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

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2004

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-11151

U.S. PHYSICAL THERAPY, INC.

(NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

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

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

As of May 5, 2004, the number of shares outstanding of the registrant's common stock, par value $.01 per share, was: 12,442,892.

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ITEM 1. FINANCIAL STATEMENTS

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

	March 31, 2004	December 31, 2003
ASSETS	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 18,439	$ 16,822
Patient accounts receivable, less allowance for doubtful accounts of $3,339 and $3,456, respectively	15,790	14,135
Accounts receivable -- other	356	266
Other current assets	1,546	1,802
Total current assets	36,131	33,025
Fixed assets:		
Furniture and equipment	20,990	20,598
Leasehold improvements	10,900	10,760
	31,890	31,358
Less accumulated depreciation and amortization	20,402	19,550
	11,488	11,808
Goodwill, net of amortization of $335	5,685	5,685
Other assets, net of amortization of $432	2,011	1,955
	$ 55,315	$ 52,473
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable -- trade	$ 631	$ 498
Accrued expenses	3,429	2,549
Notes payable	37	39
Convertible subordinated notes payable	1,666	2,333
Total current liabilities	5,763	5,419
Notes payable -- long-term portion	83	83
Other long-term liabilities	439	346
Total liabilities	6,285	5,848
Minority interests in subsidiary limited partnerships	3,458	3,278
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $.01 par value, 500,000 shares authorized, no shares issued and outstanding	--	--
Common stock, $.01 par value, 20,000,000 shares authorized, 12,443,514 and 12,242,577 shares issued at March 31, 2004 and December 31, 2003, respectively	124	122
Additional paid-in capital	27,499	26,808
Retained earnings	30,471	28,939
Treasury stock at cost, 947,100 shares held at March 31, 2004 and December 31, 2003	(12,522)	(12,522)
Total shareholders' equity	45,572	43,347
	$ 55,315	$ 52,473

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(unaudited)

	Three Months Ended March 31,	
	2004	**2003**
Net patient revenues	$ 27,715	$ 24,483
Management contract revenues	566	477
Other revenues	36	46
Net revenues	28,317	25,006
Clinic operating costs:		
Salaries and related costs	14,619	12,274
Rent, clinic supplies and other	6,002	5,141
Provision for doubtful accounts	397	338
	21,018	17,753
Corporate office costs	3,623	3,178
Operating income	3,676	4,075
Interest expense	36	46
Minority interests in subsidiary limited partnerships	1,182	1,145
Income before income taxes	2,458	2,884
Provision for income taxes	926	1,097
Net income	$ 1,532	$ 1,787
Basic earnings per common share	$ 0.13	$ 0.16
Diluted earnings per common share	$ 0.13	$ 0.15

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(unaudited)

	Three Months Ended March 31, 2004	2003
OPERATING ACTIVITIES		
Net income	$ 1,532	$ 1,787
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	905	841
Minority interests in earnings of subsidiary limited partnerships	1,182	1,145
Provision for doubtful accounts	397	338
Tax benefit from exercise of stock options	23	171
Deferred income taxes	226	--
Other	3	(34)
Changes in operating assets and liabilities:		
Increase in patient accounts receivable	(2,052)	(738)
Increase in accounts receivable -- other	(90)	(130)
(Decrease) Increase in other assets	(26)	226
Increase in accounts payable and accrued expenses	1,011	908
Increase in other liabilities	93	22
Net cash provided by operating activities	3,204	4,536
INVESTING ACTIVITIES		
Purchase of fixed assets	(591)	(1,470)
Other	3	129
Net cash used in investing activities	(588)	(1,341)
FINANCING ACTIVITIES		
Distributions to minority investors in subsidiary limited partnerships	(1,002)	(852)
Payment of notes payable	--	(1)
Repurchase of common stock	--	(20)
Proceeds from exercise of stock options	3	202
Net cash used in financing activities	(999)	(671)
Net increase in cash and cash equivalents	1,617	2,524
Cash and cash equivalents -- beginning of year	16,822	7,610
Cash and cash equivalents -- end of period	$ 18,439	$ 10,134
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income taxes	$ 120	$ 115
Interest	$ 29	$ 93
Non-cash transactions during the period:		
Conversion of Series C Notes into common stock	$ 667	$ -

See notes to consolidated financial statements.

