

U S PHYSICAL THERAPY INC /NV

Form DEF 14A

April 18, 2006

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OMB APPROVAL

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant  **p**  
 Filed by a Party other than the Registrant  **o**

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**U.S. Physical Therapy, Inc.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

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o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

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2) Form, Schedule or Registration Statement No.:

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4) Date Filed:

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SEC 1913 (11-01)

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**U.S. PHYSICAL THERAPY, INC.  
NOTICE OF 2006 ANNUAL MEETING OF STOCKHOLDERS**

**DATE:** Wednesday, May 31, 2006

**TIME:** 9:00 a.m. (CT)

**PLACE:** 1300 West Sam Houston Parkway South, Suite 300, Houston, Texas 77042

**MATTERS TO BE ACTED ON:**

1. Election of ten directors to serve until the next annual meeting of stockholders.
2. Approval of the Amended and Restated 1999 Employee Stock Option Plan ( Amended 1999 Plan ), which amends the current 1999 Employee Stock Option Plan ( 1999 Plan ) to (i) provide for the issuance of restricted stock and incentive stock options, (ii) include all employees in the definition of eligible individuals, (iii) eliminate the Compensation Committee's ability to reset the exercise price under any award granted under the Amended 1999 Plan, (iv) extend the effective date of the Amended 1999 Plan until May 31, 2016 and (v) provide for such other changes required or desirable under applicable law, accounting rules or NASD Marketplace Rules.
3. Ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for 2006.
4. Consideration of any other matters that may properly come before the meeting or any adjournments.

**YOUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE IN FAVOR OF THE ELECTION OF EACH OF THE TEN NOMINEES FOR DIRECTOR, IN FAVOR OF THE AMENDMENTS TO THE 1999 PLAN AND FOR THE RATIFICATION OF THE APPOINTMENT OF GRANT THORNTON AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.**

Your Board of Directors has set April 14, 2006 as the record date for the Annual Meeting. Only holders of our common stock of record on that date will be entitled to notice of and to vote at the Annual Meeting or any adjournments. A complete list of stockholders will be available for examination at the Annual Meeting and at our offices at 1300 West Sam Houston Parkway South, Suite 300, Houston, Texas 77042, for a period of ten days prior to the Annual Meeting.

You are cordially invited to join us at the Annual Meeting. However, to insure your representation at the Annual Meeting, we request that you return your signed proxy card at your earliest convenience, whether or not you plan to attend the Annual Meeting. Your proxy card will be returned to you if you are present at the Annual Meeting and request its return.

By Order of the Board of Directors,

Janna King,  
*Corporate Secretary*

April 17, 2006

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**U.S. PHYSICAL THERAPY, INC.  
1300 West Sam Houston Parkway South, Suite 300  
Houston, Texas 77042  
(713) 297-7000  
PROXY STATEMENT  
ANNUAL MEETING OF STOCKHOLDERS  
May 31, 2006**

**Annual Meeting:**

**Date:** Wednesday, May 31, 2006

**Time:** 9:00 a.m. (CT)

**Place** 1300 West Sam Houston Parkway South, Suite 300, Houston, Texas 77042

**Agenda:**

Election of ten director nominees.

Approve Amended 1999 Plan.

Ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for 2006.

**Who Can Vote:**

All holders of record of our common stock at the close of business on April 14, 2006 are entitled to vote at the Annual Meeting. Holders of our common stock are entitled to one vote per share.

**Proxies Solicited By:**

Your vote and proxy are being solicited by our Board of Directors for use at the Annual Meeting. This Proxy Statement and the enclosed proxy card are being mailed on behalf of our Board of Directors on or about April 20, 2006 to all of our stockholders (any reference to shareholders and or stockholders shall denote and be referred to as stockholders) of record as of the close of business on April 14, 2006.

Your presence at the Annual Meeting will not automatically revoke your proxy. You may, however, revoke your proxy at any time prior to its exercise by delivering to us another proxy bearing a later date, by attending the Annual Meeting and voting in person, or by filing a written notice of revocation with Janna King, our Corporate Secretary, at our principal executive offices, 1300 West Sam Houston Parkway South, Suite 300, Houston, Texas 77042. If you receive multiple proxy cards, this indicates that your shares are held in more than one account, such as two brokerage accounts, and are registered in different names. You should vote each of the proxy cards to ensure that all of your shares are voted.

