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 SEPTEMBER 30, 2003

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

FOR THE TRANSITION PERIOD FROM ____ TO ____

COMMISSION FILE NUMBER 1-11151

U.S. PHYSICAL THERAPY, INC.

(NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

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

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities and 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 November 5, 2003, the number of shares outstanding of the registrant's common stock, par value $.01 per share, was: 11,221,286.

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ITEM 1. FINANCIAL STATEMENTS

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

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

	SEPTEMBER 30, 2003 (unaudited)	DECEMBER 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,683	$ 7,610
Patient accounts receivable, less allowance for doubtful accounts of $3,679 and $4,327, respectively	14,179	13,235
Accounts receivable -- other	498	443
Other current assets	631	1,307
Total current assets	29,991	22,595
Fixed assets:		
Furniture and equipment	20,182	17,796
Leasehold improvements	10,155	9,310
	30,337	27,106
Less accumulated depreciation and amortization	18,717	16,693
	11,620	10,413
Goodwill, net of amortization of $335	5,685	5,590
Other assets, net of amortization of $431 and $505, respectively	1,978	2,435
	$ 49,274	$ 41,033
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable -- trade	$ 512	$ 624
Accrued expenses	2,079	2,188
Estimated third-party payor (Medicare) settlements	--	33
Notes payable	38	4
Convertible subordinated notes payable	2,333	--
Total current liabilities	4,962	2,849
Notes payable -- long-term portion	84	17
Other long-term liabilities	301	273
Convertible subordinated notes payable	--	2,333
Total liabilities	5,347	5,472
Minority interests in subsidiary limited partnerships	3,249	3,024
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, 12,152,283 and 11,818,711 shares issued at September 30, 2003 and December 31, 2002, respectively	122	118
Additional paid-in capital	25,569	23,313
Retained earnings	27,509	21,608
Treasury stock at cost, 947,100 and 945,300 shares held at September 30, 2003 and December 31, 2002, respectively	(12,522)	(12,502)
Total shareholders' equity	40,678	32,537
	$ 49,274	$ 41,033

See accompanying notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2003	2002	2003	2002
Net patient revenues	$ 26,224	$ 23,232	$ 77,089	$ 68,317
Management contract revenues	588	552	1,647	1,710
Other revenues	42	27	127	85
Net revenues	26,854	23,811	78,863	70,112
Clinic operating costs:				
Salaries and related costs	12,551	10,578	36,159	31,039
Rent, clinic supplies and other	6,070	5,332	18,100	15,095
Provision for doubtful accounts	(45)	373	711	1,315
	18,576	16,283	54,970	47,449
Corporate office costs	3,806	2,970	10,328	8,338
Operating income	4,472	4,558	13,565	14,325
Interest expense	47	47	141	167
Minority interests in subsidiary limited partnerships	1,370	1,227	3,919	3,735
Income before income taxes	3,055	3,284	9,505	10,423
Provision for income taxes	1,154	1,266	3,604	3,993
Net income	$ 1,901	$ 2,018	$ 5,901	$ 6,430
Basic earnings per common share	$ 0.17	$ 0.18	$ 0.54	$ 0.58
Diluted earnings per common share	$ 0.15	$ 0.16	$ 0.48	$ 0.50

See accompanying notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

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

	NINE MONTHS ENDED SEPTEMBER 30, 2003	NINE MONTHS ENDED SEPTEMBER 30, 2002
OPERATING ACTIVITIES		
Net income	$ 5,901	$ 6,430
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,636	2,145
Minority interests in earnings of subsidiary limited partnerships	3,919	3,735
Provision for doubtful accounts	711	1,315
Tax benefit from exercise of stock options	1,124	3,969
Deferred income taxes	(453)	225
Other	(36)	--
Changes in operating assets and liabilities:		
Increase in patient accounts receivable	(1,655)	(1,715)
(Increase) decrease in accounts receivable -- other	(55)	306
Decrease (increase) in other assets	1,132	(1,180)
Increase in accounts payable and accrued expenses	232	137
Increase in other liabilities	28	211
Decrease in estimated third-party payor (Medicare) settlements	(33)	(80)
Net cash provided by operating activities	13,451	15,498
INVESTING ACTIVITIES		
Purchase of fixed assets	(3,935)	(3,867)
Purchase of intangibles	(31)	(1,062)
Other	129	1
Net cash used in investing activities	(3,837)	(4,928)
FINANCING ACTIVITIES		
Distributions to minority investors in subsidiary limited partnerships	(3,654)	(3,867)
Payment of notes payable	(3)	(697)
Repurchase of common stock	(20)	(7,821)
Proceeds from exercise of stock options	1,136	2,671
Net cash used in financing activities	(2,541)	(9,714)
Net increase in cash and cash equivalents	7,073	856
Cash and cash equivalents -- beginning of year	7,610	8,121
Cash and cash equivalents -- end of period	$ 14,683	$ 8,977
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income taxes	$ 2,453	$ 707
Interest	$ 187	$ 167
Non-cash transaction during the period:		
Purchase of intangibles / minority interest	$ 104	--

