U S PHYSICAL THERAPY INC /NV
Form 10-Q
November 06, 2009

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

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED September 30, 2009

OR

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

FOR THE TRANSITION PERIOD FROM _________ TO _________

COMMISSION FILE NUMBER 1-11151

U.S. PHYSICAL THERAPY, INC.

(NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

NEVADA	76-0364866
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

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

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

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

þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

o Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

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

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

o Yes þ No

As of November 5, 2009, the number of shares outstanding (issued less treasury stock) of the registrant s common stock, par value $.01 per share, was: 11,615,233.

PART I FINANCIAL INFORMATION

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ITEM 1. FINANCIAL STATEMENTS.

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

	September 30, 2009 (unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,326	$ 10,113
Patient accounts receivable, less allowance for doubtful accounts of $1,976 and $2,275, respectively	23,715	25,853
Accounts receivable other	706	898
Other current assets	2,260	1,857
Total current assets	36,007	38,721
Fixed assets:		
Furniture and equipment	32,207	30,947
Leasehold improvements	19,209	18,061
	51,416	49,008
Less accumulated depreciation and amortization	36,314	33,167
	15,102	15,841
Goodwill	56,069	55,886
Other intangible assets, net	6,079	6,452
Other assets	855	1,347
	$ 114,112	$ 118,247
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable trade	$ 1,211	$ 1,481
Accrued expenses	13,479	11,752
Current portion of notes payable	1,086	1,380
Total current liabilities	15,776	14,613
Notes payable	280	1,012
Revolving line of credit	3,400	11,400
Deferred rent	1,097	1,103
Other long-term liabilities	1,698	2,297

Total liabilities		22,251		30,425
Commitments and contingencies				
Shareholders equity:				
U. S. Physical Therapy, Inc. shareholders s equity:				
Preferred stock, $.01 par value, 500,000 shares authorized, no shares issued and outstanding				
Common stock, $.01 par value, 20,000,000 shares authorized, 13,829,970 and 14,252,053 shares issued, respectively		138		142
Additional paid-in capital		39,380		43,648
Retained earnings		78,923		69,446
Treasury stock at cost, 2,214,737 shares		(31,628)		(31,628)
Total U. S. Physical Therapy, Inc. shareholders equity		86,813		81,608
Noncontrolling interests		5,048		6,214
Total equity		91,861		87,822
	$	114,112	$	118,247

See notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net patient revenues	$ 49,578	$ 46,128	$ 146,533	$ 136,530
Management contract revenues and other revenues	1,459	1,104	4,460	3,342
Net revenues	51,037	47,232	150,993	139,872
Clinic operating costs:				
Salaries and related costs	26,823	25,661	78,656	74,583
Rent, clinic supplies, contract labor and other	10,179	10,174	30,490	29,515
Provision for doubtful accounts	1,001	747	2,576	2,230
Closure costs	49	42	83	146
Total clinic operating costs	38,052	36,624	111,805	106,474
Corporate office costs	5,790	4,677	17,049	15,170
Operating income	7,195	5,931	22,139	18,228
Interest and other income (expense)	2	(24)	7	250
Interest expense	(93)	(158)	(294)	(421)
Income from operations	7,104	5,749	21,852	18,057
Provision for income taxes	1,964	1,635	6,085	5,054
Net income including noncontrolling interests	5,140	4,114	15,767	13,003
Less: net income attributable to noncontrolling interests	(2,039)	(1,583)	(6,290)	(5,232)
Net income attributable to common shareholders	$ 3,101	$ 2,531	$ 9,477	$ 7,771
Earnings per share attributable to common shareholders:				
Basic	$ 0.27	$ 0.21	$ 0.81	$ 0.65
Diluted	$ 0.26	$ 0.21	$ 0.80	$ 0.65
Shares used in computation:				

Basic	11,570	11,918	11,734	11,881
Diluted	11,748	12,132	11,781	12,043

See notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
OPERATING ACTIVITIES		
Net income including noncontrolling interests	$ 15,767	$ 13,003
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	4,439	4,446
Provision for doubtful accounts	2,576	2,230
Equity-based awards compensation expense	1,213	1,157
Loss on sale or abandonment of assets	103	164
Excess tax benefit from exercise of stock options	(44)	(128)
Recognition of deferred rent subsidies	(362)	(323)
Deferred income tax	190	299
Write-off of goodwill		88
Changes in operating assets and liabilities:		
Increase in patient accounts receivable	(513)	(2,557)
Decrease in accounts receivable other	192	278
Increase in other assets	(32)	(641)
Increase in accounts payable and accrued expenses	1,534	2,520
(Decrease) increase in other liabilities	(546)	236
Net cash provided by operating activities	24,517	20,772
INVESTING ACTIVITIES		
Purchase of fixed assets	(3,282)	(3,173)
Purchase of businesses, net of cash acquired		(11,547)
Acquisitions of noncontrolling interests	(135)	(1,396)
Proceeds on sale of fixed assets	53	98
Net cash used in investing activities	(3,364)	(16,018)
FINANCING ACTIVITIES		
Distributions to noncontrolling interests	(7,429)	(5,237)
Purchase and retire of common stock	(5,586)	
Proceeds from revolving line of credit	17,450	12,300
Payments on revolving line of credit	(25,450)	(10,500)
Payment of notes payable	(1,026)	(763)
Excess tax benefit from stock options exercised	44	128
Proceeds from exercise of stock options	57	495
Net cash used in financing activities	(21,940)	(3,577)

Net (decrease) increase in cash and cash equivalents		(787)		1,177
Cash and cash equivalents beginning of period		10,113		7,976
Cash and cash equivalents end of period	$	9,326	$	9,153
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the period for:				
Income taxes	$	6,946	$	4,272
Interest	$	268	$	402
Non-cash investing and financing transactions during the period:				
Purchase of business seller financing portion	$		$	951

See notes to consolidated financial statements.

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U. S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
(IN THOUSANDS)
(unaudited)

	U. S. Physical Therapy, Inc.								
	Common Stock		Additional Paid-In	Retained	Treasury Stock		Total Shareholders	Noncontrolling	
	Shares	Amount	Capital	Earnings	Shares	Amount	Equity	Interests	Total
Balance December 31, 2008	14,252	$ 142	$ 43,648	$ 69,446	(2,215)	$ (31,628)	$ 81,608	$ 6,214	$ 87,822
Issuance of restricted stock	92	1					1		1
Cancellation of restricted stock	(7)								
Compensation expense restricted stock			706				706		706
Compensation expense stock options			507				507		507
Purchase and retirement of treasury stock	(518)	(5)	(5,581)				(5,586)		(5,586)
Proceeds from exercise of stock options	11		56				56		56
Excess tax benefit of exercise of stock options			44				44		44
Distributions to noncontrolling interest partners								(7,456)	(7,456)
Net income				9,477			9,477	6,290	15,767
Balance September 30, 2009	13,830	$ 138	$ 39,380	$ 78,923	(2,215)	$ (31,628)	$ 86,813	$ 5,048	$ 91,861

See notes to consolidated financial statements.