**Proxies:**

**Properly executed but unmarked proxies will be voted FOR the election of our ten director nominees, FOR the approval of the amendments to the 1999 Plan and FOR the ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm.** If you withhold your vote for any of the nominees, this will be counted as a vote **AGAINST** that nominee. If any other matters are properly brought before the Annual Meeting, the persons named in the proxy will vote your shares as directed by a majority of the Board of Directors.

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**Quorum:**

Only shares of our common stock can be voted, with each share entitling its owner to one vote on all matters. The close of business on April 14, 2006 was fixed by the Board of Directors as the record date for determination of stockholders entitled to vote at the meeting. The number of shares of our common stock outstanding on the record date was 11,788,362. The presence, in person or by proxy, of at least a majority of the shares is necessary to constitute a quorum at our Annual Meeting. Abstentions will be treated as present for determining a quorum at the Annual Meeting. If a broker holding your shares in street name indicates to us on a proxy card that the broker lacks discretionary authority to vote your shares, we will not consider your shares as present or entitled to vote for any purpose. There is no cumulative voting in the election of directors and the directors will be elected by a plurality of the votes cast at the Annual Meeting. A majority of the shares present, in person or by proxy, and entitled to vote at our Annual Meeting must be voted in favor of the amendments to the 1999 Plan in order for those amendments to be approved.

**Cost of Proxy Solicitation:**

We will bear the cost of soliciting proxies. Some of our directors, officers and regular employees may solicit proxies personally or by telephone. Proxy materials will also be furnished without cost to brokers and other nominees to forward to the beneficial owners of shares held in their names.

**Questions and Additional Information:**

You may call our President and Chief Executive Officer, Christopher J. Reading, our Chief Financial Officer, Lawrance W. McAfee, or email us at [investorrelations@usph.com](mailto:investorrelations@usph.com) if you have any questions. A copy of our Annual Report on Form 10-K for the year ended December 31, 2005 accompanies this Proxy Statement. **We have filed an Annual Report on Form 10-K for the year ended December 31, 2005 (the Form 10-K ) with the Securities and Exchange Commission (the SEC ). You may obtain additional copies of the Form 10-K by downloading it from our website at [usph.com](http://usph.com) writing to U.S. Physical Therapy, Inc., 1300 West Sam Houston Parkway South, Suite 300, Houston, Texas 77042, Attention: Janna King, Corporate Secretary or by emailing us at [investorrelations@usph.com](mailto:investorrelations@usph.com).**

**PLEASE VOTE YOUR VOTE IS IMPORTANT**

**Item 1 *Election of Directors***

The accompanying proxy, unless marked to the contrary, will be voted in favor of the election of Messrs. Daniel C. Arnold, Christopher J. Reading, Lawrance W. McAfee, Mark J. Brookner, Bruce D. Broussard, Bernard A. Harris, Jr., Marlin W. Johnston, J. Livingston Kosberg, Jerald L. Pullins and Clayton K. Trier. These ten nominees are current directors standing for re-election and will be elected at the Annual Meeting to serve until the next annual meeting of stockholders. Mr. Albert L. Rosen, a current director of the Company, is not standing for reelection. In connection with the election of directors at the Annual Meeting, the Board of Directors intends to set the number of directors constituting our full Board of Directors at ten.

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The board of directors has determined that Messrs. Arnold, Broussard, Harris, Johnston, Pullins and Trier are considered independent under the applicable NASDAQ Listing Standards. Messrs. McAfee and Reading, who are officers of the Company, and Messrs. Brookner and Kosberg, who are consultants to the Company and former employees, are not considered independent under the applicable NASDAQ Listing Standards. The nominees for director are:

<b>Nominees:</b>	<b>Age</b>	<b>Director Since</b>	<b>Position(s)Held</b>
Daniel C. Arnold	76	1992	Chairman of the Board
Christopher J. Reading	42	2004	President, Chief Executive Officer and Director
Lawrance W. McAfee	51	2004	Executive Vice President, Chief Financial Officer and Director
Mark J. Brookner	61	1990	Vice Chairman of the Board and Director
Bruce D. Broussard	43	1999	Director
Dr. Bernard A. Harris, Jr.*	49	2005	Director
Marlin W. Johnston	74	1992	Director
J. Livingston Kosberg	69	2004	Director
Jerald L. Pullins	64	2003	Director
Clayton K. Trier**	54	2005	Director

\* Dr. Harris was appointed to the Board of Directors effective August 23, 2005.