See accompanying notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

(unaudited)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of U.S. Physical Therapy, Inc. and its subsidiaries. All significant intercompany transactions and balances have been eliminated. The Company primarily operates through subsidiary clinic partnerships, in which the Company generally owns a 1% general partnership interest and a 64% limited partnership interest in the clinics. The managing therapist of each clinic owns the remaining limited partnership interest in the majority of the clinics. In some instances, the Company developed satellite clinic facilities as extensions of existing clinics, with the result that some existing clinic partnerships operate more than one clinic location. Beginning in 2003, the Company 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 will be compensated based upon clinic profits. See Note 6.

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

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

Operating results for the three and nine months ended September 30, 2003 are not necessarily indicative of the results the Company expects for the entire year. Please also review the Risk Factors section included in our Form 10-K for the year ended December 31, 2002.

Significant Accounting Policies

Revenue Recognition

Net patient revenues are reported in the period in which the Company renders services. Net patient revenues are reported at the estimated net realizable amounts from insurance companies, third-party payors, patients and others for services rendered. The Company has agreements with third-party payors that provide for payments to the Company at amounts different from established rates. Net patient revenues reflect reserves, evaluated monthly by management for contractual and other adjustments agreed to or established with payers. Net accounts receivable includes only those amounts the Company estimates to be collectible.

Reimbursement rates for outpatient therapy services provided to Medicare beneficiaries are established pursuant to a fee schedule published by the Department of Health and Human Services ("HHS"). Under the Balanced Budget Act of 1997 the total amount paid by Medicare in any one year for outpatient physical (including speech-language pathology) or occupational therapy to any one patient is limited to $1,500, except for services provided in hospitals. After a three year moratorium, this financial limitation on therapy services was implemented for services rendered on or after September 1, 2003. The total amount paid by Medicare in any one year has been adjusted up to $1,590 and the full amount will be available for the four month period between September 1, 2003 and December 31, 2003. Effective January 1, 2004 this financial limitation, as adjusted for inflation, will be an annual limit. See also "Factors Affecting Future Results" in Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations.

Allowance for Doubtful Accounts

We review the accounts receivable aging and rely on prior experiences with particular payors at each clinic to determine an appropriate reserve for doubtful accounts. Historically, clinics that have large numbers of aged accounts generally have

less favorable collection experience, and thus they require a higher allowance. Accounts that are ultimately determined to be uncollectible are written off against our bad debt allowance. The amount of our aggregate bad debt allowance is periodically reviewed for adequacy in light of current and historical experience.

Income Taxes

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

Stock Options

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
Actual net income	$ 1,901	$ 2,018	$ 5,901	$ 6,430
Deduct: Total stock based compensation expense determined under the fair value method, net of taxes	260	266	744	626
Pro forma net income	$ 1,641	$ 1,752	$ 5,157	$ 5,804
Earnings per share:				
Actual basic earnings per common share	$ 0.17	$ 0.18	$ 0.54	$ 0.58
Actual diluted earnings per common share	$ 0.15	$ 0.16	$ 0.48	$ 0.50
Pro forma basic earnings per common share	$ 0.15	$ 0.16	$ 0.47	$ 0.53
Pro forma diluted earnings per common share	$ 0.13	$ 0.14	$ 0.42	$ 0.45

Carrying Value of Long-Lived Assets

Our property and equipment, intangible assets and goodwill (collectively, our "long-lived assets") comprise a significant portion of our total assets at September 30, 2003 and December 31, 2002. We account for our long-lived assets pursuant to SFAS No. 142 and SFAS No. 144. These accounting standards require that we periodically, and upon the occurrence of certain events, assess the recoverability of our long-lived assets. If the carrying value of our property and equipment or intangible assets exceeds their undiscounted cash flows, we are required to write the carrying value down to estimated fair value. Also, if the carrying value of our goodwill exceeds the estimated fair value, we are required to allocate the estimated fair value to our assets and liabilities, as if we had just acquired it in a business combination. We then would write-down the carrying value of our goodwill to the implied fair value. Any such write-down is included as an impairment loss in our consolidated statement of operations. Judgment is required to estimate the fair value of our long-lived assets. We may use quoted market prices, prices for similar assets, present value techniques and other valuation

techniques to prepare these estimates. In addition, we may obtain independent appraisals in certain circumstances. We may need to make estimates of future cash flows and discount rates as well as other assumptions in order to implement these valuation techniques. Accordingly, any value ultimately derived from our long-lived assets may differ from our estimate of fair value.

