ended December 31, 2002, we purchased 795,600 shares of our common stock on the open market for \$10.5 million. During the quarter ended March 31, 2003, we purchased 1,800 shares of its common stock on the open market for a total of \$20,000.

On February 26, 2003, our Board authorized a new share repurchase program of up to 250,000 additional shares of our outstanding common stock. As there is no specific expiration date for this Board authorization, additional shares may be purchased from time to time in the open market or private transactions depending on price, availability and our cash position. As of June 30, 2003, no shares have been repurchased under the new share repurchase program.

RECENTLY PROMULGATED ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement applies to all entities that have legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal use of the asset. SFAS 143 was effective for us on January 1, 2003. The adoption of SFAS 143 did not have a significant impact on our financial condition or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statements No. 13 and Technical Corrections," ("SFAS 145") which provides guidance for income statement classification of gains and losses on extinguishments of debt and accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS 145 was effective for us on January 1, 2003. The adoption of SFAS 145 did not have a significant impact on our financial condition or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Exit or Disposal Activities," ("SFAS 146") which addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance set forth in EITF Issue No. 94-3, "Liability Recognition of Certain Employee Termination Benefits and Other Costs to Exit an Activity." SFAS 146 was effective for us on January 1, 2003. The adoption of SFAS 146 did not have a significant impact on our financial condition or results of operations.

In November 2002, the FASB issued Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others." FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a reconciliation of charges in the entity's product warranty liabilities. The initial recognition and initial measurement provision of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a significant impact on our financial condition or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure, an amendment of FASB Statement No. 123," ("SFAS 148") which provides alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also amends certain disclosures under SFAS 123 and Accounting Principles Board Opinion No. 28, "Interim Financial Reporting," to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. SFAS 148 is effective for fiscal years ending after December 15, 2002. We continue to use the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") to account for employee stock options and apply the disclosures required under SFAS 123.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires a company to consolidate a variable interest entity if it is designated as the primary beneficiary of that entity even if the company does not have a majority of voting interest. A variable interest entity is generally defined as an entity where its equity is unable to finance its activities or where the owners of the entity lack the risk and rewards of ownership.

The provisions of FIN 46 apply immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the interim period beginning after June 15, 2003 to enterprise that hold a variable interest in variable interest entities created before February 1, 2003. The application of this Interpretation is not expected to have a material effect on the Company's financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," ("SFAS 149") which amends and clarifies accounting and reporting for certain derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS 149 provides greater clarification of the characteristics of a derivative instrument so that contracts with similar characteristics will be accounted for consistently. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. We do not expect the adoption of SFAS 149 to have an impact on our financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," ("SFAS 150") which establishes standards for the classification and measurement of certain freestanding financial instruments with characteristics of both liabilities and equity. SFAS 150 requires companies to classify as liabilities financial instruments with certain specified characteristics. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective for interim periods beginning after June 15, 2003. We have not yet determined the impact of adopting SFAS 150 on our financial condition or results of operations.

FACTORS AFFECTING FUTURE RESULTS

Clinic Development

As of June 30, 2003, we had 217 clinics in operation. In the first half of the year we opened 23 clinics, 22 of which had treated patients as of June 30. Our goal for 2003 is to open 47 or more additional clinics if we can identify suitable geographic locations and physical and occupational therapists to manage the clinics. We expect to incur initial operating losses from the new clinics, which will negatively impact our operating results. Operating margins for newly opened clinics tend to be lower than more seasoned clinics because of start-up costs and lower patient visits and revenues. Patient visits and revenues gradually increase in the first year of operation as patients and referral sources become aware of the new clinic. Revenues tend to increase significantly during the second and third years following the clinic opening. Based on historical performance of our clinics, the clinics opened in 2003 should favorably impact our results of operations beginning in 2004.

Beginning in 2003, we ceased our development of new clinic partnerships. New clinics opened which are not satellite clinics will be wholly owned by us. The clinic directors of such clinics will be compensated based upon clinic profits. We do not expect the elimination of new clinic partnerships to have an adverse impact in hiring and retaining qualified physical and occupational therapist directors to manage our clinics. See Note 6.

Annual Limit on Medicare Reimbursement Claims

For the quarter ended June 30, 2003, approximately 21% of our visits were derived from Medicare. We receive payments from the Medicare program under a fee schedule. These payments will be subject to an annual limit of \$1,590 per patient, effective for services rendered between September 1, 2003 and December 31, 2003. We do not expect the annual limit to have a material adverse impact on 2003 income. Effective January 1, 2004 this financial limitation, as adjusted for inflation, will be an annual limit. Legislation has been introduced in both houses of Congress (S569/HR1125) to permanently repeal this financial limit on therapy services. We expect that efforts to contain federal spending for Medicare will continue to seek limitations on Medicare reimbursement for various services, and we cannot predict whether any of these efforts will be successful or what effect, if any, such limitations would have on our business.