\*\* Mr. Trier was appointed to the Board of Directors effective February 23, 2005.

**Director Biographies:**

**Daniel C. Arnold** was named our Chairman of the Board on July 6, 2004. Mr. Arnold is a private investor engaged primarily in managing his personal investments. During the past five years, he had served on the board of directors of both Parkway Properties, Inc., a real estate investment trust listed on the New York Stock Exchange, and Belco Oil & Gas Corp., a public oil and gas exploration and production company. He has also served as Chairman of the Board of Trustees of Baylor College of Medicine. Currently, Mr. Arnold only serves on our Board of Directors.

**Christopher J. Reading** was promoted to President and Chief Executive Officer and elected to our Board of Directors effective November 1, 2004. Prior to November 2004, Mr. Reading served as our Chief Operating Officer since joining us in October 2003. From 1990 to 2003, Mr. Reading served in various executive and management positions with HealthSouth Corporation where most recently he was Senior Vice President of operations responsible for over 200 facilities located in 10 states. Mr. Reading is a physical therapist.

**Lawrance W. McAfee** was promoted to Executive Vice President and elected to our Board of Directors effective November 1, 2004. Mr. McAfee also serves as our Chief Financial Officer, a position he has held since joining us in September 2003. Mr. McAfee's experience includes having served as Chief Financial Officer of three public companies and President of two private companies. From September 2002 to April 2003, he served as President and Chief Financial Officer of SAT Corporation, a software company. From September 1999 until March 2002, Mr. McAfee was Chief Financial Officer and later President of CheMatch.com, Inc., an on-line chemicals exchange.

**Mark J. Brookner** has served as our Vice Chairman of the Board since August 1998. Mr. Brookner is currently a private investor. He served as our Chief Financial Officer from April 1992 to August 1998 and as our Secretary and Treasurer during portions of that period.



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**Bruce D. Broussard** has served on our Board since 1999. Since November 2005, Mr. Broussard has been President of U.S. Oncology, Inc., a cancer-care services company formerly listed on The Nasdaq Stock Market. Since August 2000 through October 2005, he was the Chief Financial Officer of U.S. Oncology, Inc. From December 1997 to August 2000, Mr. Broussard was the Chief Executive Officer of HarborDental Properties, a dental development company specializing in free-standing upscale dedicated dental buildings. Mr. Broussard served as the Chief Financial Officer for Regency Health Services, Inc., a national chain of nursing homes and provider of long-term health services formerly listed on the New York Stock Exchange, from 1996 to 1997 and as a Director and Chief Financial Officer for Sun Health Care Group, a health care provider, from 1993 to 1996.

**Dr. Bernard A. Harris** joined our Board on August 23, 2005. From June 2001, Dr. Harris has been President and Chief Executive Officer of Vesalius Ventures, a venture capital firm that invests in early stage medical informatics and technology. From 1996 to 2001, he served as Chief Medical Officer and Vice President for Space Hab, an aerospace company. Dr. Harris is a former astronaut, having completed two space shuttle missions. He completed his residency in Internal Medicine at the Mayo Clinic and trained as a flight surgeon at the Aerospace School of Medicine at Brooks Air Force Base.

**Marlin W. Johnston** has served on our Board since 1992. Mr. Johnston has been a management consultant with Tonn & Associates, a management consulting firm, since September 1993. During 1992 and 1993, Mr. Johnston served as a management consultant to the Texas Department of Health and the Texas Department of Protective and Regulatory Services.

**J. Livingston Kosberg** rejoined our Board of Directors on July 6, 2004 and served as our interim Chief Executive Officer from July 6, 2004 through October 31, 2004. Mr. Kosberg previously served as our Chief Executive Officer from April 1992 until August 1995 and as our Chairman of the Board from April 1992 until May 2001. Mr. Kosberg also serves as a director of Affiliated Computer Services, Inc., a Fortune 500 and S&P 500 company listed on the New York Stock Exchange that provides business process and technology outsourcing solutions to commercial and government clients. Mr. Kosberg has been involved in a variety of industries, including healthcare, finance and construction and currently serves as an advisor to several investment funds.