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 intercompany transactions and balances have been eliminated. The Company primarily operates through subsidiary clinic partnerships, in which the Company generally owns a 1% general partnership interest and a 64% limited partnership interest in the clinics. The managing therapist of each clinic owns the remaining limited partnership interest in the majority of the clinics. In some instances, the Company developed satellite clinic facilities as extensions of existing clinics, with the result that some existing clinic partnerships operate more than one clinic location. Beginning in 2003, the Company significantly reduced its development of new clinic partnerships. New clinics opened which are not satellite clinics are wholly owned by the Company. The clinic directors of such clinics are partially compensated based upon clinic profits.

The accompanying unaudited consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions for Form 10-Q. However, the statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The Company believes, and the President and Chief Financial Officer have certified, that the financial statements included in this report contain all necessary adjustments (consisting only of normal recurring adjustments) to present fairly the Company's financial position, results of operations and cash flows for the interim periods presented. For further information regarding the Company's accounting policies, please read the audited financial statements included in the Company's Form 10-K for the year ended December 31, 2003.

Operating results for the three months ended March 31, 2004 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, 2003.

Significant Accounting Policies

Revenue Recognition

Revenues are recognized in the period in which services are rendered and are reported at estimated net realizable amounts. Net patient revenues are reported at the estimated net realizable amounts from insurance companies, third-party payors, patients and others for services rendered. The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established rates. The Company determines allowances for doubtful accounts based on the specific agings and payor classifications at each clinic, and contractual adjustments based on historical experience and the terms of payor contracts. Net accounts receivable includes only those amounts the Company estimates to be collectible.

Reimbursement rates for outpatient therapy services provided to Medicare beneficiaries are established pursuant to a fee schedule published by the Department of Health and Human Services ("HHS"). Under the Balanced Budget Act of 1997 the total amount paid by Medicare in any one year for outpatient physical (including speech-language pathology) or occupational therapy to any one patient is limited to $1,500 (the "Medicare Limit"), except for services provided in hospitals. After a three-year moratorium, this Medicare Limit on therapy services was implemented for services rendered on or after September 1, 2003. The Medicare Limit in any one-year has been adjusted up to $1,590 (the "Adjusted Medicare Limit"). Effective December 8, 2003, a moratorium was placed on the Adjusted Medicare Limit for the remainder of 2003 and for years 2004 and 2005. See also "Factors Affecting Future Results" in Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations.

Allowance for Doubtful Accounts

We review the accounts receivable aging and rely on prior experience with particular payors at each clinic to determine an appropriate reserve for doubtful accounts. Historically, clinics that have large numbers of aged accounts generally have less favorable collection experience, and thus they require a higher allowance. Accounts that are ultimately determined to be uncollectible are written off against our bad debt allowance. The amount of our aggregate bad debt allowance is periodically reviewed for adequacy in light of current and historical experience.

Income Taxes

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.

Stock Options

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations including FASB Interpretation No. 44, *Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25*, to account for its fixed-plan stock options. Under this method, the compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. FASB Statement No. 123, *Accounting for Stock-Based Compensation* and FASB Statement No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123*, established accounting and disclosure requirements using fair-value-based method of accounting for stock-based employee compensation plans. As permitted by existing accounting standards, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and has adopted only the disclosure requirements of Statement 123, as amended. Under APB Opinion No. 25 the Company recaptured $35,000 of compensation cost in net income for the period ended March 31, 2004. No compensation cost related to stock plans has been recognized for the quarter ended March 31, 2003.

