

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2001

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

For the transition period from _____ to _____

Commission file number 1-11151

U.S. PHYSICAL THERAPY, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

76-0364866
(I.R.S. Employer
Identification No.)

3040 Post Oak Blvd., Suite 222, Houston, Texas 77056
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (713) 297-7000

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

Yes No

As of May 9, 2001, the number of shares outstanding of the registrant's common stock, par value \$.01 per share, was:

6,627,616

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets as of March 31, 2001 and December 31, 2000	3
Consolidated Statements of Operations for the three months ended March 31, 2001 and 2000	5
Consolidated Statements of Cash Flows for the three months ended March 31, 2001 and 2000	6
Notes to Consolidated Financial Statements	8

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands)

	<u>March 31,</u> <u>2001</u>	<u>December 31,</u> <u>2000</u>
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,531	\$ 2,071
Patient accounts receivable, less allowance for doubtful accounts of \$3,042 and \$2,780, respectively	11,786	10,701
Accounts receivable - other	420	452
Other current assets	<u>606</u>	<u>519</u>
Total current assets	16,343	13,743
Fixed assets:		
Furniture and equipment	12,612	12,141
Leasehold improvements	<u>6,566</u>	<u>6,313</u>
	19,178	18,454
Less accumulated depreciation and amortization	<u>12,048</u>	<u>11,463</u>
	7,130	6,991
Goodwill, net of amortization of \$307 and \$291, respectively	882	897
Other assets, net of amortization of \$498 and \$483, respectively	<u>1,179</u>	<u>1,339</u>
	<u>\$ 25,534</u>	<u>\$ 22,970</u>

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	March 31, <u>2001</u>	December 31, <u>2000</u>
	(unaudited)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade	\$ 244	\$ 434
Accrued expenses	2,603	1,622
Estimated third-party payor (Medicare) settlements	283	355
Notes payable	<u>10</u>	<u>912</u>
Total current liabilities	3,140	3,323
Notes payable - long-term portion	25	26
Convertible subordinated notes payable	3,000	7,200
Minority interests in subsidiary limited partnerships	3,298	2,858
Commitments and contingencies	-	-
Shareholders' equity:		
Preferred stock, \$.01 par value, 500,000 shares authorized, -0- shares outstanding	-	-
Common stock, \$.01 par value, 10,000,000 shares authorized, 6,632,067 and 5,698,916 shares issued at March 31, 2001 and December 31, 2000, respectively	66	57
Additional paid-in capital	8,491	3,504
Accumulated earnings	7,561	6,049
Treasury stock at cost, 9,800 shares held at March 31, 2001 and December 31, 2000	<u>(47)</u>	<u>(47)</u>
Total shareholders' equity	<u>16,071</u>	<u>9,563</u>
	<u>\$ 25,534</u>	<u>\$ 22,970</u>

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended	
	March 31,	
	<u>2001</u>	<u>2000</u>
	(unaudited)	
Net patient revenues	\$ 18,332	\$ 14,228
Management contract revenues	565	561
Other revenues	<u>33</u>	<u>33</u>
Net revenues	18,930	14,822
 Clinic operating costs:		
Salaries and related costs	8,373	6,704
Rent, clinic supplies and other	4,175	3,605
Provision for doubtful accounts	<u>449</u>	<u>385</u>
	12,997	10,694
 Corporate office costs:		
General and administrative	1,750	1,386
Recruitment and development	<u>369</u>	<u>634</u>
	<u>2,119</u>	<u>2,020</u>
 Operating income before non- operating expenses	3,814	2,108
 Interest expense	84	181
 Minority interests in subsidiary limited partnerships	<u>1,264</u>	<u>813</u>
 Income before income taxes	2,466	1,114
 Provision for income taxes	<u>954</u>	<u>443</u>
 Net income	<u>\$ 1,512</u>	<u>\$ 671</u>
 Basic earnings per common share	<u>\$.23</u>	<u>\$.10</u>
 Diluted earnings per common share	<u>\$.18</u>	<u>\$.10</u>