**Jerald L. Pullins** has served on our Board since 2003. Mr. Pullins is President and Chief Executive Officer of Voyager Hospice, Inc., a private enterprise involved in the acquisition, development and operation of hospice and palliative care facilities. From August 1991 until 2002, he was employed by Service Corporation International, a provider of funeral, cemetery and related services listed on the New York Stock Exchange, in various capacities including: President and Chief Operating Officer (1998-2002); Executive Vice President-International Operations (1994-1998); and Senior Vice President-Corporate Development (1991-1994). Prior to 1991, for seven years he served as President and Chief Executive Officer of The Sentinel Group, Inc., a private company which owned and operated funeral, cemetery, insurance and related businesses.

**Clayton K. Trier** joined our Board on February 23, 2005. Mr. Trier is a private investor. He was a founder and former Chairman and Chief Executive Officer of U.S. Delivery Systems, Inc., which developed the first national network providing same-day delivery service, from 1993 until 1997. Before it was acquired in 1996, U.S. Delivery was listed for two years on the New York Stock Exchange. Mr. Trier currently serves on the board of Creative Master (Bermuda) Ltd, a public company listed on the Singapore Stock Exchange, and is Chairman of the Board of Digital Music Group, Inc., a public company listed on the Nasdaq National Market.

The persons named on the proxy card will vote FOR all of the nominees for director listed above unless you withhold authority to vote for one or more of the nominees. Nominees will be elected by a plurality of the votes cast at the Annual Meeting. Abstentions and broker non-votes will not be treated as a vote for or against any particular nominee and will not affect the outcome of the election of directors. Continental Stock Transfer & Trust Co. will tabulate the votes cast by proxy or in person at the Annual Meeting.

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All of our nominees have consented to serve as directors. Our Board has no reason to believe that any of the nominees will be unable to act as a director. However, if any director is unable to serve, the Board will designate a substitute. If a substitute nominee is named, the persons named on the proxy card will vote FOR the election of the substitute nominee.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS  
VOTE FOR THE ELECTION OF THE TEN NOMINEES FOR DIRECTOR  
NAMED IN THE PROXY STATEMENT.**

**CORPORATE GOVERNANCE AND BOARD MATTERS**

**Independence Directors**

After the upcoming Annual Meeting, the Board will consist of ten directors, six of whom the Board has affirmatively determined have no relationship with the Company or its subsidiaries which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and are independent, as defined in the applicable NASDAQ Listing Standards. See Item 1. Election of Directors.

**Attendance at Board Meetings and Board Committees**

The Board of Directors conducts its business through its meetings and through meetings of certain committees of the Board of Directors. All committees act for the Company. The Board of Directors is comprised of a majority of independent directors as required by the applicable NASDAQ Listing Standards.

The Board has standing governance and nominating, corporate compliance (sub-committee of the audit committee), compensation and audit committees. During 2005, the Board of Directors met 7 times, the Governance and Nominating Committee met 2 times, the Corporate Compliance Committee met 4 times, the Compensation Committee met 7 times and the Audit Committee met 13 times. Each of our directors attended at least 75% of the meetings of the Board of Directors and each committee on which he served. These committees are constituted as follows:

***Governance and Nominating Committee***

The Governance and Nominating Committee currently consists of Messrs. Arnold (Chairman), Broussard and Trier, all of whom are independent directors (as the term independent is defined by the applicable NASDAQ Listing Standards). Mr. Trier was elected to the Governance and Nominating Committee effective February 23, 2005. The function of the Governance and Nominating Committee is to select, screen and recommend to the full Board nominees for election as directors, including any nominees proposed by stockholders who have complied with the procedures described below. The Governance and Nominating Committee also has ongoing responsibility for oversight review of Board performance, ensuring individual Board member's continuing commitment to the Board and the Company's goals and objectives. Additional functions include regularly assessing the appropriate size of the Board, and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the Governance and Nominating Committee will consider various potential candidates for director. Candidates may come to the attention of the Governance and Nominating Committee through current Board members, stockholders, or other persons. The Governance and Nominating Committee may also hire third parties to identify, evaluate, or to assist in identifying or evaluating, potential nominees should it be determined necessary. The Governance and Nominating Committee is required to meet twice a year and operates under a written charter, a copy of which is available on our website [www.usph.com](http://www.usph.com).