Any potential negative impact on 2004 revenues could be reduced by receiving payments from secondary insurance carriers, patients electing to self-pay, and most importantly by replacing lost revenues by more aggressive marketing efforts focused on decreasing Medicare as a percentage of our total business. In the event such negative impact is not mitigated by such efforts or a repeal of such limitation is unsuccessful, the limit could have an adverse impact on 2004 income (potentially as much as a 10% reduction) since the limit will apply for the entire year.

Convertible Subordinated Debt

In May 1994 we issued a \$3 million 8% Convertible Subordinated Note, Series C due June 30, 2004 (the "Series C

Note"). The Series C Note is convertible at the option of the holder into the number of shares of our common stock determined by dividing the principal amount of the Note being converted by \$3.33 per share. In June 2002, \$667,000 of the Series C Note was converted by the note holder into 200,100 shares of common stock. The remaining principal amount under the Series C Note was \$2.3 million at June 30, 2003 and December 31, 2002. If our share price is not at or above \$3.33 in June 2004, it is likely that the note holder would not convert and we would have to use cash to repay the Series C Note. At June 30, 2003, we had \$12.6 million in cash and cash equivalents compared to \$7.6 million at December 31, 2002, an increase of \$5 million.

FORWARD LOOKING STATEMENTS

We make statements in this report that are considered to be forward-looking statements within the meaning under Section 21E of the Securities and Exchange Act of 1934. These statements involve risks and uncertainties that could cause actual results to differ materially from those we project. When used in this report, the words "anticipates," "believes," "estimates," "intends," "expects," "plans," "should," "appear" and "goal" and similar expressions are intended to identify forward-looking statements. The forward-looking statements are based on our current views and assumptions and involve risks and uncertainties that include, among other things:

- general economic, business, and regulatory conditions;
- competition;
- federal and state regulations;
- the availability of sufficient numbers of qualified physical and occupational therapists for us to realize our plan to expand the number of our clinics; and
- weather.

These factors are beyond our control.

Given these uncertainties, you should not place undue reliance on our forward-looking statements. Please see the other sections of this report and our other periodic reports filed with the Securities and Exchange Commission (the "SEC") for more information on these factors. 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 only indebtedness as of June 30, 2003, was \$2.3 million in Series C Convertible Subordinated Notes, described in Factors Affecting Future Results. Also, see Note 3 of the notes to consolidated financial statements.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures

"For the period ended June 30, 2003" or "As or the last day of the period covered by this report", we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in assuring that material information required to be included in our periodic SEC reports is recorded, processed, summarized and reported within the time periods specified in the relevant SEC rules and forms.

(b) Changes in Internal Controls

In addition, we reviewed our internal controls, and there have been no changes in our internal control over financial reporting that occurred during our most recent financial quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

EXHIBIT NO.	DESCRIPTION
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31*	Certification
32*	Certification of Periodic Report

* Filed herewith

(b) Reports on Form 8-K

On May 2, 2003, the Company filed a report on Form 8-K with the Securities and Exchange Commission related to a press release announcing the Company's earnings for the quarter ended March 31, 2003.

SIGNATURE

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 14, 2003

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

INDEX OF EXHIBITS

EXHIBIT NO. -----	DESCRIPTION -----
31*	Certification
32*	Certification of Periodic Report

* Filed herewith

EXHIBIT 31

CERTIFICATION

I, Roy Spradlin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of U.S. Physical Therapy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ ROY SPRADLIN

ROY SPRADLIN
Chairman, President and Chief
Executive Officer
(principal executive officer)

Date: August 14, 2003

EXHIBIT 31

CERTIFICATION

I, J. Michael Mullin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of U.S. Physical Therapy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ J. MICHAEL MULLIN

J. Michael Mullin
Chief Financial Officer
(principal financial and accounting
officer)

Date: August 14, 2003

EXHIBIT 32

CERTIFICATION OF PERIODIC REPORT

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, Roy W. Spradlin, Chairman, President, and CEO of U.S. Physical Therapy, Inc. (the "Company") and J. Michael Mullin, Chief Financial Officer of the Company, certify that:

(1) the Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Roy Spradlin

Name: Roy W. Spradlin
Title: Chairman, President and CEO
Date: August 14, 2003

/s/ J. Michael Mullin

Name: J. Michael Mullin
Title: Chief Financial Officer
Date: August 14, 2003

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