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U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(unaudited)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of U.S. Physical Therapy, Inc. and its subsidiaries. All significant intercompany transactions and balances have been eliminated. The Company primarily operates through subsidiary clinic partnerships, in which the Company generally owns a 1% general partnership interest and a 64% limited partnership interest. The managing therapist of each clinic owns, directly or indirectly, the remaining limited partnership interest in the majority of the clinics (hereinafter referred to as Clinic Partnership). To a lesser extent, the Company operates some clinics, through wholly-owned subsidiaries, under profit sharing arrangements with therapists (hereinafter referred to as Wholly-Owned Facilities).

The Company continues to seek to attract physical and occupational therapists who have established relationships with physicians by offering therapists a competitive salary and a share of the profits of the clinic operated by that therapist. The Company has developed satellite clinic facilities of existing clinics, with the result that many clinic groups operate more than one clinic location. In addition, the Company has acquired a majority interest in several clinics through acquisitions.

During the three months ended September 30, 2009, the Company opened five new clinics and closed four. Of the five clinics opened, one was a new Clinic Partnership and four were satellites of existing Clinic Partnerships. During the nine months ended September 30, 2009, the Company opened 14 new clinics and closed seven. Of the 14 clinics opened, five were new Clinic Partnerships and nine were satellites of existing Clinic Partnerships. The Company ended September 2009 with 367 clinics.

The Company intends to continue to focus on developing new clinics and on opening satellite clinics where deemed appropriate. The Company will also continue to evaluate acquisition opportunities.

The accompanying unaudited consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions for Form 10-Q. However, the statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Management believes this report contains all necessary adjustments (consisting only of normal recurring adjustments) to present fairly, in all material respects, the Company s financial position, results of operations and cash flows for the interim periods presented. For further information regarding the Company s accounting policies, please read the audited financial statements included in the Company s Form 10-K for the year ended December 31, 2008.

The impact of subsequent events on these interim consolidated financial statements has been evaluated through the timing of filing of this Quarterly Report on Form 10-Q on November 6, 2009.

The Company believes, and the Chief Executive Officer, Chief Financial Officer and Corporate Controller have certified, that the financial statements included in this report present fairly, in all material respects, the Company s financial position, results of operations and cash flows for the interim periods presented.

Operating results for the three months and nine months ended September 30, 2009 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, 2008.

Clinic Partnerships

For Clinic Partnerships, the earnings and liabilities attributable to the noncontrolling interests, typically owned by the managing therapist, directly or indirectly, are recorded within the balance sheets and income statements as noncontrolling interests.

Wholly-Owned Facilities

For Wholly-Owned Facilities with profit sharing arrangements, an appropriate accrual is recorded for the amount of profit sharing due the profit sharing therapists. The amount is expensed as compensation and included in clinic operating costs salaries and related costs. The respective liability is included in current liabilities accrued expenses on the balance sheet.

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Significant Accounting Policies

Cash Equivalents

The Company considers all highly liquid investments with an original maturity or remaining maturity at the time of purchase of three months or less to be cash equivalents. The Company held approximately $0.8 million in highly liquid investments (money market account) included in cash and cash equivalents at December 31, 2008. The Company invested excess cash in money market funds and reflected these amounts within cash and cash equivalents on the consolidated balance sheet based on the dollars invested. The fair value of the money market funds was deemed to equal the book value utilizing significant other observable inputs (Level 2 as defined in current guidance). There were no cash equivalents held at September 30, 2009.

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

Long-Lived Assets

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

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

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

Goodwill

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

The fair value of goodwill and other intangible assets with indefinite lives are tested for impairment at least annually and upon the occurrence of certain events, and are written down to fair value if considered impaired. The Company evaluates goodwill for impairment on at least an annual basis (in its third quarter) by comparing the fair value of each reporting unit to the carrying value of the reporting unit including related goodwill. A reporting unit refers to the acquired interest of a single clinic or group of clinics. Local management typically continues to manage the acquired clinic or group of clinics. For each clinic or group of clinics, the Company maintains discrete financial information and both corporate and local management regularly review the operating results. For each purchase of the equity interest, goodwill is assigned to the respective clinic or group of clinics, if deemed appropriate. The Company performed the annual impairment test during the quarter ended September 30, 2009 and such evaluation did not yield any impairment charges. The Company did not record any impairment charge in the nine months ended September 30, 2009. The evaluation of goodwill in the third quarter of 2008 yielded an impairment charge of $49,000 on a clinic purchased in 1994.

Revenue Recognition

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

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

Since 1999, reimbursement for outpatient therapy services provided to Medicare beneficiaries has been made according to a fee schedule published by the Department of Health and Human Services. Under the Balanced Budget Act of 1997, the total amount paid by Medicare in any one year for outpatient physical therapy or occupational therapy (including speech-language pathology) to any one patient is subjected to a stated dollar amount (the Medicare Cap or Limit), except for services provided in hospitals. Outpatient therapy services rendered to Medicare beneficiaries by the Company s therapists are subject to the Medicare Cap, except to the extent these services are rendered pursuant to certain management and professional services agreements with inpatient facilities. In 2006, Congress passed the Deficit Reduction Act (DRA), which allowed the Centers for Medicare & Medicaid Services (CMS) to grant exceptions to the Medicare Cap for services provided during the year, as long as those services met certain qualifications. The exception process initially allowed for automatic and manual exceptions to the Medicare Cap for medically necessary services. CMS subsequently revised the exceptions procedures and eliminated the manual exceptions process. Beginning January 1, 2008, all services that required exceptions to the Medicare Cap were processed as automatic exceptions. While the basic procedure for obtaining an automatic exception remained the same, CMS expanded requirements for documentation related to the medical necessity of services provided above the cap. The Medicare Limit for 2008 was $1,810 and for 2009 is $1,840. Under the Medicare Improvements for Patients and Providers Act as passed July 16, 2008, the extension process remains through December 31, 2009.

Since the Medicare Cap was implemented, patients who have been impacted by the cap and those who do not qualify for an exception may choose to pay for services in excess of the cap themselves; however, it is assumed that the Medicare Cap will result in some lost revenues to the Company.