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

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The pro forma effect on net income for the quarters ended March 31, 2004 and 2003 is not representative of the pro forma effect on net income in future years because it does not take into consideration pro forma compensation expense related to grants made prior to 1995. The Company's pro forma information follows (in thousands except for earnings per share information):

	For The Three Months Ended March 31,	
	2004	**2003**
Net income, as reported	$ 1,532	$ 1,787
Deduct: Total stock-based compensation expense determined under the fair value method, net of taxes	(367)	(248)
Pro forma net income	$ 1,165	$ 1,539
Earnings per share:		
Actual basic earnings per common share	$ 0.13	$ 0.16
Actual diluted earnings per common share	$ 0.13	$ 0.15
Pro forma basic earnings per common share	$ 0.10	$ 0.14
Pro forma diluted earnings per common share	$ 0.10	$ 0.13

Long-Lived Assets

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

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

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS 144") which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," it retains many of the fundamental provisions of that statement. SFAS 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business.

The Company reviews property and equipment and intangible assets for impairment when events or circumstances indicate that the related amounts might be impaired. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Use of Estimates

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

Reclassifications

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

Recently Promulgated Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board (“FASB”) issued Revised Interpretation No. 46, “Consolidation of Variable Interest Entities” (“FIN 46R”), which requires the consolidation of variable interest entities. FIN 46R, as revised, was applicable to financial statements of companies that had interests in “special purpose entities” during 2003. Effective as of the first quarter of 2004, FIN 46R is applicable to financial statements of companies that have interests in all other types of entities. Adoption of FIN 46R had no effect on the Company’s financial position, results of operations or cash flows.

FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, was issued in May 2003. This statement establishes standards for the classification and measurement of certain financial instruments of both liabilities and equity. The Statement also includes disclosures for financial instruments within its scope. For us, the Statement was effective for instruments entered into or modified after May, 31, 2003 and otherwise was effective as of January 1, 2004, except for mandatorily redeemable financial instruments. For certain redeemable financial instruments, the Statement will be effective for us on January 1, 2005. The effective date has been deferred indefinitely for certain other types of mandatorily instruments. The adoption of SFAS 150 did not have an impact on our financial condition or results of operations.

2. EARNINGS PER SHARE

The computation of basic and diluted earnings per share for the three months ended March 31, 2004 and 2003 are as follows (in thousands, except per share data):

	For The Three Months Ended March 31, 2004	2003
Numerator:		
Net income	$ 1,532	$ 1,787
Numerator for basic earnings per share	1,532	1,787
Effect of dilutive securities:		
Interest on convertible subordinated notes payable	23	31
Numerator for diluted earnings per share-income available to common shareholders after assumed conversions	$ 1,555	$ 1,818
Denominator:		
Denominator for basic earnings per share--weighted-average shares	11,472	10,907
Effect of dilutive securities:		
Stock options	368	824
Convertible subordinated notes payable	524	700
Dilutive potential common shares	892	1,524
Denominator for diluted earnings per share--adjusted weighted-average shares and assumed conversions	12,364	12,431
Basic earnings per common share	$ 0.13	$ 0.16
Diluted earnings per common share	$ 0.13	$ 0.15

Options to purchase 649,000 and 446,000 shares for the three months ended March 31, 2004 and 2003, 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.

3. NOTES PAYABLE

In May 1994, the Company issued a $3 million 8% Convertible Subordinated Note, Series C, due June 30, 2004 (the "Series C Note"). The Series C Note is convertible at the option of the holder into shares of the Company common stock determined by dividing the principal amount of the Note being converted by $3.33. The Series C Note bears interest from the date of issuance at a rate of 8% per annum, payable quarterly. In June 2002, $667,000 of the Series C Note was converted by the note holder into 200,100 shares of common stock. On January 12, 2004, an additional $666,660 of the Series C Notes was converted by the note holder into 200,000 shares of common stock. The remaining principal amount under the Series C Note was $1.7 million and $2.3 million at March 31, 2004 and December 31, 2003, respectively.

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

4. PURCHASE OF COMMON STOCK

In September 2001, the Board of Directors ("Board") authorized the Company to purchase, in the open market or in privately negotiated transactions, up to 1,000,000 shares of its common stock. Shares purchased are held as treasury shares and may be used for such valid corporate purposes or retired as the Board deems advisable. As of March 31, 2004, the Company may purchase an additional 67,600 shares under this original Board authorized program.