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three Months Ended March 31,	
	2001	2000
	(unaudited)	
Operating activities		
Net income	\$ 1,512	\$ 671
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	637	554
Minority interests in earnings of subsidiary limited partnerships	1,264	813
Provision for bad debts	449	385
Loss on disposal of fixed assets	3	49
Changes in operating assets and liabilities:		
Increase in patient accounts receivable	(1,534)	(1,031)
Decrease (increase) in accounts receivable - other	32	(109)
Increase in other assets	(126)	(51)
Increase in accounts payable and accrued expenses	791	430
Decrease in estimated third-party payor (Medicare) settlements	(72)	(42)
Net cash provided by operating activities	2,956	1,669

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)**

	Three Months Ended	
	March 31,	
	<u>2001</u>	<u>2000</u>
	(unaudited)	
Investing activities		
Purchase of fixed assets	(753)	(803)
Purchase of intangibles	-	(17)
Proceeds on sale of fixed assets	<u>3</u>	<u>7</u>
Net cash used in investing activities	(750)	(813)
Financing activities		
Payment of notes payable	(903)	(8)
Proceeds from investment of minority investors in subsidiary limited partnerships	1	36
Proceeds and tax benefit from exercise of stock options	981	-
Distributions to minority investors in subsidiary limited partnerships	<u>(825)</u>	<u>(517)</u>
Net cash used in financing activities	<u>(746)</u>	<u>(489)</u>
Net increase in cash and cash equivalents	1,460	367
Cash and cash equivalents - beginning of period	<u>2,071</u>	<u>4,030</u>
Cash and cash equivalents - end of period	<u>\$ 3,531</u>	<u>\$ 4,397</u>
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Income taxes	<u>\$ 96</u>	<u>\$ 635</u>
Interest	<u>\$ 86</u>	<u>\$ 162</u>

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2001

1. Basis of Presentation and Significant Accounting Policies

The consolidated financial statements include the accounts of U.S. Physical Therapy, Inc. and its subsidiaries (the "Company"). All significant intercompany transactions and balances have been eliminated. As of March 31, 2001, the Company, through its wholly-owned subsidiaries, owned a 1% general partnership interest, with the exception of one clinic in which the Company owned a 6% general partnership interest, and limited partnership interests ranging from 49% to 99% in the clinics it operates (with respect to 89% of the Company's clinics, the Company owned a limited partnership interest of 64%). For the majority of the clinics, the managing therapist of each such clinic, along with other therapists at the clinic in several of the partnerships, own the remaining limited partnership interests in the clinic. In some instances, the Company develops satellite clinic facilities which are extensions of existing clinics, and thus, clinic partnerships may consist of one or more clinic locations. The minority interests in the equity and earnings of the subsidiary clinic limited partnerships are presented separately in the consolidated financial statements.

The accompanying unaudited consolidated financial statements have been 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. Accordingly, 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.

In the opinion of management, the accompanying unaudited financial statements 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, refer to the audited financial statements included in the Company's Form 10-K/A for the year ended December 31, 2000.

Operating results for the three months ended March 31, 2001 are not necessarily indicative of the results expected for the entire year.

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138. SFAS 133 standardizes the accounting for derivative instruments, including certain derivative instruments embedded in other contracts. Under the standard, entities are required to carry all derivative instruments in the statement of financial position at fair value. Adoption of SFAS 133 did not have a material effect on the Company's financial condition or results of operations because the Company historically has not entered into derivative or other financial instruments for trading or speculative purposes nor does it use or intend to use derivative financial instruments or derivative commodity instruments.

Use of Estimates

Management is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain amounts presented in the accompanying financial statements for the three months ended March 31, 2000 have been reclassified to conform with the presentation used for the three months ended March 31, 2001. These reclassifications had no effect on net income.

Common Stock

On January 5, 2001, the Company effected a two-for-one common stock split in the form of a 100% stock dividend to stockholders of record as of December 27, 2000. All share and per share information included in the accompanying consolidated financial statements and related notes has been adjusted to reflect the stock split.

2. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended March 31,	
	<u>2001</u>	<u>2000</u>
Numerator:		
Net income	\$1,512,000	\$ 671,000
Numerator for basic earnings per share	\$1,512,000	\$ 671,000
Effect of dilutive securities:		
Interest on convertible subordinated notes payable	<u>46,000</u>	<u>119,000</u>
Numerator for diluted earnings per share-income available to common stockholders after assumed conversions	<u>\$1,558,000</u>	<u>\$ 790,000</u>
Denominator:		
Denominator for basic earnings per share--weighted-average shares	6,463,000	6,572,000
Effect of dilutive securities:		
Stock options	1,380,000	126,000
Convertible subordinated notes payable	<u>692,000</u>	<u>1,544,000</u>
Dilutive potential common shares	<u>2,072,000</u>	<u>1,670,000</u>
Denominator for diluted earnings per share--adjusted weighted- average shares and assumed conversions	<u>8,535,000</u>	<u>8,242,000</u>
Basic earnings per share	<u>\$ 0.23</u>	<u>\$ 0.10</u>
Diluted earnings per share	<u>\$ 0.18</u>	<u>\$ 0.10</u>

3. Income Taxes

Significant components of the provision for income taxes for the three months ended March 31, were as follows:

<u>2001</u>	<u>2000</u>
-------------	-------------

Current:		
Federal	\$ 795,000	\$ 524,000
State	159,000	86,000
Total current	<u>954,000</u>	<u>610,000</u>
Deferred:		
Federal	-	(167,000)
State	-	-
Total deferred	<u>-</u>	<u>(167,000)</u>
Total income tax provision	<u>\$ 954,000</u>	<u>\$ 443,000</u>

10

4. Bank Loan Agreement

In July 2000, the Company entered into a Loan Agreement with a bank providing for borrowings up to \$2,500,000 on a line of credit, convertible to a term loan on December 31, 2000. The loan bore interest at a rate per annum of prime plus one-half percentage point and was repayable in quarterly installments of \$250,000 beginning March 2001. The Company borrowed \$2,115,000 under the convertible line of credit in August 2000. In November 2000, the Company repaid \$1,215,000 of the \$2,115,000 borrowed under the convertible line of credit. In March 2001, the Company repaid the remaining principal balance of \$900,000.

The Company also has a revolving line of credit with a bank which provides for borrowings up to \$500,000, as needed, at a rate of prime. To date, the Company has not borrowed under this line of credit.

5. Convertible Subordinated Debt

In June 1993, the Company completed the issuance and sale at par in a private placement of \$3,050,000 of 8% Convertible Subordinated Notes due June 30, 2003 (the "Initial Series Notes"). In May 1994, the Company completed the issuance and sale at par in a private placement of \$2,000,000 of 8% Convertible Subordinated Notes, Series B due June 30, 2004 (the "Series B Notes") and \$3,000,000 of 8% Convertible Subordinated Notes, Series C due June 30, 2004 (the "Series C Notes" and collectively, the Initial Series Notes, the Series B Notes and the Series C Notes are hereinafter referred to as the "Convertible Subordinated Notes").

The Convertible Subordinated Notes are convertible at the option of the holders thereof into the number of whole shares of Company common stock determined by dividing the principal amount of the Notes so converted by \$5.00 in the case of the Initial Series Notes and the Series C Notes or \$6.00 in the case of the Series B Notes. Holders of Series B Notes were entitled to receive an interest enhancement payable in shares of Company common stock based upon the market value of the Company's

common stock at June 30, 1996. In July 1996, the Company issued 142,000 shares of its common stock in connection with the interest enhancement provision.

During 2000, \$100,000 of the Initial Series Notes and \$750,000 of the Series B Notes were converted by the note holders into 20,000 and 125,000 shares of common stock, respectively. This resulted in a balance of \$2,950,000, \$1,250,000 and \$3,000,000 for the Initial Series Notes, the Series B Notes and the Series C Notes, respectively, at December 31, 2000.

In January 2001, an additional \$650,000 of the Initial Series Notes was converted by a note holder into 130,000 shares of common stock. In addition, the Company exercised its right to require conversion

11

of the remaining balance of \$2,300,000 of the Initial Series Notes and \$1,250,000 of the Series B Notes into 460,000 and 208,000 shares of common stock, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

The Company operates outpatient physical and/or occupational therapy clinics which provide post-operative care and treatment for a variety of orthopedic-related disorders and sports-related injuries. At March 31, 2001, the Company operated 142 outpatient physical and occupational therapy clinics in 30 states. The average age of the 142 clinics in operation at March 31, 2001 was 3.95 years.

In addition to the facilities in which the Company has ownership, it also manages physical therapy facilities for third parties, including physicians, with seven such third-party facilities under management as of March 31, 2001.

The Company had begun steps to enter the surgery center business in 1999. In March 2000, the Company discontinued such efforts to enter the surgery center business. See "Corporate Office Costs - Recruitment and Development."