Laws and regulations governing the Medicare program are complex and subject to interpretation. The Company believes that it is in compliance in all material respects with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the Company s financial statements as of September 30, 2009. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare program.

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

Contractual Allowances

Contractual allowances result from the differences between the rates charged for services performed and expected reimbursements by both insurance companies and government sponsored healthcare programs for such services. Medicare regulations and the various third party payors and managed care contracts are often complex and may include multiple reimbursement mechanisms payable for the services provided in Company clinics. The Company estimates contractual allowances based on its interpretation of the applicable regulations, payor contracts and historical calculations. Each month the Company estimates its contractual allowance for each clinic based on payor contracts and the historical collection experience of the clinic and applies an appropriate contractual allowance reserve percentage to the gross accounts receivable balances for each payor of the clinic. Based on the Company s historical experience, calculating the contractual allowance reserve percentage at the payor level is sufficient to allow us to provide the necessary detail and accuracy with its collectibility estimates. However, the services authorized and provided and related reimbursement are subject to interpretation that could result in payments that differ from our estimates. Payor terms are periodically revised necessitating continual review and assessment of the estimates made by management. The Company s billing systems may not capture the exact change in our contractual allowance reserve estimate from period to period in order to assess the accuracy of our revenues and hence our contractual allowance reserves. Management regularly compares its cash collections to corresponding net revenues measured both in the aggregate and on a clinic-by-clinic basis. In the aggregate, historically the difference between net revenues and corresponding cash collections has generally reflected a difference within approximately 1% of net revenues. Additionally, analysis of subsequent period s contractual write-offs on a payor basis shows a less than 1% difference between the actual aggregate contractual reserve percentage as compared to the estimated contractual allowance reserve percentage associated with the same period end balance. As a result, the Company believes that a change in the contractual allowance reserve estimate would not likely be more than 1% at September 30, 2009.

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Income Taxes

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

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount to be recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

The Company recognizes accrued interest expense and penalties associated with unrecognized tax benefits as income tax expense. The Company did not have any accrued interest or penalties associated with any unrecognized tax benefits nor was any interest expense recognized during the nine months ended September 30, 2009 and 2008.

Fair Value of Financial Instruments

The carrying amounts reported in the balance sheet for cash and cash equivalents, accounts receivable, accounts payable and notes payable approximate their fair values due to the short-term maturity of these financial instruments. The carrying amount of the revolving line of credit approximates its fair value. The interest rate on the revolving line of credit, which is tied to the Eurodollar Rate, is set at various short-term intervals, as detailed in the credit agreement.

Segment Reporting

Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by chief operating decision makers in deciding how to allocate resources and in assessing performance. The Company identifies operating segments based on management responsibility and believes it meets the criteria for aggregating its operating segments into a single reporting segment.

Use of Estimates

In preparing the Company s consolidated financial statements, management makes certain estimates and assumptions that affect the amounts reported in the consolidated financial statements and related disclosures. Actual results may differ from these estimates.

Self-Insurance Program

The Company utilizes a self-insurance plan for its employee group health insurance coverage administered by a third party. Predetermined loss limits have been arranged with the insurance company to limit the Company s maximum liability and cash outlay. Accrued expenses include the estimated incurred but unreported costs to settle unpaid claims and estimated future claims. Management believes that the current accrued amounts are sufficient to pay claims arising from self insurance incurred through September 30, 2009.

Stock Options

The Company measures and recognizes compensation expense for all stock-based payments at fair value. Compensation cost recognized includes compensation for all stock-based payments granted prior to, but not yet vested on January 1, 2006, based on the grant-date fair value estimated at the time of grant and compensation cost for the stock-based payments granted subsequent to January 1, 2006, based on the grant-date fair value. No stock options were granted during the nine months ended September 30, 2009.

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Restricted Stock

Restricted stock issued to employees and directors is subject to continued employment or continued service on the board, respectively, typically the transfer restrictions for shares granted to employees lapse in equal installments on the following five annual anniversaries of the date of grant. Compensation expense for grants of restricted stock is recognized based on the fair value per share on the date of grant amortized over the vesting period. During the nine months ended September 30, 2009, 92,000 shares of restricted stock were granted of which 63,000 had a fair value on the date of grant of $15.56 per share; 24,000 had a fair value on the date of grant of $13.05 per share; and 5,000 shares had a fair value of $14.18. The restricted stock issued is included in basic and diluted shares for the earnings per share computation.

Recently Adopted Pronouncements

In December 2007, the FASB issued guidance which applies to all transactions and other events in which one entity obtains control over one or more other businesses. Under this current guidance, upon initially obtaining control of another entity, the Company recognizes the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under previous guidance whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. Further, this current guidance requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under previous guidance. Under this current guidance, restructuring costs associated with a business combination will be generally expensed subsequent to the acquisition date. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria under current guidance. Effective January 1, 2009, the Company began complying with this current guidance for its accounting treatment for business combinations on a prospective basis.

In December 2007, the FASB issued guidance which established new accounting and reporting standards for the noncontrolling interest (formerly referred to as minority interests) in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this guidance requires the recognition of a noncontrolling interest as equity in the consolidated financial statements and separate from the parent entity s equity. The amount of net income attributable to a noncontrolling interest will be included in consolidated net income on the face of the income statement. This guidance clarifies that changes in a parent entity s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent entity retains its controlling financial interest. In addition, this guidance requires that a parent entity recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. The guidance also includes expanded disclosure requirements regarding the interests of the parent entity and its noncontrolling interest. Effective January 1, 2009, the Company adopted the new accounting and reporting standards for noncontrolling interest.

In accordance with this guidance related to noncontrolling interest, the Company will no longer record an intangible asset when the purchase price of a noncontrolling interest exceeds the book value at the time of purchase. Any excess or shortfall will be recognized as an adjustment to additional-paid-in-capital. During the nine months ended September 30, 2009, no excess or shortfall was recognized. Additionally, operating losses will be allocated to noncontrolling interests even when such allocation creates a deficit balance for the noncontrolling interest partner. For the quarter and nine months ended September 30, 2009, the net operating losses allocated to noncontrolling interest had the effect of increasing net income attributable to the Company by $45,000 and $111,000, respectively, net of taxes, and reducing the net income attributable to noncontrolling interest by $74,000 and $183,000, respectively.

In April 2009, the FASB issued guidance requiring public companies to provide disclosure about fair value instruments for interim reporting periods as well as in annual financial statements. This guidance requires those disclosures in summarized financial information at interim reporting periods. The Company will disclose the fair value of financial instruments if they are not already carried at fair value.