Use of Estimates

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

Reclassifications

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

Recently Promulgated Accounting Pronouncements

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

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

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

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

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

In January 2003, the FASB issued Interpretation No. 46, “Consolidation of Variable Interest Entities” (“FIN 46”). FIN 46 requires a company to consolidate a variable interest entity if it is designated as the primary beneficiary of that entity even if the company does not have a majority of voting interest. A variable interest entity is generally defined as an entity in which the equity is insufficient to finance its activities or an entity in which the owners of the entity lack the risk and rewards of ownership. The provisions of FIN 46 apply immediately to variable interest entities created after January 31,

2003 and to variable interest entities in which an enterprise obtains an interest after that date. The adoption of FIN 46 did not have a significant impact on our financial condition or results of operations.

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

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

2. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Numerator:				
Net income	$ 1,901	$ 2,018	$ 5,901	$ 6,430
Numerator for basic earnings per share	$ 1,901	$ 2,018	$ 5,901	$ 6,430
Effect of dilutive securities:				
Interest on convertible subordinated notes payable	31	31	92	108
Numerator for diluted earnings per share—income available to common stockholders after assumed conversions	$ 1,932	$ 2,049	$ 5,993	$ 6,538
Denominator:				
Denominator for basic earnings per share -- weighted-average shares	11,088	11,178	10,986	10,990
Effect of dilutive securities:				
Stock options	737	1,002	784	1,308
Convertible subordinated notes payable	700	700	700	748
Dilutive potential common shares	1,437	1,702	1,484	2,056
Denominator for diluted earnings per share -- adjusted weighted-average shares and assumed conversions	12,525	12,880	12,470	13,046
Basic earnings per common share	$ 0.17	$ 0.18	$ 0.54	$ 0.58
Diluted earnings per common share	$ 0.15	$ 0.16	$ 0.48	$ 0.50

Options to purchase 509,919 and 184,700 shares for the three months ended September 30, 2003 and September 30, 2002, respectively, and 491,790 and 71,908 shares for the nine months ended September 30, 2003 and September 30, 2002, respectively, were excluded from the diluted earnings per share calculations for the respective periods because the options' exercise prices exceeded the average market price of the common shares during the periods.

3. NOTES PAYABLE

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

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

4. PURCHASE OF COMMON STOCK

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

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

5. ACQUISITION OF MINORITY INTERESTS

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

On June 1, 2002, the Company purchased the 35% minority interest in a limited partnership for $220,000. Additional consideration may be paid in the future based upon clinic performance. The Company paid the minority partner $73,000 in undistributed earnings. On August 6, 2003, the Company paid additional consideration of $31,000 based on the clinic's performance. In July 2002, the Company sold 17.5% of the total limited partnership interest to another therapist for $220,000, payable from future profits of the partnership. The Company discounted the note receivable by 50% and is recognizing the gain as payments are made.

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

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

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

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 September 30, 2003.

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 at September 30, 2003 and December 31, 2002

(in thousands):

	September 30, 2003	December 31, 2002
Beginning balance	$ 5,590	$ 4,519
Goodwill acquired during the period	95	1,052
Purchase accounting adjustments	--	19
Ending balance	$ 5,685	$ 5,590
	======	======

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

6. MINORITY INTERESTS

In the majority of the Company's partnership agreements, the therapist partner begins with a 20% profit interest in his or her clinic partnership, which increases by 3% at the end of each year until his or her profits interest reaches 35%. Within the balance sheets and statements of operations the Company records partner therapists' profit interest in the clinic partnerships as minority interest in earning of subsidiary limited partnerships. The Emerging Issues Task Force ("EITF") issued EITF 00-23, "Issues Related to the Accounting for Stock Compensation under APB No. 25 and FASB Interpretation No. 44", which provides specific accounting guidance relating to various incentive compensation issues. The Company has reviewed EITF 00-23 with respect to the partnership structure and the accounting for minority interests and concluded that for partnerships formed after January 18, 2001, EITF 00-23 requires the Company to expense as compensation rather than as a minority interest in earnings, the clinic partner's interest in profits. Moreover, EITF 00-23 also requires, for clinic partnerships formed after January 18, 2001, that the Company expense as compensation rather than account for such purchase as an asset purchase under the standard purchase method, the purchase of any minority interest in the partnerships. At this time, the Company operates 61 wholly owned clinics without any minority interest. Beginning in 2003, the Company significantly reduced its development of new clinic partnerships. New clinics opened which are not satellite clinics will be wholly owned by the Company. The clinic directors of such clinics will be compensated based upon clinic profits.