Results of Operations

Three Months Ended March 31, 2001 Compared to the Three Months Ended March 31, 2000

Net Patient Revenues

Net patient revenues increased to \$18,332,000 for the three months ended March 31, 2001 ("2001 First Quarter") from \$14,228,000 for the three months ended March 31, 2000 ("2000 First Quarter"), an increase of \$4,104,000, or 29%. Net patient revenues from the 24 clinics developed since the 2000 First Quarter (the "New Clinics") accounted for 43% of the increase, or \$1,770,000. The remaining increase of \$2,334,000 in net patient revenues comes from those 118 clinics opened before the 2000 First Quarter (the "Mature Clinics"). Of the \$2,334,000 increase in net patient revenues from the Mature Clinics, \$1,770,000 was due to a 12% increase in the number of patient visits, while \$564,000 was due to a 3.4% 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's compensation programs and other contractual programs. Payments received under these programs are based on predetermined rates and

12

are generally less than the established billing rates of the clinics. Net patient revenues reflect contractual and other adjustments, which are evaluated quarterly by management, relating to patient discounts from certain payors.

Clinic Operating Costs

Clinic operating costs as a percent of net patient revenues and management contract revenues combined decreased to 69% for the 2001 First Quarter from 72% for the 2000 First Quarter.

Clinic Operating Costs - Salaries and Related Costs

Salaries and related costs increased to \$8,373,000 for the 2001 First Quarter from \$6,704,000 for the 2000 First Quarter, an increase of \$1,669,000, or 25%. Approximately 81% of the increase, or \$1,357,000, was due to the New Clinics. The remaining 19% increase, or \$312,000, 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 patient revenues and management contract revenues combined decreased to 44% for the 2001 First Quarter from 45% for the 2000 First Quarter.

Clinic Operating Costs - Rent, Clinic Supplies and Other

Rent, clinic supplies and other increased to \$4,175,000 for the 2001 First Quarter from \$3,605,000 for the 2000 First Quarter, an increase of \$570,000, or 16%. Approximately 94% of the increase, or \$536,000, was due to the New Clinics, while 6%, or \$34,000, of the increase was

due to the Mature Clinics. Rent, clinic supplies and other as a percent of net patient revenues and management contract revenues combined declined to 22% for the 2001 First Quarter from 24% for the 2000 First Quarter.

Clinic Operating Costs - Provision for Doubtful Accounts

The provision for doubtful accounts increased to \$449,000 for the 2001 First Quarter from \$385,000 for the 2000 First Quarter, an increase of \$64,000, or 17%. Approximately 69% of the increase, or \$44,000, was due to the New Clinics. The remaining 31% increase, or \$20,000, was due to the Mature Clinics. The provision for doubtful accounts as a percent of net patient revenues decreased to 2.4% for the 2001 First Quarter from 2.7% for the 2000 First Quarter.

Corporate Office Costs - General and Administrative

General and administrative costs, consisting primarily of salaries and benefits of corporate office personnel, rent, insurance costs, depreciation and amortization, travel and legal and professional fees, increased to \$1,750,000 for the 2001 First Quarter from \$1,386,000 for the 2000 First Quarter, an increase of \$364,000, or

13

26%. General and administrative costs increased primarily as a result of increased travel, recruiting fees and salaries and benefits related to additional personnel hired to support an increasing number of clinics. General and administrative costs as a percent of net patient revenues and management contract revenues combined remained unchanged at 9% for the 2001 and 2000 First Quarters.

Corporate Office Costs - Recruitment and Development

Recruitment and development costs primarily represent salaries and benefits of recruitment and development personnel, rent, travel, marketing and recruiting fees attributed directly to the Company's activities in the development and acquisition of new clinics. Recruitment and development personnel have no involvement with a facility following opening. All recruitment and development personnel are located at the corporate office in Houston, Texas. Recruitment and development costs decreased \$265,000, or 42%, to \$369,000 for the 2001 First Quarter from \$634,000 for the 2000 First Quarter. In March 2000, recruitment and development costs included \$301,000 related to the discontinued surgery center initiative. The majority of the \$301,000 surgery center costs related to salaries of development personnel, including severance pay associated with the discontinuance of the surgery center initiative, consulting fees, legal fees and travel associated with potential acquisitions of surgery centers. Excluding expenses related to the surgery centers, recruitment and development costs as a percent of net patient revenues and management contract

revenues combined remained unchanged at 2% for the 2001 and 2000 First Quarters.