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In May 2009, the FASB issued guidance requiring a company to disclose the date through which subsequent events have been evaluated for recognition or disclosure in the financial statements. This guidance was effective for interim or annual periods ending after June 15, 2009, and is to be applied prospectively. The Company has reflected the recognition and disclosure requirements in this Form 10-Q.

2. EARNINGS PER SHARE

The computations of basic and diluted earnings per share for the Company are as follows (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Numerator:				
Net income attributable to common shareholders	$ 3,101	$ 2,531	$ 9,477	$ 7,771
Denominator:				
Denominator for basic earnings per share weighted-average shares	11,570	11,918	11,734	11,881
Effect of dilutive securities Stock options	178	214	47	162
Denominator for diluted earnings per share adjusted weighted-average shares	11,748	12,132	11,781	12,043
Earnings per share attributable to common shareholders:				
Basic	$ 0.27	$ 0.21	$ 0.81	$ 0.65
Diluted	$ 0.26	$ 0.21	$ 0.80	$ 0.65

Options to purchase 177,000 and 93,000 shares for the three months ended September 30, 2009 and 2008, respectively, and 688,000 and 133,000 shares for the nine months ended September 30, 2009 and 2008, respectively, were excluded from the diluted earnings per share calculations for the respective periods because the options exercise prices were greater than the average market price of the common shares during the periods.

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

3. ACQUISITIONS

Acquisition of Businesses

During 2008, the Company completed the following acquisitions of physical therapy practices:

Acquisition	Date	% Interest Acquired	Number of Clinics
Michigan Acquisition	January 1	100%	1
Mid-Atlantic Acquisition	June 11	65%	9
San Antonio Acquisition	November 18	65%	4

The purchase price of $2.8 million for the Michigan Acquisition was paid in cash. The purchase price for the 65% interest acquired in the Mid-Atlantic Acquisition was $9.5 million, which consisted of $8,545,625 in cash and $950,625 in seller notes, of which the first installments in an aggregate amount of $475,313 were paid in June 2009. If the Mid-Atlantic practice achieves certain levels of operating results within the next three years, an earn-out of up to $1,500,000 may be payable as additional purchase consideration. No additional consideration was earned based on the operating results of the first year. The purchase price for the 65% interest acquired in the San Antonio Acquisition was $5.0 million, which consisted of $4,605,000 in cash and $400,400 in a seller note.

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In addition to the interests acquired in the above physical therapy practices, the Company acquired a 65% interest in Rehab Management Group (RMG) in October 2008. The purchase price for the 65% interest was $3.1 million, which consisted of $2,985,000 in cash and $157,100 in a seller note. If the practice achieves certain levels of operating results within the next three years, an earn-out of up to $3,781,000 may be payable as additional purchase consideration. The Company anticipates that a portion of the additional consideration will be paid in the fourth quarter of 2009. The amount to be paid will be determined after a review and analysis of the operating results for the period, which ends on October 31, 2009.

For the 2008 acquisitions, the Company incurred acquisition costs totaling $0.3 million. The consideration paid for each of the 2008 acquisitions was derived through arm s length negotiations. Funding for the cash portions was provided by the Company s credit facility. The results of operations of the 2008 acquisitions have been included in the Company s consolidated financial statements since their respective dates acquired.

4. Goodwill

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

	Nine Months Ended September 30, 2009
Beginning balance	$ 55,886
Goodwill additions during the period	183
Ending balance	$ 56,069

In August 2009, the Company paid $135,000 related to an earn-out due on the purchase of the noncontrolling interest of a limited partner in July 2007. In addition, during the nine months ended September 2009, the Company adjusted goodwill in the amount of $48,000, net, for resolution of contingencies related to acquisitions made in 2008.

5. Common Stock

In September 2001 through December 31, 2008, the Board of Directors (Board) authorized the Company to purchase, in the open market or in privately negotiated transactions, up to 2,250,000 shares of its common stock; however, the terms of the Company s bank credit agreement had prohibited such purchases since August 2007. As of December 31, 2008, there were approximately 50,000 shares remaining that could be purchased under those programs.

In March 2009, the Board authorized the repurchase of up to 10% or approximately 1,200,000 shares of its common stock (March 2009 Authorization). In connection with the March 2009 Authorization, the Company amended its bank credit agreement to permit the share repurchases. The Company is required to retire shares purchased under the March 2009 Authorization. Since there is no expiration date for these share repurchase programs, additional shares may be purchased from time to time in the open market or private transactions depending on price, availability and the Company s cash position. During the three months ended September 30, 2009, the Company did not purchase any shares. During the nine months ended September 30, 2009, the Company purchased 518,335 shares for an aggregate price of $5.6 million.

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

EXECUTIVE SUMMARY

Our Business

We operate outpatient physical and/or occupational therapy clinics that provide preventive and post-operative care for a variety of orthopedic-related disorders and sports-related injuries, treatment for neurologically-related injuries and rehabilitation of injured workers. In 2008, we formed a new venture, OsteoArthritis Centers of America (OA Centers) which specializes in the outpatient, non-surgical treatment of osteoarthritis, degenerative joint disease and other musculoskeletal conditions which affect the lives of millions of active Americans. Two OA Centers have been opened. In October 2008, we acquired a 65% interest in Rehab Management Group (RMG). RMG s founders are our partners in the OA Centers. RMG provides physicians and their patients with clinical services including electro-diagnostic analysis (EDX) as well as intra articular joint (IAJP Direct) and lumbar osteoarthritis (LOP Direct) programs.

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During 2008, the Company completed the following acquisitions of physical therapy practices:

Acquisition	Date	% Interest Acquired	Number of Clinics
Michigan Acquisition	January 1	100%	1
Mid-Atlantic Acquisition	June 11	65%	9
San Antonio Acquisition	November 18	65%	4

The results of operations of the 2008 acquisitions have been included in the Company s consolidated financial statements since their respective dates acquired. There were no acquisitions during the nine months ended September 30, 2009.

At September 30, 2009, we operated 367 clinics in 42 states. During the three months ended September 30, 2009, we opened five new clinics and closed four. During the nine months ended September 30, 2009, we opened 14 new clinics and closed seven. The average age of our clinics at September 30, 2009 was 6.8 years.

In addition to our owned clinics, we also manage physical therapy facilities for third parties, primarily physicians, with 12 third-party facilities under management as of September 30, 2009. During the quarter ended September 30, 2009, we added one new management contract.