*Nomination Criteria.* In its consideration of Board candidates, the Governance and Nominating Committee considers the following criteria: the candidate's general understanding of health care sector, marketing, finance and other disciplines relevant to the success of a publicly-traded company; strategic

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business contacts and regard or reputation in the community, industry and civic affairs; financial, regulatory and business experience; integrity, honesty and reputation; diversity, size of the Board of Directors and regulatory obligations. In the case of incumbent directors whose terms of office are set to expire, the Governance and Nominating Committee reviews such directors' overall service to the Company during their terms, including the number of meetings attended, level of participation, quality of performance, and whether the director continues to meet the independence standards set forth in the applicable SEC rules and regulations and the applicable NASDAQ Listing Standards. In the case of new director candidates, the questions of independence and financial expertise are important to determine what roles can be performed by the candidate, and the Governance and Nominating Committee determines whether the candidate meets the independence standards set forth in the SEC rules and regulations and the applicable NASDAQ Listing Standards, and the level of the candidate's financial expertise. Candidates are first screened by the Governance and Nominating Committee, and if approved by the Governance and Nominating Committee, then they are screened by other members of the Board. The full Board approves the final nomination(s) based on recommendations from the Governance and Nominating Committee. The Chairman of the Board, acting on behalf of the full Board, will extend the formal invitation to become a nominee of the Board of Directors. Qualified candidates for membership on the Board will be considered without regard to race, color, religion, sex, ancestry, national origin or disability.

*Stockholder Nomination Procedures.* The Governance and Nominating Committee will consider director candidates recommended by the stockholders. Generally, for a stockholder of the Company to make a nomination, he or she must give written notice to our Corporate Secretary so that such notice is received at least 120 calendar days prior to the first anniversary of the date the Company's proxy statement is sent to the stockholders in connection with the previous year's annual meeting of stockholders. If no annual meeting of stockholders was held in the previous year (or if the date of the annual meeting of stockholders was changed by more than 30 calendar days from the date of the previous year's annual meeting), the notice must be received by the Company at least 150 calendar days prior to the date of the previous year's annual meeting. The stockholder's notice must set forth as to each nominee: (i) the name, age, business address and residence address of such nominee; (ii) the principal occupation or employment of such nominee; (iii) the number of shares of our Common Stock which are beneficially owned by such nominee; and (iv) any other information relating to such nominee that may be required under federal securities laws to be disclosed in solicitations of proxies for the election of directors (including the written consent of the person being recommended as a director candidate to being named in the proxy statement as a nominee and to serve as a director if elected). The stockholder's notice must also set forth as to the stockholder giving notice: (i) the name and address of such stockholder; and (ii) the number of shares of our Common Stock which are beneficially owned by such stockholder.

If the information supplied by the stockholder is deficient in any material aspect or if the foregoing procedure is not followed, the chairman of the annual meeting may determine that such stockholder's nomination should not be brought before the meeting and that such nominee shall not be eligible for election as a director of the Company. The Governance and Nominating Committee will not alter the manner in which it evaluates candidates, including the minimum criteria set forth above, based on whether or not the candidate was recommended by a stockholder.

***Corporate Compliance Sub-Committee***

The Corporate Compliance Committee is a sub-committee of the Audit Committee, and consists of three independent directors ( Compliance Committee ). The three independent director members of this committee are Messrs. Johnston (Chairman), Harris and Pullins. Dr. Harris was elected to the Corporate Compliance Sub-Committee on August 23, 2005. The Compliance Committee has general oversight of our Company's compliance with the legal and regulatory requirements regarding healthcare operations. The Chairman of the Compliance Committee is provided with information regarding calls received on the Company's compliance hotline and reports his findings to the Compliance Committee. The Compliance Committee relies on the expertise and knowledge of management, especially our Compliance Officer ( CO ) and other compliance, management, operations and legal personnel. The CO is in ongoing contact

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with the Chairman of the Compliance Committee. The Compliance Committee meets at least two times a year or more frequently as necessary to carry out its responsibilities and reports periodically to the Board of Directors regarding its actions and recommendations. The Corporate Compliance Committee reviews and assesses the activities and findings of clinic internal audits, reviews reports of material noncompliance and reviews and approves corrective actions proposed by management.