Pursuant to EITF 00-23, for the three months ended September 30, 2003 and September 30, 2002, the Company classified $156,000 and $88,000, respectively, of the minority interests in earnings of subsidiary limited partnerships relating to the 31 partnerships formed after January 18, 2001, as salaries and related costs and for the nine months ended September 30, 2003 and September 30, 2002, the Company classified as salaries and related costs of $285,000 and $211,000, respectively. As of September 30, 2003 and December 31, 2002, $301,000 and $273,000, respectively, in undistributed minority interests related to the 31 partnerships are classified as other long-term liabilities.

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

Overview

We operate outpatient physical and occupational therapy clinics that provide pre- and post-operative care and treatment for a variety of orthopedic-related disorders and sports-related injuries. At September 30, 2003, we operated 235 outpatient physical and occupational therapy clinics in 35 states. During the first nine months of 2003, we opened 40 clinics, 35 of which had treated patients as of September 30, 2003 and closed 7 clinics. The average age of our clinics at September 30, 2003, was 3.97 years.

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

Selected Operating and Financial Data

The following table presents selected operating and financial data:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2003	2002	2003	2002
Working days	64	64	191	191
Average visits per day per clinic	19.6	21.7	20.3	22.7
Total patient visits	282,000	252,000	832,000	745,000
Per visit:				
Net revenues	$ 95.23	$ 94.49	$ 94.79	$ 94.11
Salaries and related costs	(44.51)	(41.97)	(43.46)	(41.66)
Rent, clinic supplies and other	(21.52)	(21.16)	(21.76)	(20.26)
Provision for doubtful accounts	.16	(1.48)	(.86)	(1.77)
Contribution from clinics	29.36	29.88	28.71	30.42
Corporate office costs	(13.50)	(11.79)	(12.41)	(11.19)
Operating income per visit	$ 15.86	$ 18.09	$ 16.30	$ 19.23

RESULTS OF OPERATIONS

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

- Net revenues rose 13% to $26.9 million from $23.8 million primarily due to a 12% increase in patient visits to 282,000 and a $.98 increase in patient revenues per visit to $93.14.

- Net income declined 6% to $1.9 million from $2.0 million.

- Earnings per share were $0.15 and $0.16 per diluted share for the current and prior year quarters, respectively. Total outstanding shares at September 30, 2003 were 12.5 million, a reduction of approximately 400,000 shares from 12.9 million at September 30, 2002 primarily due to a decrease in the dilutive effect on stock options of approximately 265,000 shares, together with a decrease in the number of weighted-average shares outstanding of approximately 90,000 shares.

Net Patient Revenues

- Net patient revenues increased to $26.2 million for the three months ended September 30, 2003 ("2003 Third Quarter") from $23.2 million for the three months ended September 30, 2002 ("2002 Third Quarter"), an increase of $3.0 million, or 13%.

- Total patient visits increased 30,000, or 12%, to 282,000 for the 2003 Third Quarter from 252,000 for the 2002 Third Quarter. The growth in visits for the quarter was primarily attributable to the clinics opened subsequent to September 30, 2002, together with a full nine months of operations for clinics opened between January 1, 2002 and September 30, 2002.

- Net patient revenues from clinics developed and seeing patients since the 2002 Third Quarter (the "New Clinics") accounted for approximately 76% of the increase, or approximately $2.3 million.

- The remaining increase of $711,000 in net patient revenues was from the 190 clinics opened before the end of the 2002 Third Quarter (the "Mature Clinics"). Of the $711,000 increase in net patient revenues from the Mature Clinics, $539,000 of this increase related to a 2% increase in patient visits, while $172,000 was due to a less than 1% increase in the average net revenue per visit.

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

Clinic Operating Costs

Clinic operating costs as a percent of net revenues were 69% for the 2003 Third Quarter and 68% the 2002 Third Quarter.

Clinic Operating Costs - Salaries and Related Costs

Salaries and related costs increased to $12.6 million for the 2003 Third Quarter from $10.6 million for the 2002 Third Quarter, an increase of $2 million, or 19%. Approximately 60% of the increase, or $1.2 million, was incurred at the New Clinics. The remaining 40% increase, or $780,000, was due principally to Mature Clinics opened in the first nine months of 2002 that experienced increases in staffing to meet the increase in patient visits, coupled with an increase in bonuses earned by the clinic directors. Such bonuses are based on the net revenues or operating profit generated by the individual clinics. Salaries and related costs as a percent of net revenues were 47% for the 2003 Third Quarter and 44% for the 2002 Third Quarter.