In December 2007, the FASB issued guidance which established new accounting and reporting standards for the noncontrolling interest (formerly referred to as minority interests) in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest as equity in the consolidated financial statements and separate from the parent entity s equity. The amount of net income attributable to a noncontrolling interest will be included in consolidated net income on the face of the income statement. This guidance clarified that changes in a parent entity s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent entity retains its controlling financial interest. In addition, this guidance required that a parent entity recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. This guidance also included expanded disclosure requirements regarding the interests of the parent entity and its noncontrolling interest. We adopted this guidance effective January 1, 2009.

In accordance with this guidance, we will no longer record an intangible asset when the purchase price of a noncontrolling interest exceeds the book value at the time of purchase. Any excess or shortfall will be recognized as an adjustment to additional-paid-in-capital. During the nine months ended September 30, 2009, there was no excess or shortfall recognized. Additionally, operating losses will be allocated to noncontrolling interests even when such allocation creates a deficit balance for the noncontrolling interest partner. For the quarter and nine months ended September 30, 2009, the net operating losses allocated to noncontrolling interest had the effect of increasing net income attributable to our common shareholders by $45,000 and $111,000, respectively, net of taxes, and reducing the net income attributable to noncontrolling interest by $74,000 and $183,000, respectively.

Selected Operating and Financial Data

The following table presents selected operating and financial data that we believe are key indicators of our operating performance.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Number of clinics, at the end of period	367	364	367	364
Working days	64	64	191	192
Average visits per day per clinic	20.4	20.2	20.5	20.5
Total patient visits	479,385	470,155	1,429,635	1,395,466
Net patient revenue per visit	$ 103.42	$ 98.11	$ 102.50	$ 97.84
Statement of operations per visit:				
Net revenues	$ 106.46	$ 100.46	$ 105.62	$ 100.23
Salaries and related costs	55.95	54.58	55.02	53.44
Rent, clinic supplies, contract labor and other	21.23	21.64	21.32	21.15
Provision for doubtful accounts	2.09	1.59	1.80	1.60
Closure costs	0.10	0.09	0.06	0.11
Contribution from clinics	27.09	22.56	27.42	23.93
Corporate office costs	12.08	9.94	11.93	10.87
Operating income	$ 15.01	$ 12.62	$ 15.49	$ 13.06

RESULTS OF OPERATIONS

Three Months Ended September 30, 2009 Compared to the Three Months Ended September 30, 2008

Net revenues increased to $51.0 million for the three months ended September 30, 2009 (2009 Third Quarter) from $47.2 million for the three months ended September 30, 2008 (2008 Third Quarter) due to a 2.0% increase in patient visits from 470,000 to 479,000 and a $5.31 increase from $98.11 to $103.42 in net patient revenue per visit. The 2009 net revenue figure includes the results of RMG and the San Antonio Acquisition for the entire 2009 Third Quarter. These acquisitions were consummated in October 2008 and November 2008, respectively. Our net patient revenue per visit has increased due to our continuing efforts to provide additional services and to negotiate more favorable reimbursement rates with certain payors.

Net income attributable to our common shareholders for the 2009 Third Quarter was $3.1 million versus $2.5 million for the 2008 Third Quarter. Net income was $0.26 per diluted share for the 2009 Third Quarter as compared to $0.21 per diluted share for the 2008 Third Quarter. Total diluted shares were 11.7 million for the 2009 Third Quarter and 12.1 million for the 2008 Third Quarter. During the nine months ended September 30, 2009, we purchased 518,335 shares of our common stock. See Liquidity and Capital Resources below.

Net Patient Revenues

Net patient revenues increased to $49.6 million for the 2009 Third Quarter from $46.1 million for the 2008 Third Quarter, an increase of $3.5 million, or 7.5%, due to a 2.0% increase in patient visits to 479,000 and an increase of $5.31 in net patient revenues per visit to $103.42 from $98.11.

The growth in patient visits was attributable to an increase of 20,000 visits in clinics opened or acquired between October 1, 2008 and September 30, 2009 (New Clinics) offset by a decrease of 11,000 for clinics opened or acquired prior to October 1, 2008 (Mature Clinics).

The $3.5 million net patient revenues increase for the 2009 Third Quarter included $2.0 million from New Clinics, primarily due to the San Antonio Acquisition, $0.6 million from clinics opened or acquired in the first nine months of 2008, and $0.9 million from clinics opened or acquired prior to January 1, 2008.

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

Management Contract and Other Revenues

Management contract and other revenues increased by $355,000 from $1,104,000 to $1,459,000 due to the inclusion of revenues from RMG, which was acquired in October 2008.

Clinic Operating Costs

Clinic operating costs as a percentage of net revenues were 74.6% for the 2009 Third Quarter and 77.5% for the 2008 Third Quarter.

Clinic Operating Costs Salaries and Related Costs

Salaries and related costs increased to $26.8 million for the 2009 Third Quarter from $25.7 million for the 2008 Third Quarter, an increase of $1.1 million, or 4.5%. The $1.1 million increase included costs of $1.0 million attributable to the New Clinics. The remaining increase was due to slightly higher costs of $0.1 million at the Mature Clinics. Salaries and related costs as a percentage of net revenues were 52.6% for the 2009 Third Quarter and 54.3% for the 2008 Third Quarter.

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

Rent, clinic supplies, contract labor and other remained at $10.2 million for both quarters. Of the $10.2 million for the 2009 Third Quarter, $0.6 million was incurred at the New Clinics. For Mature Clinics, rent, clinic supplies, contract labor and other decreased by $0.6 million due to cost containment efforts. Rent, clinic supplies, contract labor and other as a percentage of net revenues was 19.9% for the 2009 Third Quarter and 21.5% for the 2008 Third Quarter.

Clinic Operating Costs Provision for Doubtful Accounts

The provision for doubtful accounts was $1.0 million for the 2009 Third Quarter and $0.7 million for the 2008 Third Quarter. The provision for doubtful accounts as a percentage of net patient revenues was 2.0% for the 2009 Third Quarter and 1.6% for the 2008 Third Quarter. Our allowance for bad debts as a percentage of total patient accounts receivable was 7.7% at September 30, 2009, as compared to 8.1% at December 31, 2008. Our days sales outstanding was reduced to 45 days at September 30, 2009 compared to 54 days at September 30, 2008 and 51 days at December 31, 2008.