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

5. ACQUISITION OF MINORITY INTERESTS

On June 1, 2002, the Company purchased a 35% minority interest in a limited partnership for $220,000. Additional consideration may be paid in the future based upon clinic performance. The Company paid the minority partner $73,000 in undistributed earnings. On August 6, 2003, the Company paid additional consideration of $31,000 based on the clinic's performance. In July 2002 the Company sold half of the purchased interest to another therapist for $220,000, payable from future profits of the partnership. The Company discounted the note receivable by 50% and is recognizing the gain as payments are made.

On August 1, 2003, the Company purchased the 35% minority interest in a limited partnership for $64,000 and agreed to pay the minority partner $75,000 in undistributed earnings. The purchase was made under a note, which is payable in three installments. On September 10, 2003, the Company paid the first installment of $35,000. The remaining principal amount due under the note payable was $104,000 at December 31, 2003 to be paid in two annual payments of $34,000 and $70,000.

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

The changes in the carrying amount of goodwill consisted of the following for the three months ended March 31, 2004 and the year ended December 31, 2003, respectively (in thousands):

	March 31, 2004	December 31, 2003
Beginning balance	$ 5,685	$ 5,590
Goodwill acquired during the period	-	95
Ending balance	$ 5,685	$ 5,685

Goodwill represents the excess of costs over the fair value of the acquired business's assets. In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," ("SFAS 142"). Provisions of SFAS 142 that were effective for the Company January 1, 2002, require that goodwill and other intangible assets with indefinite lives no longer be amortized. SFAS 142 further requires the fair value of goodwill and other intangible assets with indefinite lives be tested for impairment upon adoption of this statement, annually and upon the occurrence of certain events and be written down to fair value if considered impaired. In accordance with SFAS 142, the Company did not have any amortization expense related to goodwill during 2004 and 2003 and no impairment of goodwill was recognized.

6. MINORITY INTEREST

In the majority of the Company's partnership agreements, the therapist partner begins with a 20% profit interest in his or her clinic partnership, which increases by 3% at the end of each year until his or her interest reaches 35%. Within the balance sheet and statement of operations the Company records partner therapists' profit interest in the clinic partnerships as minority interests in subsidiary limited partnerships. The Emerging Issues Task Force ("EITF") issued EITF 00-23, "Issues Related to the Accounting for Stock Compensation under APB No. 25 and FASB Interpretation No. 44" (EITF 00-23), which provides specific accounting guidance relating to various incentive compensation issues. The Company reviewed EITF 00-23 with respect to the partnership's structure and the accounting for minority interest and concluded that for partnerships formed after January 18, 2001, EITF 00-23 requires the Company to expense as compensation rather than as minority interest in earnings, the clinic partners' interest in profits. Moreover, EITF 00-23 also requires that the Company expense as compensation rather than capitalizing as goodwill, the purchase of minority interest in the partnerships, of clinic partnerships formed after January 18, 2001. At this time the Company operates 73 wholly-owned clinics without any minority interest.

Pursuant to EITF 00-23, for the quarters ended March 31, 2004 and March 31, 2003, the Company classified $222,000 and $86,000, respectively, of the minority interest in earnings of subsidiary limited partnerships relating to the 30 partnerships formed after January 18, 2001, as salaries and related costs. As of March 31, 2004 and December 31, 2003, $423,000 and $346,000, respectively, in undistributed minority interests related to the 30 partnerships are classified as other long-term liabilities.

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

EXECUTIVE SUMMARY

Our Business

We operate outpatient physical and occupational therapy clinics that provide pre- and post-operative care and treatment for a variety of orthopedic-related disorders and sports-related injuries. At March 31, 2004, we operated 244 outpatient physical and occupational therapy clinics in 35 states. The average age of our clinics at March 31, 2004, was 4.1 years. We have developed 238 of the clinics and acquired six. To date, we have sold three clinics, closed 24 facilities due to substandard clinic performance, and consolidated three clinics with other existing clinics. In 2003, we added 48 new clinics and our goal is to open between 45 and 50 clinics in 2004.