Clinic Operating Costs - Rent, Clinic Supplies and Other

Rent, clinic supplies and other increased to $6.1 million for the 2003 Third Quarter from $5.3 million for the 2002 Third Quarter, an increase of $738,000, or 14%. The $738,000 increase was primarily incurred at the New Clinics. Rent, clinic supplies and other as a percent of net revenues increased to 23% for the 2003 Third Quarter from 22% for the 2002 Third Quarter.

Clinic Operating Costs - Provision for Doubtful Accounts

The provision for doubtful accounts decreased $418,000, or 112%, which resulted in a $45,000 benefit for the 2003 Third Quarter compared to costs of $373,000 for the 2002 Third Quarter. This decrease was primarily due to a $418,000 adjustment to decrease the provision for doubtful accounts as a result of enhanced collection efforts and a resulting improvement in experience. The provision for doubtful accounts as a percent of net patient revenues decreased to negative 0.2% for the 2003 Third Quarter from 1.6% for the 2002 Third Quarter. Our allowance for bad debts as a percent of total patient accounts receivable was 21% at September 30, 2003, as compared to 25% at December 31, 2002.

Corporate Office Costs

Corporate office costs, consisting primarily of salaries and benefits of corporate office personnel, rent, insurance costs, depreciation and amortization, travel, legal, professional, marketing and recruiting fees, increased to $3.8 million for the 2003 Third Quarter from $3 million for the 2002 Third Quarter, an increase of $836,000, or 28%. Corporate office costs increased primarily, as a result of an increase in salaries and benefits, recruitment fees, severance costs, higher legal and accounting fees and an increase in directors and officer's insurance premiums. Corporate office costs as a percent of net revenues increased to 14% for the 2003 Third Quarter from 13% for the 2002 Third Quarter.

Minority Interests in Earnings of Subsidiary Limited Partnerships

Minority interests in earnings of subsidiary limited partnerships increased to $1.4 million for the 2003 Third Quarter from $1.2 million for the 2002 Third Quarter, an increase of $143,000, or 12%. As a percentage of operating income, minority interest increased to 31% for the 2003 Third Quarter from 27% for the Third Quarter of 2002. The increase in minority interests in earnings resulted from an increase in the limited partnerships' profit interest in Mature Clinics opened prior to

January 18, 2001, together with a decrease in the 2003 Third Quarter amount of minority interest classified as salaries and related costs. See Note 6.

Provision for Income Taxes

The provision for income taxes decreased to $1.2 million for the 2003 Third Quarter from $1.3 million for the 2002 Third Quarter, a decrease of approximately $112,000, or 9% as a result of lower pre-tax income. During the 2003 Third Quarter and the 2002 Third Quarter, we accrued state and federal income taxes at an effective tax rate of 38%.

Nine Months Ended September 30, 2003 Compared to the Nine Months Ended September 30, 2002

- Net revenues rose 13% to $78.9 million from $70.1 million primarily due to a 12% increase in patient visits to 832,000 and a $0.98 increase in patient revenues per visit to $92.67.

- Net income declined 8% to $5.9 million from $6.4 million.

- Earnings per share decreased 4% to $0.48 per diluted share from $0.50 per diluted share primarily due to an 8% decrease in net income from the same period in prior year. Total outstanding shares at September 30, 2003 were 12.5 million, a reduction of 500,000 shares from 13 million at September 30, 2002 primarily due to a decrease in the dilutive effect on stock options of approximately 520,000 shares.

Net Patient Revenues

- Net patient revenues increased to $77.1 million for the nine months ended September 30, 2003 ("2003 Nine Months") from $68.3 million for the nine months ended September 30, 2002 ("2002 Nine Months"), an increase of $8.8 million, or 13%.

- Total patient visits increased 87,000, or 12%, to 832,000 for the 2003 Nine Months from 745,000 for the 2002 Nine Months. The growth in visits for clinics opened in 1999 and subsequent years more than offset a decline in visits for older clinics opened prior to 1999.

- Net patient revenues from clinics developed and seeing patients since the 2002 Nine Months (the "New Clinics") accounted for approximately 53% of the increase, or $4.6 million.

- The remaining increase of $4.2 million in net patient revenues was from the 190 clinics opened before the end of the 2002 Nine Months (the "Mature Clinics"). Of the $4.2 million increase in net patient revenues from the Mature Clinics, $3.5 million was due to a 5% increase in the number of patient visits, while $647,000 was due to a 1% increase in the average net revenue per visit.