### ***Compensation Committee***

The current members of the Compensation Committee are Messrs. Broussard (Chairman), Arnold, Rosen and Trier all of whom are independent directors (as the term independent is defined by the applicable NASDAQ Listing Standards). Mr. Broussard was elected to the Compensation Committee on September 22, 2005 and Mr. Trier on February 23, 2005. Mr. Rosen will serve until the Annual Meeting. The primary function of the Compensation Committee is to determine and report to the Board the compensation to be paid to our directors and executive officers and administer incentive stock plans.

### ***Audit Committee***

The Audit Committee currently consists of Messrs. Johnston (Chairman), Harris, Pullins and Trier. Mr. Trier was elected to the Audit Committee effective February 23, 2005 and Dr. Harris on August 23, 2005. Our Board of Directors has determined that Mr. Trier and Mr. Pullins are audit committee financial experts. As more fully described in the Audit Committee Charter, which can be found on our website, [www.usph.com](http://www.usph.com), the Audit Committee is responsible for, among other things:

overseeing our financial reporting processes, including the quarterly reviews and annual audits of our financial statements by the independent auditors;

the appointment, compensation, retention and oversight of the work of the independent auditors;

pre-approving audit and permitted non-audit services, and related fees and terms of engagement, provided by the independent auditors; and

reviewing with management and independent auditors issues relating to disclosure controls and procedures and internal control over financial reporting.

The Audit Committee Charter requires that the Audit Committee consist of at least three independent members of our Board. Each member of the Audit Committee is an independent director as that term is defined by Nasdaq Stock Market Rule 4200(a)(14).

### **Codes of Conduct**

Our Board has approved and we have adopted a Code of Business Conduct and Ethics applicable to all of our directors. This code is available on our website, [www.usph.com](http://www.usph.com). Our Board, or a committee of its independent members, is responsible for reviewing and approving or rejecting any requested waivers to this code, as such waivers may apply to our directors. Any waivers of this code for directors will be disclosed in a Form 8-K filed with the SEC, which will be available on the SEC's website at [www.sec.gov](http://www.sec.gov).

Our Board has approved and we have adopted an additional Code of Business Conduct and Ethics, applicable to our Chief Executive Officer and all senior financial officers, relating to dealings with our auditors and the preparation of our financial statements and other disclosures made to the public under SEC rules and regulations. This code is available on our website, [www.usph.com](http://www.usph.com). The Board, or a committee of its independent members, is responsible for reviewing and approving or rejecting any requested waivers from and amendments to this code. Any waivers from and amendments to will be disclosed in a Form 8-K filed with the SEC, which will be available on the SEC's website at [www.sec.gov](http://www.sec.gov).

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**Communications with the Board of Directors and Attendance at Annual Meeting.**

The Board of Directors maintains an informal process for stockholders to communicate with the Board of Directors. Stockholders wishing to communicate with the Board of Directors should send any communication to Janna King, our Corporate Secretary, at our principal executive offices, 1300 West Sam Houston Parkway South, Suite 300, Houston, Texas 77042. Any such communication must state the number of shares beneficially owned by the stockholder making the communication. The Corporate Secretary will forward such communication to the full Board of Directors or to any individual director or directors to whom the communication is directed unless the communication is unduly hostile, threatening, illegal or similarly inappropriate, in which case the Corporate Secretary has the authority to discard the communication or take appropriate legal action regarding the communication.

Although the Company does not have a formal policy requiring them to do so, all of the members of our Board of Directors are encouraged to attend our annual meeting of stockholders. At the 2005 annual meeting, three of our directors were in attendance.

**Compensation of Directors**

For 2005, each of our independent directors received \$7,500 per quarter for serving as a member of our Board of Directors. Effective May 25, 2005, non-employee directors are paid \$500 for each committee meeting attended in person and \$500 for each meeting attended telephonically. The Chairman of each of the Audit Committee and Compliance Committee is paid a \$5,000 annual fee. The Chairman of the Board is paid a \$20,000 annual chairman fee. They are also reimbursed for their out-of-pocket travel and related expenses incurred in attending Board and committee meetings. Directors who are also our employees or consultants are not compensated separately for serving on our Board.