In addition to our owned clinics, we also manage physical therapy facilities for third parties, primarily physicians, with five third-party facilities under management as of March 31, 2004.

Selected Operating and Financial Data

The following table presents selected operating and financial data. We view these non-financial data points as key indicators of our operating performance. In particular, we view average visits per day per clinic as a material component of our operating performance. As indicated below, the number of daily visits to our clinics has declined from an average of 20.5 per clinic at March 31, 2003 to an average of 18.7 per clinic at March 31, 2004. The following table presents selected operating and financial data:

	For The Three Months Ended March 31,	
	2004	2003
Number of clinics	244	212
Working days	64	63
Average visits per day per clinic	18.7	20.5
Total patient visits	290,248	265,502
Net patient revenue per visit	$95.49	$92.21
Statements of operations per visit:		
Net revenues	$97.56	$94.18
Salaries and related costs	(50.37)	(46.23)
Rent, clinic supplies and other	(20.68)	(19.36)
Provision for doubtful accounts	(1.36)	(1.27)
Contribution from clinics	25.15	27.32
Corporate office costs	(12.48)	(11.97)
Operating income	$12.67	$15.35

RESULTS OF OPERATIONS

Three Months Ended March 31, 2004 Compared to the Three Months Ended March 31, 2003

- Net revenues rose 13% to $28.3 million, from $25 million, due to a 9% increase in patient visits to 290,000 from 266,000 combined with a 3.6% increase from $92.21 to $95.49 in net patient revenue per visit.

- Earnings were $0.13 per diluted share for the three months ended March 31, 2004 ("2004 First Quarter") as compared to $0.15 for the three months ended March 31, 2003 ("2003 First Quarter"). Net income for the 2004 First Quarter was $1.5 million versus $1.8 million for the same period last year. The decrease in earnings per share was directly related to the 14% decline in net income. Total diluted shares remained relatively flat at 12.4 million for the periods ended March 31, 2004 and 2003.

Net Patient Revenues

- Net patient revenues increased to $27.7 million for the 2004 First Quarter from $24.5 million for the 2003 First Quarter, an increase of $3.2 million, or 13%, primarily due to a 9% increase in patient visits to 290,000 and a $3.28 increase in patient revenues per visit to $95.49.

- Total patient visits increased 24,746, or 9%, to 290,000 for the 2004 First Quarter from 266,000 for the 2003 First Quarter. The growth in visits for the year was attributable to an increase of approximately 23,000 visits in clinics opened between April 1, 2003 and March 31, 2004 (the "New Clinics") together with a 2,000 or 1% increase in visits for clinics opened before April 1, 2003 (the "Mature Clinics").

- Net patient revenues from New Clinics accounted for approximately 69% of the total increase, or approximately $2.2 million. The remaining increase of $1 million in net patient revenues was from Mature Clinics. Of the $1 million increase, $1.9 million related to 53 clinics opened between January 1, 2002 and March 31, 2003, offset by a $900,000 decrease in clinics opened prior to January 1, 2002.

Net patient revenues are based on established billing rates less allowances and discounts for patients covered by workers' compensation programs and other contractual programs. Net patient revenues reflect contractual and other adjustments, which we evaluate quarterly, 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.

Clinic Operating Costs

Clinic operating costs as a percent of net revenues were 74% for the 2004 First Quarter and 71% for the 2003 First Quarter.

Clinic Operating Costs - Salaries and Related Costs

Salaries and related costs increased to $14.6 million for the 2004 First Quarter from $12.3 million for the 2003 First Quarter, an increase of $2.3 million, or 19%. Approximately 57% of the increase, or $1.3 million, was incurred at the New Clinics. The remaining 43% increase, or $1 million, was primarily due to an increase of $316,000 and $137,000 relating to increased group health insurance cost and compensation costs associated with minority interests in earnings of subsidiary limited partnerships relating to the 30 partnerships formed after January 18, 2001, respectively. Additionally, salaries and related costs, excluding group health issuance costs, increased $331,000 for clinics opened in the first quarter of 2003 which experienced an increase in clinic staff to meet the increase in patient visits. Bonuses are based on the net revenues and operating profit generated by the individual clinics. Salaries and related costs as a percent of revenues were 52% for the 2004 First Quarter and 49% for the 2003 First Quarter.