Corporate Office Costs

Corporate office costs, consisting primarily of salaries and benefits of corporate office personnel, rent, insurance costs, depreciation and amortization, travel, legal, professional, and recruiting fees, were $5.8 million, or 11.3% of net revenues, for the 2009 Third Quarter and $4.7 million, or 9.9% of net revenues for the 2008 Third Quarter. This increase of $1.1 million is primarily due to increased accrual for incentive compensation.

Interest expense

Interest expense was $93,000 for the 2009 Third Quarter and $158,000 for the 2008 Third Quarter which was a decrease of $65,000, or 41.1%, due to a reduction in interest rates and a decrease in average borrowings outstanding during the period in 2009 versus 2008. At September 30, 2009, $3.4 million was outstanding under our revolving credit facility. See Liquidity and Capital Resources below for a discussion of the terms of our revolving credit facility contained in the Credit Agreement.

Provision for Income Taxes

The provision for income taxes increased to $2.0 million for the 2009 Third Quarter from $1.6 million for the 2008 Third Quarter. During the 2009 Third Quarter, the Company accrued state and federal income taxes at an effective tax rate (provision for taxes divided by the difference between income from operations and net income attributable to noncontrolling interest) of 38.8% versus 39.2% for the 2008 Third Quarter.

Noncontrolling interests

Net income attributable to noncontrolling interests was $2.0 million for the 2009 Third Quarter and $1.6 million for the 2008 Third Quarter. Net income attributable to noncontrolling interests as a percentage of operating income before corporate office costs was 15.7% for the 2009 Third Quarter and 14.9% for the 2008 Third Quarter.

Nine Months Ended September 30, 2009 Compared to the Nine Months Ended September 30, 2008

Net revenues increased to $151.0 million for the nine months ended September 30, 2009 (2009 Nine Months) from $139.9 million for the nine months ended September 30, 2008 (2008 Nine Months) due to a 2.4% increase in patient visits from 1,395,000 to 1,430,000 and a $4.66 increase from $97.84 to $102.50 in net patient revenue per visit. The 2009 figures include the results of the Mid-Atlantic Acquisition, RMG and San Antonio Acquisitions for the entire 2009 Nine Months. These acquisitions were consummated in September 2008, October 2008 and November 2008, respectively. Our net patient revenue per visit has increased due to our continuing efforts to provide additional services and to negotiate more favorable reimbursement rates with certain payors.

Net income attributable to our common shareholders for the 2009 Nine Months was $9.5 million versus $7.8 million for the 2008 Nine Months. Net income was $0.80 per diluted share for the 2009 Nine Months as compared to $0.65 per diluted share for the 2008 Nine Months. Total diluted shares were 11.8 million for the 2009 Nine Months and 12.0 million for the 2008 Nine Months. During the nine months ended September 30, 2009, we purchased 518,335 shares of our common stock. See Liquidity and Capital Resources below.

Net Patient Revenues

Net patient revenues increased to $146.5 million for the 2009 Nine Months from $136.5 million for the 2008 Nine Months, an increase of $10.0 million, or 7.3%, due to a 2.4% increase in patient visits to 1,430,000 and an increase of $4.66 in net patient revenues per visit to $102.50 from $97.84.

The growth in patient visits was attributable to an increase of 50,000 visits in New Clinics offset by a decrease of 15,000 for Mature Clinics.

The $10.0 million net patient revenues increase for the 2009 Nine Months included $5.3 million from New Clinics, primarily due to the San Antonio Acquisition, and $5.6 million from clinics opened or acquired in the first nine months of 2008, primarily due to the Mid-Atlantic Acquisition, offset by a decrease of $0.9 million from clinics opened or acquired prior to January 1, 2008. Since the Mid-Atlantic Acquisition was consummated on September 11, 2008, the 2008 results from this acquisition include 78 operating days whereas the 2009 results are for the entire nine month period.

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

Management Contract and Other Revenues

Management contract and other revenues increased by $1.1 million from $3,342,000 to $4,460,000 due to the inclusion of revenues from RMG, which was acquired in October 2008.

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Clinic Operating Costs

Clinic operating costs as a percentage of net revenues were 74.0% for the 2009 Nine Months and 76.1% for the 2008 Nine Months.

Clinic Operating Costs   Salaries and Related Costs

Salaries and related costs increased to $78.7 million for the 2009 Nine Months from $74.6 million for the 2008 Nine Months, an increase of $4.1 million, or 5.5%; however, salaries and related costs as a percentage of net revenues decreased to 52.1% for the 2009 Nine Months from 53.3% for the 2008 Nine Months. The $4.1 million increase included costs of $2.3 million attributable to the New Clinics. The remaining increase was due to higher costs of $1.8 million at the Mature Clinics.

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

Rent, clinic supplies, contract labor and other increased to $30.5 million for the 2009 Nine Months from $29.5 million for the 2008 Nine Months, an increase of $1.0 million, or 3.3%; however, rent, clinic supplies, contract labor and other as a percentage of net revenues decreased to 20.2% for the 2009 Nine Months from 21.1% for the 2008 Nine Months. The $1.0 million increase included $1.6 million incurred at the New Clinics offset by a decrease of $0.6 million for Mature Clinics.

Clinic Operating Costs   Provision for Doubtful Accounts

The provision for doubtful accounts was $2.6 million for the 2009 Nine Months and $2.2 million for the 2008 Nine Months. The provision for doubtful accounts as a percentage of net patient revenues was 1.8% for the 2009 Nine Months and 1.6% for the 2008 Nine Months. Our allowance for bad debts as a percentage of total patient accounts receivable was 7.7% at September 30, 2009, as compared to 8.1% at December 31, 2008. Our days sales outstanding was reduced to 45 days at September 30, 2009 compared to 54 days at September 30, 2008 and 51 days at December 31, 2008.

Corporate Office Costs

Corporate office costs, consisting primarily of salaries and benefits of corporate office personnel, rent, insurance costs, depreciation and amortization, travel, legal, professional, and recruiting fees, were $17.0 million, or 11.3% of net revenues, for the 2009 Nine Months and $15.2 million, or 10.8% of net revenues, for the 2008 Nine Months. This increase of $1.8 million is primarily due to increased accrual for incentive compensation.

Interest and other income

Other income for the 2008 Nine Months includes a pre-tax gain of $193,000 from the sale of a 49% interest in two of our Texas partnerships.

Interest expense

Interest expense decreased to $294,000 for the 2009 Nine Months from $421,000 for the 2008 Nine Months due to lower borrowing costs and decreased average borrowings. At September 30, 2009, $3.4 million was outstanding under our revolving credit facility. See   Liquidity and Capital Resources   below for a discussion of the terms of our revolving credit facility contained in the Credit Agreement.