On February 23, 2005, Mr. Trier received a ten-year non-qualified equity-based grant to purchase 30,000 shares of our common stock with an exercise price of \$13.97 per share. The grant became exercisable on February 23, 2006. On August 23, 2005, Dr. Harris received a ten-year non-qualified equity-based grant to purchase 30,000 shares of our common stock at an exercise price of \$18.42 per share. The grant became exercisable on December 31, 2005. On November 15, 2005, each of Messrs. Arnold, Brookner, Broussard, Johnston, Kosberg, Pullins and Rosen each received a ten-year non-qualified equity-based compensation grant to purchase 5,000 shares of our common stock, which became immediately exercisable. On November 15, 2005, Mr. Trier received a ten-year non-qualified equity-based compensation grant to purchase 2,500 shares of our common stock, which became immediately exercisable. The exercise price of the equity awards granted on November 15, 2005 was \$18.80 per share. All exercise prices for the 2005 grants were deemed to be the fair market value of our stock on the date of grant. All option grants described above were issued under our 2003 Stock Incentive Plan and expire six months after the termination of the recipient's position with us.

In 2005, Mr. Brookner received \$50,000 in compensation and benefits for serving as a consultant and as Vice Chairman of the Board and Mr. Kosberg received \$87,800 in compensation for serving as a consultant. Mr. Brookner and Mr. Kosberg's consulting arrangements are described below in the section entitled "Employment and Consulting Agreements."

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The following table shows the number and percentage of shares of our common stock beneficially owned by our directors and executive officers as of March 31, 2006. Each person has sole voting and investment power for the shares shown below unless otherwise indicated.

Name of Beneficial Owner	Number of Shares Owned(1)	Right to Acquire(2)	Percent of Common Stock
<b>Directors</b>			
Daniel C. Arnold Chairman of the Board	124,002	104,002	1.0%
Christopher J. Reading President, Chief Executive Officer and Director	100,000	100,000	*
Lawrance W. McAfee Executive Vice President, Chief Financial Officer and Director	75,000	75,000	*
Mark J. Brookner Vice Chairman of the Board and Director	95,000(3)	25,000	*
Bruce D. Broussard Director	40,002	40,002	*
Dr. Bernard A. Harris, Jr. Director	30,000	30,000	*
Marlin W. Johnston Director	52,500	37,500	*
J. Livingston Kosberg Director	271,710(4)	30,000	2.3%
Jerald L. Pullins Director	62,500	57,500	*
Albert L. Rosen Director (not standing for reelection)	133,002(5)	65,502	1.1%
Clayton K. Trier Director	34,000	32,500	*
<b>Non-Director Executive Officers</b>			
Glenn D. McDowell Chief Operating Officer	10,000	10,000	*
All directors and executive officers as a group (12 persons)	1,027,716	607,006	8.3%

\* Less than 1%

(1) Includes shares of our common stock subject to outstanding options that are currently exercisable or exercisable through May 30, 2006.

(2)

Number of shares of our common stock (of the total beneficially owned) that can be acquired through stock options exercisable through May 30, 2006.

- (3) Includes 25,000 shares of our common stock owned directly by Mr. Brookner and 70,000 shares of common stock held in various trusts of which Mr. Brookner is the trustee.
- (4) Includes 210,000 shares of our common stock held by the Livingston Kosberg Trust which Mr. Kosberg is the trustee and income beneficiary. Also includes 13,200 shares of our common stock held directly by Mr. Kosberg, 15,000 shares of our common stock held in a trust in which Mr. Kosberg is the trustee and 3,510 shares of our common stock held by Mr. Kosberg's spouse for which Mr. Kosberg disclaims beneficial ownership.
- (5) Includes 67,500 shares of our common stock held by the Rosen Family Trust. Mr. Rosen serves as a trustee for the Rosen Family Trust.

**Table of Contents****STOCK HELD BY PRINCIPAL BENEFICIAL HOLDERS**

The table shows the ownership of our shares of Common Stock by persons known to us to beneficially own more than 5% of our Common Stock. The information is based on the most recent statements filed with the SEC on Schedule 13D or 13G, submitted to us by those persons.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Common Stock Outstanding
Wasatch Advisors, Inc. 150 Social Hall Avenue Salt Lake City, UT 84111	1,573,389(1)	13.4%
Royce & Associates, LLC 1414 Avenue of the Americas New York, NY 10019	1,547,575(2)	13.1%
FMR Corp. 82 Devonshire Street Boston, MA 02109	723,900(3)	6.1%
Barclays Global Investors, NA 45 Fremont Street San Francisco, CA 94105	603,447(4)	5.1%