Clinic Operating Costs - Rent, Clinic Supplies and Other

Rent, clinic supplies and other increased to $6 million for the 2004 First Quarter from $5.1 million for the 2003 First Quarter, an increase of $900,000 million, or 17%. Approximately 87% of the increase, or $785,000, was incurred at the New Clinics, while 13%, or $115,000, of the increase was incurred at the Mature Clinics. Rent, clinic supplies and other as a percent of revenues remained flat at 21% for the 2004 First Quarter and 2003 First Quarter.

Clinic Operating Costs - Provision for Doubtful Accounts

The provision for doubtful accounts increased to $397,000 for the 2004 First Quarter from $338,000 for the 2003 First Quarter, an increase of $59,000, or 17%. This increase was primarily due to the establishment of reserves for the New Clinics. The provision for doubtful accounts as a percent of net patient revenues remained flat at 1.4% for the 2004 First Quarter and 2003 First Quarter. Our allowance for bad debts as a percent of total patient accounts receivable was 17% at March 31, 2004, compared to 20% at December 31, 2003. Accounts receivable days outstanding decreased to 64 days at March 31, 2004 compared to 68 days at December 31, 2003. The provision for doubtful accounts for each period is based on a detailed, clinic-by-clinic review of overdue accounts.

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, increased to $3.6 million for the 2004 First Quarter from $3.2 million for the 2003 First Quarter, an increase of $400,000, or 14%. Corporate office costs increased primarily as a result of increased salaries and benefits related to additional personnel hired to support an increasing number of clinics. Corporate office costs as a percent of revenues were 12.8% for the 2004 First Quarter which was comparable to 12.7% for the 2003 First Quarter.

Minority Interests in Earnings of Subsidiary Limited Partnerships

Minority interests in earnings of subsidiary limited partnerships increased slightly to $1.2 million for the 2004 First Quarter from $1.1 million in the 2003 First Quarter. As a percentage of operating income, minority interest increased to 32% for the 2004 First Quarter from 28% for the First Quarter of 2003.

Provision for Income Taxes

The provision for income taxes decreased to $926,000 for the 2004 First Quarter from $1.1 million for the 2003 First Quarter, a decrease of $174,000, or 16% as a result of lower pre-tax income. During the 2004 First Quarter and the 2003 First Quarter, we accrued state and federal income taxes at an effective tax rate of 38%.

LIQUIDITY AND CAPITAL RESOURCES

We believe that our business is generating enough cash flow from operating activities to allow us to meet our normal short-term and long-term cash requirements. At March 31, 2004, we had $18.4 million in cash and cash equivalents compared to $16.8 million at December 31, 2003. Although the start-up costs associated with opening new clinics, and our planned capital expenditures are significant, we believe that our cash and cash equivalents are sufficient to fund the working capital needs of our operating subsidiaries and future clinic development. Included in cash and cash equivalents at March 31, 2004 were $2.7 million in a money market fund and $10 million in a short-term debt instrument issued by an agency of the U.S. Government.

The increase in cash of $1.6 million from December 31, 2003 to March 31, 2004 is due primarily to cash provided by operating activities of $3.2 million, offset by $600,000 of cash used for the purchase of fixed assets. In the 2004 First Quarter, we had $1.2 million of cash provided by minority interests in earnings of subsidiary limited partnerships and made $1 million in distributions to minority investors in subsidiary limited partnerships.

Our current ratio increased to 6.27 to 1.00 at March 31, 2004 from 6.09 to 1.00 at December 31, 2003. The increase in the current ratio is due primarily to the increased cash and accounts receivable balances at March 31, 2004, together with the January 2004 conversion of some of our Convertible Subordinated Notes.