Provision for Income Taxes

The provision for income taxes increased to $6.1 million for the 2009 Nine Months from $5.1 million for the 2008 Nine Months. During the 2009 Nine Months, the Company accrued state and federal income taxes at an effective tax rate (provision for taxes divided by the difference between income from operations and net income attributable to noncontrolling interest) of 39.1% versus 39.4% for the 2008 Nine Months.

Noncontrolling interests

Net income attributable to noncontrolling interests was $6.3 million for the 2009 Nine Months and $5.2 million for the 2008 Nine Months. Net income attributable to noncontrolling interests as a percentage of operating income before corporate office costs was 15.9% for the 2009 Nine Months and 15.6% for the 2008 Nine Months.

LIQUIDITY AND CAPITAL RESOURCES

We believe that our business is generating sufficient cash flow from operating activities to allow us to meet our short-term and long-term cash requirements, other than those with respect to future acquisitions. At September 30, 2009, we had $9.3 million in cash compared to cash and cash equivalents of $10.1 million at December 31, 2008, a decrease of 7.8%. Although the start-up costs associated with opening new clinics and our planned capital expenditures are significant, we believe that our cash and availability under our revolving credit facility are sufficient to fund the working capital needs of our operating subsidiaries, corporate costs, purchases of our common stock, clinic closure costs accrued, future clinic development and investments through at least September 2010. Significant acquisitions would likely require financing under our existing revolving credit facility.

The decrease in cash and cash equivalents of $0.8 million from December 31, 2008 to September 30, 2009 was due primarily to $24.5 million provided by operations offset by major uses of cash which included: purchase of fixed assets ($3.3 million), distributions to noncontrolling interest partners ($7.4 million), purchases of our common stock ($5.6 million), net reduction on our revolving credit facility ($8.0 million) and payments on seller notes ($1.0 million).

Effective August 27, 2007, we entered into the Credit Agreement with a commitment for a $30.0 million revolving credit facility which was increased to $50.0 million effective June 4, 2008. Effective March 18, 2009, we amended the Credit Agreement to permit the Company to purchase up to $15,000,000 of its common stock subject to compliance with certain covenants, including the requirement that after giving effect to any stock purchase, our consolidated leverage ratio (as defined in the Credit Agreement) be less than 1.0 to 1.0 and that any stock repurchased be retired within seven days of purchase. In addition, the Credit Agreement was amended to adjust the pricing grid which is based on our consolidated leverage ratio with the applicable spread over LIBOR ranging from 1.5% to 2.5%. The Credit Agreement has a four year term maturing August 31, 2011, is unsecured and includes standard financial covenants. Proceeds from the Credit Agreement may be used for acquisitions, working capital, purchases of our common stock, capital expenditures and other corporate purposes. Fees under the Credit Agreement include a closing fee of .25% and an unused commitment fee ranging from .1% to .35% depending on our consolidated leverage ratio and the amount of funds outstanding under the Credit Agreement. On September 30, 2009, the outstanding balance on the revolving credit facility was $3.4 million leaving $46.6 million in availability and we were in compliance with all of the covenants thereunder.

Historically, we have generated sufficient cash from operations to fund our development activities and to cover operational needs. We plan to continue developing new clinics and making additional acquisitions in selected markets. We have from time to time purchased the noncontrolling interests in our Clinic Partnerships. We may purchase additional noncontrolling interests in the future. Generally, any acquisition or purchase of noncontrolling interests is expected to be accomplished using a combination of cash and financing. Any large acquisition would likely require financing.

We make reasonable and appropriate efforts to collect accounts receivable, including applicable deductible and co-payment amounts, in a consistent manner for all payor types. Claims are submitted to payors daily, weekly or monthly in accordance with our policy or payor s requirements. When possible, we submit our claims electronically. The collection process is time consuming and typically involves the submission of claims to multiple payors whose payment of claims may be dependent upon the payment of another payor. Claims under litigation and vehicular incidents can take a year or longer to collect. Medicare and other payor claims relating to new clinics awaiting Medicare Rehab Agency status approval initially may not be submitted for six months or more. When all reasonable internal collection efforts have been exhausted, accounts are written off prior to sending them to outside collection firms. With managed care, commercial health plans and self-pay payor type receivables, the write-off generally occurs after the account receivable has been outstanding for at least 120 days.

In connection with the San Antonio Acquisition in 2008, we incurred a note payable in the amount of $400,400 payable in equal annual installments totaling $200,200 beginning November 18, 2009, plus any accrued and unpaid interest. Interest accrues at a fixed rate of 4.00% per annum. The final principal payment and any accrued and unpaid interest then outstanding is due and payable on November 18, 2010. In addition, we assumed leases with remaining terms ranging from nine months to three years for the operating facilities.

In connection with the RMG acquisition in 2008, we incurred a note payable in the amount of $157,100 payable in equal annual installments totaling $78,550 beginning October 8, 2009, plus any accrued and unpaid interest. Interest accrues at a fixed rate of 5.00% per annum. The final principal payment and any accrued and unpaid interest then outstanding is due and payable on October 8, 2010. The purchase agreement also provides for possible contingent consideration of up to $3,781,000 based on the achievement of a designated level of operating results within a three-year period following the acquisition. We anticipate paying additional consideration for this acquisition in the fourth quarter of 2009. The amount to be paid will be determined after a review and analysis of the operating results for the earnout period, which ends on October 31, 2009.

In connection with the Mid-Atlantic Acquisition in 2008, we incurred notes payable in the aggregate totaling $950,625 payable in equal annual installments totaling $475,312, plus any accrued and unpaid interest, which began June 11, 2009. Interest accrues at a fixed rate of 5.00% per annum. The final principal payment and any accrued and unpaid interest then outstanding is due and payable on June 11, 2010. The purchase agreement also provides for possible contingent consideration of up to $1,500,000 based on the achievement of a designated level of operating results within a three-year period following the acquisition. There was no contingent consideration earned based on the operating results of the first year. In addition, we assumed leases with remaining terms ranging from one month to five years for the operating facilities.

In connection with the acquisition of STAR in 2007, we incurred notes payable in the aggregate totaling $1,000,000 payable in equal annual installments totaling $333,333, plus any accrued and unpaid interest, with the first payment due September 6, 2008. Interest accrues at a fixed rate of 8.25% per annum. The remaining principal and any accrued and unpaid interest then outstanding is due and payable on September 6, 2010. In addition, we assumed leases with remaining terms ranging from two months to six years for the operating facilities.