- (1) Wasatch Advisors, Inc. has sole voting and sole dispositive power over all of the shares as disclosed in a Schedule 13G/ A filed February 14, 2006.
- (2) Royce & Associates, LLC has sole voting and dispositive power over all of the shares as disclosed in a Schedule 13G/A filed February 3, 2006.
- (3) FMR Corp. does not have voting power but has sole dispositive power over all of the shares as disclosed in a Schedule 13G/A filed February 14, 2006.
- (4) Barclays Global Investors, NA has sole voting power over 455,213 of the shares and sole dispositive power over 477,684 of the shares and Barclays Global Fund Advisors has sole voting and dispositive power over 125,763 of the shares as disclosed in a Schedule 13G filed January 27 2006.

**EXECUTIVE OFFICERS**

The current executive officers of the Company are as follows:

Name	Position
Christopher J. Reading	President and Chief Executive Officer
Lawrance W. McAfee	Executive Vice President and Chief Financial Officer
Glenn D. McDowell	Chief Operating Officer

For information concerning Messrs. Reading and McAfee see Election of Directors.



**Glenn D. McDowell, 49**, was promoted to Chief Operating Officer effective January 24, 2005. Mr. McDowell has served as our Vice President of Operations overseeing the west region since joining us in October 2003 until January 2005. From 1996 to 2003, Mr. McDowell was employed by HealthSouth Corporation, a provider of outpatient surgery, diagnostic imaging and rehabilitative healthcare services. His most recent position with HealthSouth Corporation was Vice President of Operations West Ambulatory Division where he oversaw the operations of more than 165 outpatient rehabilitation and other facilities.

**Table of Contents****Executive Compensation**

The following table sets forth the compensation paid or accrued for services rendered in all capacities on behalf of our Company during 2005, 2004 and 2003 to Messrs. Reading, McAfee and McDowell. (the Named Executive Officers )

**Summary Compensation Table**

Name and Principal Position(s)	Fiscal Year	Annual Compensation Awards(1)			Long-Term Compensation
		Salary	Bonus	Other Annual Compensation	Securities Underlying Options #(2)
Christopher J. Reading(3) Chief Executive Officer	2005	\$ 325,000	\$ 150,000		
	2004	262,500	100,000		200,000
	2003	41,667		\$ 28,945	50,000
Lawrance W. McAfee(4) Chief Financial Officer	2005	\$ 325,000	\$ 150,000		
	2004	304,167	120,000		200,000
	2003	100,000	12,500		50,000
Glenn D. McDowell(5) Chief Operating Officer	2005	\$ 181,861	\$ 90,000		45,000
	2004	140,000	23,000		5,000
	2003	35,027		\$ 9,522	5,000

- (1) None of the above individuals holds any shares of restricted stock of U.S. Physical Therapy, Inc. These compensation figures do not include the cost of benefits, including premiums for life insurance, and any other perquisites provided by the Company to such persons in connection with our business, all of which does not exceed the lesser of \$50,000 or 10% of such person's annual salary and bonus for the subject fiscal year.
- (2) Reflects shares of our common stock underlying options granted under our 2003 Stock Incentive Plan and inducement options.
- (3) For 2003, reflects compensation received from November 3, 2003 through December 31, 2003 and payment of Mr. Reading's moving expenses. Effective February 27, 2006, Mr. Reading's annual salary was increased to \$341,250.
- (4) For 2003, reflects compensation received from September 2, 2003 through December 31, 2003. Effective February 27, 2006, Mr. McAfee's annual salary was increased to \$341,250.
- (5) For 2003, reflects compensation received from October 1, 2003 through December 31, 2003 and payment of Mr. McDowell's moving expenses. In connection with his promotion to Chief Operating Officer, Mr. McDowell was granted 45,000 stock options under the 2003 Stock Incentive Plan in February, 2005. Effective January 8, 2006, Mr. McDowell's annual salary was increased to \$190,550.

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**Option Grants**

The following table contains information with respect to grants of stock options and equity-based compensation grants to the Named Executive Officers during the year ended December 31, 2005.

**Option Grants in 2005 Fiscal Year  
Individual Grants**

Name	Number of Securities Underlying Options Granted (#)(a)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5% (\$)	10% (\$)
					&nb	