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

Clinic Operating Costs

Clinic operating costs as a percent of net revenues were 70% for the 2003 Nine Months and 68% the 2002 Nine Months.

Clinic Operating Costs - Salaries and Related Costs

Salaries and related costs increased to $36.2 million for the 2003 Nine Months from $31 million for the 2002 Nine Months, an increase of $5.2 million, or 17%. Approximately 48% of the increase, or $2.5 million, was incurred at the New Clinics. The remaining 52% increase, or $2.7 million, was due principally to Mature Clinics opened in the first nine months of 2002 that experienced increases in staffing to meet the increase in patient visits, coupled with an increase in bonuses earned by the clinic directors. Such bonuses are based on the net revenues or operating profit generated by the individual clinics. Salaries and related costs as a percent of net revenues were 46% for the 2003 Nine Months and 44% for the 2002 Nine Months.

Clinic Operating Costs - Rent, Clinic Supplies and Other

Rent, clinic supplies and other increased to $18.1 million for the 2003 Nine Months from $15.1 million for the 2002 Nine Months, an increase of $3 million, or 20%. Approximately 67% of the increase, or $2 million, was incurred at the New Clinics, while 33%, or $1 million, of the increase was incurred at the Mature Clinics. Rent, clinic supplies and other as a percent of net revenues increased to 23% for the 2003 Nine Months from 22% for the 2002 Nine Months.

Clinic Operating Costs - Provision for Doubtful Accounts

The provision for doubtful accounts decreased to $711,000 for the 2003 Nine Months from $1.3 million for the 2002 Nine Months, a decrease of $604,000, or 46%. This decrease was primarily due to a $418,000 adjustment to decrease the provision for doubtful accounts, coupled with a decrease in the provision at the Mature Clinics as a result of enhanced collection efforts and a resulting improvement in experience. The provision for doubtful accounts as a percent of net patient revenues decreased to 1% for the 2003 Nine Months from 2% for the 2002 Nine Months. Our allowance for bad debts as a percent of total patient accounts receivable was 21% at September 30, 2003, as compared to 25% at December 31, 2002.

Corporate Office Costs

Corporate office costs, consisting primarily of salaries and benefits of corporate office personnel, rent, insurance costs, depreciation and amortization, travel, legal, professional, marketing and recruiting fees, increased to $10.3 million for the 2003 Nine Months from $8.3 million for the 2002 Nine Months, an increase of $2 million, or 24%. Corporate office costs increased primarily, as a result of an increase in salaries and benefits, recruitment fees, severance costs, higher legal and accounting fees and an increase in directors and officer’s insurance premiums. Corporate office costs as a percent of net revenues increased to 13% for the 2003 Nine Months from 12% for the 2002 Nine Months.

Minority Interests in Earnings of Subsidiary Limited Partnerships

Minority interests in earnings of subsidiary limited partnerships was $3.9 million for 2003 Nine Months and $3.7 million for 2002 Nine Months. As a percentage of operating income, minority interest increased to 29% for the 2003 Nine Months from 26% for the Nine Months of 2002. The increase in minority interests in earnings resulted from an increase in the limited partnerships’ profit interest in Mature Clinics opened prior to January 18, 2002. See Note 6.

Provision for Income Taxes

The provision for income taxes decreased to $3.6 million for the 2003 Nine Months from $4 million for the 2002 Nine Months, a decrease of approximately $389,000, or 10% as a result of lower pre-tax income. During the 2003 Nine Months and the 2002 Nine Months, we accrued state and federal income taxes at an effective tax rate of 38%.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2003, we had $14.7 million in cash and cash equivalents compared to $7.6 million at December 31, 2002. Cash and cash equivalents are available to fund the working capital needs of operating subsidiaries, future clinic development, acquisitions and investments.

The increase in cash of $7.1 million from December 31, 2002 to September 30, 2003 is due primarily to cash provided by operating activities of $13.5 million, offset by $3.9 million of cash used for the purchase of fixed assets and $2.5 million of cash used in financing activities. In 2003, $3.9 million of cash was provided by minority interest in earnings of subsidiary limited partnerships and $3.7 million in distributions were made to minority investors in subsidiary limited partnerships. In addition, cash of $1.1 million was provided from the exercise of stock options.

Our current ratio decreased to 6.04 to 1.00 at September 30, 2003 from 7.93 to 1.00 at December 31, 2002. The decrease in the current ratio is due primarily to the reclassification of $2.3 million in convertible debt to current liabilities at September 30, 2003, offset by a $7.1 million increase in cash and cash equivalents.