Interest Expense

Interest expense decreased \$97,000, or 54%, to \$84,000 for the 2001 First Quarter from \$181,000 for the 2000 First Quarter. This decrease in interest was primarily due to the conversion of \$5,050,000 of convertible subordinated debt into shares of Company common stock. See "Liquidity and Capital Resources."

Minority Interests in Earnings of Subsidiary Limited Partnerships

Minority interests in earnings of subsidiary limited partnerships increased \$451,000, or 55%, to \$1,264,000 for the 2001 First Quarter from \$813,000 for the 2000 First Quarter due to the increase in aggregate profitability of those clinics in which partners have achieved positive retained earnings and are accruing partnership income.

Provision for Income Taxes

The provision for income taxes increased to \$954,000 for the 2001 First Quarter from \$443,000 for the 2000 First Quarter, an increase of \$511,000, or 115%. During the 2001 and 2000 First Quarters, the Company accrued income taxes at effective tax rates of 39% and 40%,

14

respectively. These rates exceeded the U.S. statutory tax rate of 34% due primarily to state income taxes.

Liquidity and Capital Resources

At March 31, 2001, the Company had \$3,531,000 in cash and cash equivalents available to fund the working capital needs of its operating subsidiaries, future clinic developments, acquisitions and investments. Included in cash and cash equivalents at March 31, 2001 was \$580,000 in money market funds invested in short-term debt instruments issued by an agency of the U.S. Government.

The increase in cash of \$1,460,000 from December 31, 2000 to March 31, 2001 was due primarily to cash provided by operating activities of \$2,956,000 and proceeds and tax benefit from the exercise of stock options of \$981,000, offset, in part, by the payment of notes payable of \$903,000, capital expenditures for physical therapy equipment and leasehold improvements in the amount of \$753,000 and distributions of \$825,000 to minority investors in subsidiary limited partnerships.

The Company's current ratio increased to 5.20 to 1.00 at March 31, 2001 from 4.14 to 1.00 at December 31, 2000. The increase in the current ratio was due primarily to an increase in cash and cash equivalents and

an increase in net patient revenues, which, in turn, caused an increase in patient accounts receivable, offset, in part, by an increase in accrued expenses.

At March 31, 2001, the Company had a debt-to-equity ratio of 0.19 to 1.00 compared to 0.85 to 1.00 at December 31, 2000. The decrease in the debt-to-equity ratio from December 31, 2000 to March 31, 2001 resulted from net income of \$1,512,000, the conversion of \$4,200,000 subordinated notes payable into 798,000 shares of common stock and the proceeds and tax benefit from the exercise of stock options of \$981,000.

In August 2000, the Company completed the purchase of 1,130,000 shares for a total aggregate cost of \$6,275,000 (including expenses). The Company utilized cash on hand and a bank loan in the amount of \$2,115,000 to fund the purchase of the stock.

In conjunction with the stock purchase, the Company entered into a Loan Agreement with a bank to borrow up to \$2,500,000 on a line of credit, convertible to a term loan on December 31, 2000. The loan bore interest at a rate per annum of prime plus one-half percentage point and was repayable in quarterly installments of \$250,000 beginning March 2001.

In November 2000, the Company repaid \$1,215,000 of the \$2,115,000 borrowed under the convertible line of credit. In March 2001, the Company repaid the remaining balance of \$900,000 on the bank loan.

15

Management believes that existing funds, supplemented by cash flows from operations, will be sufficient to meet its current operating needs and its development plans through at least 2002.

Recently Promulgated Accounting Standards

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138. SFAS 133 standardizes the accounting for derivative instruments, including certain derivative instruments embedded in other contracts. Under the standard, entities are required to carry all derivative instruments in t h e s t a t e m e n t o f f i n a n c i a l position at fair value. Adoption of SFAS 133 did not have a material effect on the Company's financial condition or results of operations because the Company historically has not entered into derivative or other financial instruments for trading or speculative purposes nor does it use or intend to use derivative financial instruments or

derivative commodity instruments.