At March 31, 2004, we had a debt-to-equity ratio of 0.04 to 1.00 compared to 0.06 to 1.00 at December 31, 2003. The decrease in the debt-to-equity ratio at March 31, 2004 compared to December 31, 2003 resulted from the January 2004 conversion of some of our Convertible Subordinated Notes.

We do not currently have credit lines or other credit arrangements. Historically, we have generated sufficient cash from operations to fund our development activities and cover operational needs. We generally do not acquire clinics through acquisitions, but rather develop new clinics, which we believe generally requires less capital. We have from time to time purchased the minority interests of limited partners in our clinic partnerships. We may purchase additional minority interests in the future. We believe that existing funds, supplemented by cash flows from existing operations, will be sufficient to meet our current operating needs, development plans and any purchases of minority interests through at least 2005.

In 2002, $667,000 of a convertible subordinated note was converted into common stock, leaving a remaining balance of $2.3 million at December 31, 2003. On January 12, 2004, an additional $666,660 of the convertible subordinated note was converted into common stock leaving a remaining balance of $1.7 million. We anticipate that the remaining $1.7 million convertible subordinated note will be converted into common stock at the June 2004 maturity date. However, if our share price is not at or above $3.33 in June 2004, it is likely that the note holders would not convert and we would have to use cash to repay the remaining balance.

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

In February 2003, our Board authorized a new share repurchase program of up to 250,000 additional shares of our outstanding common stock. As there is no expiration for this Board authorization, additional shares may be purchased from time to time in the open market or private transactions depending on price, availability and our cash position. As of March 31, 2004, no shares have been repurchased under the new share repurchase program.

FACTORS AFFECTING FUTURE RESULTS

Clinic Development

As of March 31, 2004, we had 244 clinics in operation, 4 of which were opened in the first quarter of 2004. Our goal for 2004 is to open between 45 and 50 clinics provided we can identify suitable locations and recruit physical and occupational therapists to manage the clinics. We expect to incur initial operating losses from the new clinics, which will impact our operating results. 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 more seasoned clinics because of start-up costs and lower patient visits and revenues. Patient visits and revenues gradually increase in the first year of operation, as patients and referral sources become aware of the new clinic. Revenues tend to increase significantly during the two years following the first anniversary of a clinic opening. Based on the historical performance of our new clinics, generally the clinics opened in 2004 would favorably impact our results of operations beginning in 2005.

Annual Limit on Medicare Reimbursement Claims

For the quarter ended March 31, 2004, approximately 19% of our revenues were derived from Medicare. We receive payments from the Medicare program under a fee schedule. Under the Balanced Budget Act of 1997 the total amount paid by Medicare in any one year for outpatient physical (including speech-language pathology) or occupational therapy to any one patient is limited to $1,500 (the “Medicare Limit”), except for services provided in hospitals. After a three-year moratorium, this Medicare Limit on therapy services was implemented for services rendered on or after September 1, 2003 subject to an adjusted total of $1,590 (the “Adjusted Medicare Limit”). Effective December 8, 2003, a moratorium was placed on the Adjusted Medicare Limit for the remainder of 2003 and for 2004 and 2005. The potential negative impact on revenue resulting from a Medicare limit could be reduced by receiving payments from secondary insurance carriers and patients electing to self-pay. In the event the moratorium is not extended after 2005 and such negative impact is not mitigated by such efforts, the Adjusted Medicare Limit could have an adverse impact on 2006 and later revenue and income.

Convertible Subordinated Debt

The Series C Convertible Subordinated Note is convertible at the option of the holder into the number of shares of our common stock determined by dividing the principal amount of the Notes being converted by $3.33 per share. In June 2002, $667,000 of the Series C Notes were converted by the note holders into 200,100 shares of common stock. The remaining principal amount under the Series C Note was $2.3 million at December 31, 2003. During January 2004, $666,660 of the Series C Notes was converted by the note holders into 200,000 shares of common stock leaving a remaining balance of $1.7 million at March 31, 2004. If our share price is not at or above $3.33 in June 2004, it is likely that the note holder would not convert and we would have to use cash to repay the remaining balance.