The debt-to-equity ratio decreased to .06 to 1.00 at September 30, 2003 from .07 to 1.00 at December 31, 2002. We do not currently have credit lines or other credit arrangements. Historically, we have generated sufficient cash from operations to fund our development activities and cover operational needs. We generally do not acquire physical and

occupational clinics through acquisitions of existing clinics, but prefer developing and opening new clinics, which we believe generally requires less capital. We currently plan to continue developing new clinics, although this strategy may change if other attractive opportunities become available. We have from time to time purchased the minority interests of limited partners in our clinic partnerships. We may purchase additional minority interests in the future. We believe that existing funds, supplemented by cash flows from operations, will be sufficient to meet our current operating needs, development plans and any purchases of minority interests through at least 2004.

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

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

FACTORS AFFECTING FUTURE RESULTS

Clinic Development

As of September 30, 2003, we had 235 clinics in operation. In the first nine months of the year we opened 40 clinics, 35 of which had treated patients as of September 30. Our goal for 2003 is to open a total of at least 47 clinics provided we can identify suitable geographic locations and physical and occupational therapists to manage the clinics. We expect to incur initial operating losses from the new clinics, which will negatively impact our operating results. Operating margins for newly opened clinics tend to be lower than more seasoned clinics because of start-up costs and lower patient visits and revenues. Patient visits and revenues gradually increase in the first year of operation as patients and referral sources become aware of the new clinic. Revenues tend to increase significantly during the second and third years following the clinic opening. Based on historical performance clinics opened should favorably impact our results of operations within one year.

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

Annual Limit on Medicare Reimbursement Claims

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

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

Convertible Subordinated Debt

In May 1994 we issued a $3 million 8% Convertible Subordinated Note, Series C due June 30, 2004 (the "Series C Note"). The Series C Note is convertible at the option of the holder into the number of shares of our common stock determined by dividing the principal amount of the Note being converted by $3.33 per share. In June 2002, $667,000 of the Series C Note was converted by the note holder into 200,100 shares of common stock. The remaining principal

amount under the Series C Note was $2.3 million at September 30, 2003 and December 31, 2002. If our share price is not at or above $3.33 in June 2004, it is likely that the note holder would not convert and we would have to use cash to repay the Series C Note. At September 30, 2003, we had $14.7 million in cash and cash equivalents compared to $7.6 million at December 31, 2002, an increase of $7.1 million.

FORWARD LOOKING STATEMENTS

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

- general economic, business, and regulatory conditions;

- competition;

- federal and state regulations;

- reimbursement rates from third party payors and deductibles and co-pays owed by patients;

- the availability of sufficient numbers of qualified physical and occupational therapists for us to realize our plan to expand the number of our clinics; and

- weather.

These factors are beyond our control.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We do not maintain any derivative instruments, interest rate swap arrangements, hedging contracts, futures contracts or the like. Our only indebtedness as of September 30, 2003, was $2.3 million in Series C Convertible Subordinated Notes, described in Factors Affecting Future Results. Also, see Note 3 of the notes to consolidated financial statements.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Controls

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

PART II - OTHER INFORMATION

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

(a) Exhibits

EXHIBIT NO.	DESCRIPTION
10.1	Employment Agreement, dated September 2, 2003, between U.S. Physical Therapy, Inc. and Lawrance W. McAfee.
10.2	Employment Agreement, dated September 18, 2003, between U.S. Physical Therapy, Inc. and Chris Reading.
10.3	Employment Agreement, dated September 2, 2003, between U.S. Physical Therapy, Inc. and J Michael Mullin.
31*	Certification
32*	Certification of Periodic Report

* Filed herewith

(b) Reports on Form 8-K

On July 31, 2003, the Company filed a current report on Form 8-K with the Securities and Exchange Commission related to a press release announcing the Company's earnings for the quarter and six months ended June 30, 2003.

On September 2, 2003, the Company filed a current report on Form 8-K with the Securities and Exchange Commission related to announcing that a new chief financial officer had been retained by the Company.

On September 22, 2003, the Company filed a current report on Form 8-K with the Securities and Exchange Commission related to announcing updated earnings guidance for the year ending December 31, 2003.

SIGNATURE

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

U.S. PHYSICAL THERAPY, INC.