Factors Affecting Future Results

Clinic Development

As of March 31, 2001, the Company had 142 clinics in operation, four of which opened in the 2001 First Quarter. The Company's goal for 2001 is to open between 30 and 35 clinics. The opening of these clinics is subject to, among other things, the Company's ability to identify suitable geographic locations and physical therapy clinic partners. The Company's operating results will be impacted by initial operating losses from the new clinics. During the initial period of operation, operating margins for newly opened clinics tend to be lower than more seasoned clinics due to the start-up costs of newly opened clinics (including, without limitation, salaries and related costs of the physical therapist and other clinic personnel, rent and equipment and other supplies required to open the clinic) and the fact that patient revenues tend to be lower in the first year of a new clinic's operation and increase significantly over the subsequent two to three years. Based on historical performance of the Company's new clinics, the clinics opened since the 2000 First Quarter are expected to favorably impact the Company's results of operations for 2001 and beyond.

Convertible Subordinated Debt

In June 1993, the Company completed the issuance and sale at par in a private placement of \$3,050,000 of 8% Convertible Subordinated Notes due June 30, 2003 (the "Initial Series Notes"). In May 1994, the Company completed the issuance and sale at par in a private placement of \$2,000,000 of 8% Convertible Subordinated Notes, Series B due June 30, 2004 (the "Series B Notes") and \$3,000,000 of 8% Convertible Subordinated Notes, Series C due June 30, 2004 (the "Series C Notes" and collectively, the Initial Series Notes, the

16

Series B Notes and the Series C Notes are hereinafter referred to as the "Convertible Subordinated Notes").

The Convertible Subordinated Notes are convertible at the option of the holders thereof into the number of whole shares of Company common stock determined by dividing the principal amount of the Notes so converted by \$5.00 in the case of the Initial Series Notes and the Series C Notes or \$6.00 in the case of the Series B Notes. Holders of Series B Notes were entitled to receive an interest enhancement payable in shares of Company common stock based upon the market value of the Company's common stock at June 30, 1996. In July 1996, the Company issued 142,000 shares of its common stock in connection with the interest enhancement provision.

During 2000, \$100,000 of the Initial Series Notes and \$750,000 of the Series B Notes were converted by the note holders into 20,000 and 125,000 shares of common stock, respectively. This resulted in a balance of \$2,950,000, \$1,250,000 and \$3,000,000 for the Initial Series Notes, the Series B Notes and the Series C Notes, respectively, at December 31, 2000.

In January 2001, an additional \$650,000 of the Initial Series Notes was converted by a note holder into 130,000 shares of common stock. In addition, the Company exercised its right to require conversion of the remaining balance of \$2,300,000 of the Initial Series Notes and \$1,250,000 of the Series B Notes into 460,000 and 208,000 shares of common stock, respectively.

The debt conversions increase the Company's shareholders' equity by the carrying amount of the debt converted, thus improving the Company's debt to equity ratio and will favorably impact results of operations and cash flow due to the interest savings of approximately \$400,000 per year, before income tax, on the debt.

Forward-Looking Statements

We make statements in this report that are considered to be forward-looking statements within the meaning of the Securities and Exchange Act of 1934. Such 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" and "goal" and similar expressions are intended to identify such forward-looking statements. The forward-looking statements are based on the Company's 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, availability, t e r m s , and use of capital and weather. Some or all of these factors are beyond the Company's control.

Given these uncertainties, you should not place undue reliance on these 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. These forward-looking statements represent our estimates and assumptions only as of the date of this report. The Company undertakes no obligation to update any forward-looking statement, whether as the result of actual results, changes in assumptions, new information,

future events, or otherwise.

Item 3. Quantitative and Qualitative Disclosure About Market Risk.

As of March 31, 2001, the Company had outstanding \$3,000,000 of 8% Convertible Subordinated Notes, Series C, due June 30, 2004 (the "Series C Notes"). The Series C Notes, which were issued in private placement transactions, bear interest at 8% per annum, payable quarterly, and are convertible at the option of the holders thereof into common stock of the Company at any time during the term of the Series C Notes. The conversion price is \$5.00 per share, subject to adjustment as provided in the Notes. Based upon the closing price of the Company's common stock on May 8, 2001 of \$26.50, as reported by the National Market of Nasdaq, the fair value of the Series C Notes was \$15,900,000.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(b) Reports on Form 8-K

No reports on Form 8-K were filed with the Securities and Exchange Commission during the quarter ended March 31, 2001.

SIGNATURES

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

U.S. PHYSICAL THERAPY, INC.

Date: May 15, 2001

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