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 (often using words such as "believes," "expects," "intends," "plans," "appear," "should" and similar words), which involve numerous risks and uncertainties. Included among such statements are those relating to opening of 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, business, and regulatory conditions;

- competition;
- federal and state regulations;
- acquisitions;
- reimbursement rates from third party payors and deductibles and co-pays by patients;
- availability, terms, and use of capital;
- availability of qualified physical and occupational therapists; and
- weather.

These factors are beyond our control.

Given these uncertainties, you should not place undue reliance on our forward-looking statements. Please see the other sections of this report and our other periodic reports filed with the Securities and Exchange Commission (the "SEC") for more information on these factors. Our forward-looking statements represent our estimates and assumptions only as of the date of this report. Except as required by law, we are under no obligation to update any forward-looking statement, regardless of the reason the statement is no longer accurate.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We do not maintain any derivative instruments, interest rate swap arrangements, hedging contracts, futures contracts or the like. Our indebtedness as of March 31, 2004 consisted primarily of $1.7 million in Series C Convertible Subordinated Notes, described above. Also, see Note 3 of the notes to consolidated financial statements.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures

"For the period ended March 31, 2004" or "As or the last day of the period covered by this report", we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in assuring that material information required to be included in our periodic SEC reports is recorded, processed, summarized and reported within the time periods specified in the relevant SEC rules and forms.

(b) Changes in Internal Controls

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

PART II - OTHER INFORMATION

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

(a) Exibits

EXHIBIT NO.	DESCRIPTION
31.1*	Certification
31.2*	Certification
31.3*	Certification
32*	Certification of Periodic Report

* Filed herewith

(b) Reports on Form 8-K

On January 20, 2004, the Company filed a report on Form 8-K with the Securities and Exchange Commission related to a press release announcing the Company's preliminary figures and earnings release date for the fourth quarter and year-ended December 31, 2003.

On February 4, 2004, the Company filed a report on Form 8-K with the Securities and Exchange Commission related to a press release announcing that the Company will present at the UBS Warburg Global Healthcare Services Conference.

On March 4, 2004, the Company filed a report on Form 8-K with the Securities and Exchange Commission related to a press release announcing the Company's earnings for the fourth quarter and year-ended December 31, 2003.

On March 11, 2004, the Company filed a report on Form 8-K with the Securities and Exchange Commission related to a press release announcing that the Company will present at the SG Cowen Healthcare Conference.

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: May 7, 2004

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

By: /s/ DAVID RICHARDSON
David Richardson
Controller

INDEX OF EXHIBITS

EXHIBIT NO.	DESCRIPTION
31.1*	Certification
31.2*	Certification
31.3*	Certification
32*	Certification of Periodic Report

* Filed herewith

EXHIBIT 31.1

CERTIFICATION

I, Roy Spradlin, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended March 31, 2004 of U.S. Physical Therapy, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ ROY SPRADLIN

Roy Spradlin
Chairman, President and Chief
Executive Officer
(principal executive officer)

Date: May 7, 2004

EXHIBIT 31.2

CERTIFICATION

I, Lawrance W. McAfee, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended March 31, 2004 of U.S. Physical Therapy, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ LAWRANCE W. MCAFEE

Lawrance W. McAfee
Chief Financial Officer
(principal financial and accounting officer)

Date: May 7, 2004

EXHIBIT 31.3

CERTIFICATION

I, David Richardson, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended March 31, 2004 of U.S. Physical Therapy, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ DAVID RICHARDSON
David Richardson
Controller

Date: May 7, 2004

EXHIBIT 32

CERTIFICATION OF PERIODIC REPORT

In connection with the Quarterly Report of U.S. Physical Theray, Inc. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Roy W. Spradlin, Chairman, President, and CEO of the Company, Lawrance W. McAfee, Chief Financial Officer of the Company and David Richardson, Controller of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

May 7, 2004

/s/ Roy W. Spradlin
Roy W. Spradlin
Chief Executive Officer

/s/ Lawrance W. McAfee
Lawrance W. McAfee
Chief Financial Officer

/s/ David Richardson
David Richardson
Controller

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