In conjunction with the acquisition of an eight-clinic practice in Arizona in November 2006, we entered into a note payable in the amount of $877,500 payable in equal quarterly principal installments of $73,125, plus any accrued and unpaid interest, which began March 1, 2007. Interest accrues at a fixed rate of 7.5% per annum. The remaining principal and any accrued and unpaid interest then outstanding is due and payable on the third anniversary of the note, November 17, 2009. The purchase agreement also provides for possible contingent consideration of up to $1,500,000 based on the achievement of a designated level of operating results within a three-year period following the acquisition. In addition, we assumed leases with remaining terms ranging from one to five years for six of the eight operating facilities. With respect to the two remaining leased facilities, one is being leased on a month-to-month basis and the other was renewed for three years effective February 1, 2007. In December 2007, we paid $557,000 of additional consideration related to this acquisition upon achievement of the predefined operating results for the first year, and such amount was added to goodwill.

Except for RMG, in conjunction with the above mentioned acquisitions, in the event that a noncontrolling interest partner s employment ceases at any time after three years from the acquisition date, we have agreed to repurchase that individual s interest at a predetermined multiple of earnings before interest and taxes.

In September 2001 through December 31, 2008, the Board authorized us to purchase, in the open market or in privately negotiated transactions, up to 2,250,000 shares of our common stock; however, the terms of the Company s bank credit agreement had prohibited such purchases since August 2007. As of December 31, 2008, there were approximately 50,000 shares remaining that could be purchased under these programs. In March 2009, the Board authorized the repurchase of up to 10% or approximately 1,200,000 shares of our common stock (March 2009 Authorization). In connection with the March 2009 Authorization, we amended our bank credit agreement to permit the share repurchases. We are required to retire shares purchased under the March 2009 Authorization. Since there is no expiration date for these share repurchase programs, additional shares may be purchased from time to time in the open market or private transactions depending on price, availability and our cash position. During the three months ended September 30, 2009, we did not purchase any shares. During the nine months ended September 30, 2009, we purchased 518,335 shares for an aggregate price of $5.6 million.

FACTORS AFFECTING FUTURE RESULTS

Clinic Development

As of September 30, 2009, we had 367 clinics in operation. During 2009, we expect to incur initial operating losses from new clinics opened in late 2008 and during 2009. Generally, we experience losses during the initial period of a new clinic s operation. Operating margins for newly opened clinics tend to be lower than for more seasoned clinics because of start-up costs and lower patient visits and revenues. Generally, patient visits and revenues gradually increase in the first year of operation, as patients and referral sources become aware of the new clinic. Revenues typically continue to increase during the two to three years following the first anniversary of a clinic opening.

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Current Economic Conditions

The current economic environment may have material adverse impacts on our business and financial condition that we cannot predict. During 2009, financial markets have experienced a period of unprecedented turmoil and upheaval characterized by extreme volatility, severely diminished liquidity and credit availability, difficulty for many companies to access capital markets, the bankruptcy, failure, collapse or sale of various financial institutions and an unprecedented level of intervention from the United States federal government. Unemployment has risen while business and consumer confidence has declined. The economic environment could materially adversely affect our business and financial condition.

For example:

- patients visits may decline due to higher levels of unemployment or reduced discretionary spending;
- the tightening of credit or lack of credit availability to our customers could adversely affect our ability to collect our trade receivables; or
- our ability to access the capital markets may be restricted at a time when we would like, or need, to raise capital for our business, including for acquisitions.

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 Exchange Act of 1934. These statements contain forward-looking information relating to the financial condition, results of operations, plans, objectives, future performance and business of our Company. These statements (often using words such as believes , expects , intends , plans , appear , should and similar wor involve risks and uncertainties that could cause actual results to differ materially from those we project. Included among such statements are those relating to opening new clinics, availability of personnel and the reimbursement environment. The forward-looking statements are based on our current views and assumptions and actual results could differ materially from those anticipated in such forward-looking statements as a result of certain risks, uncertainties, and factors, which include, but are not limited to:

- revenue and earnings expectations;
- general economic conditions;
- general economic, business, and regulatory conditions including federal and state regulations;
- changes as the result of government enacted national healthcare reform;
- availability and cost of qualified physical and occupational therapists;
- personnel productivity;
- changes in Medicare guidelines and reimbursement or failure of our clinics to maintain their Medicare certification status;
- competitive, economic or reimbursement conditions in our markets which may require us to reorganize or close certain clinics and thereby incur losses and/or closure costs including the possible write-down or write-off of goodwill and other intangible assets;
- changes in reimbursement rates or payment methods from third party payors including governmental agencies and deductibles and co-pays owed by patients;
- maintaining adequate internal controls;

- availability, terms, and use of capital;
- acquisitions and the successful integration of the operations of the acquired businesses; and
- weather and other seasonal factors.

Many factors are beyond our control.

Given these uncertainties, you should not place undue reliance on our forward-looking statements. Please see our 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.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We do not maintain any derivative instruments, interest rate swap arrangements, hedging contracts, futures contracts or the like. The Company s primary market risk exposure is the changes in interest rates obtainable on our revolving credit agreement. The interest on our revolving credit agreement is based on a variable rate. Based on the balance of the revolving credit facility at September 30, 2009, any change in the interest rate of 1% would yield a decrease or increase in annual interest expense of $34,000.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company s management completed an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded (i) that our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure (ii) that our disclosure controls and procedures are effective.

(b) Changes in Internal Control

There have been no changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1A. Risk Factors.

The risk factor presented below updates and replaces a risk factor disclosed in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008, and should be considered in addition to the risk factors disclosed in that Annual Report. There have been no other material changes to the Company s risk factors as set forth in Item 1A. Risk Factors, in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

We may incur closure costs and losses.

The competitive, economic or reimbursement conditions in our markets in which we operate may require us to reorganize or to close certain clinics. In the event a clinic is reorganized or closed, we may incur losses and closure costs. The closure costs and losses include, but are not limited to, lease obligations, severance, and write-down or write-off of goodwill and other intangible assets.

ITEM 6. EXHIBITS.

EXHIBIT NO.	DESCRIPTION
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
31.3*	Rule 13a-14(a)/15d-14(a) Certification of Corporate Controller
32*	Certification Pursuant to 18 U.S.C 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith

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SIGNATURES

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

U.S. PHYSICAL THERAPY, INC.

Date: November 6, 2009

By: /s/ LAWRANCE W. MCAFEE
Lawrance W. McAfee
Chief Financial Officer
(duly authorized officer and principal financial
and accounting officer)

By: /s/ JON C. BATES
Jon C. Bates
Vice President/Corporate Controller

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