Date: November 13, 2003

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

INDEX OF EXHIBITS

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31*	Certification
32*	Certification of Periodic Report

* Filed herewith

EXHIBIT 10.1
EMPLOYMENT AGREEMENT

U.S. Physical Therapy, Inc.
1300 West Sam Houston Parkway South, Suite 300
Houston, Texas 77042

Dear Larry:

I have enjoyed our discussions to date, and it is my pleasure to offer you the position of Chief Financial Officer of U.S. Physical Therapy, Inc. (the "Company"). The terms of your retention by the Company are outlined below:

1. Your position will be as stated above, and you shall be the principal financial and accounting officer of the Company, reporting to me as the President and CEO. This is a full-time position, and you shall not accept other responsibilities for compensation unless approved by me. Your service to non-profit institutions shall be limited in a manner that does not interfere with your duties at the Company. In making this offer to you, you have assured me that you are aware of the new requirements of the Sarbanes-Oxley Act, particularly the certification requirements thereunder, and you have agreed to make such certifications if correct. You have also agreed to serve as an officer and director of the Company and any of its subsidiaries without further compensation.

2. Your base salary shall be $300,000 per annum, payable in accordance with normal Company payment schedules. You will receive an initial signing bonus of $12,500 when you start with the Company. You will be eligible for additional cash bonuses with the Company, but these bonuses are not fixed, and bonuses, if any, that you receive while serving the Company shall be set by the Compensation Committee of the Board.

3. As an inducement for you to accept our offer of employment, you shall be awarded 50,000 non-qualified stock options to purchase Company common stock. The options will be issued by the Compensation Committee of the Board upon your reporting for duty, and exercisable at the fair market value of the common stock (i.e., the closing market price) on the date of issuance. These options will vest ratably each year on the anniversary date of your employment at 20% per annum, such that all shares will be vested after 5 years. However, the terms of the options shall provide that all options will become vested upon an event that constitutes a change of control (as defined in Attachment A hereto) in the Company.

4. We expect that you will report for duty beginning September 2, 2003, and that your compensation will begin that date.

5. The initial term of your employment will be for a period of three (3) years. If you are terminated during that period without "Cause" (as defined in Attachment A hereto), the Company will continue to pay you for one (1) year following your termination in accordance with the normal payroll practices. After the initial term of your employment, you shall be an "at will" employee, but if you are terminated after the initial term, without Cause, you shall be paid 6 months salary as a severance payment. During the payout of these severance payments, the Company shall continue to provide you health insurance, but all other benefits shall cease and you shall not be eligible to receive any bonuses.

6. In the event that there is a Change of Control in the Company, as defined in Attachment A, and (a) you do not continue as the Chief Financial Officer of the Company after the Change of Control and for 6 months thereafter or (b) you are required to change your work location by more than 30 miles, then you shall be entitled to terminate your employment for "good reason" for a period of up to 90 days following the event giving rise to your right to terminate. Your termination for good reason shall be considered a termination by the Company without Cause and you shall be entitled to the same benefits if that had occurred during your first three years of employment (that is, you shall be entitled to a one year severance payment).

7. You will be entitled to the same fringe benefits as are accorded to all senior management of the Company, which benefits I have described generally to you. You shall be eligible to take up to four (4) weeks of vacation each year. Your vacations should be coordinated with me to insure that the executive offices of the Company are staffed during normal vacation times.

We hope that you will join us. This offer will remain open for acceptance until September 2, 2003. Should you choose to accept and the terms of employment stated above are acceptable to you, please sign in the space provided below.

Cordially,

/s/ Roy Spradlin

Roy Spradlin, President and CEO

AGREED TO AND ACCEPTED
This 2nd day of September, 2003

/s/ Lawrance W. McAfee
Lawrance W. McAfee

ATTACHMENT A

For purposes of this Agreement:

"Cause" shall mean (i) the willful and material failure of McAfee to perform or observe (other than by reason of disability as contemplated in paragraph 9(a)) any of the terms or provisions of this Agreement, including the failure of McAfee to follow the reasonable written directions of the Company's Board of Directors, (ii) dishonesty or misconduct on the part of McAfee that is or is reasonably likely to be damaging or detrimental to the business of the Company, (iii) conviction of a crime involving moral turpitude, (iv) habitual insobriety or failure to perform duties due to abuse of alcohol or drugs, or (v) misappropriation of funds.

"Change in Control" shall mean:

(a) The transfer or sale by the Company of all or substantially all of the assets of the Company whether or not this Agreement is assigned or transferred as a part of such sale;

(b) The transfer or sale of more than fifty percent (50%) of the outstanding shares of Common Stock of the Company;

(c) A merger or consolidation involving the Company in a transaction in which the shareholders of the Company immediately prior to the merger or consolidation own less than fifty percent (50%) of the company surviving the merger or consolidation; or

(d) The voluntary or involuntary dissolution of the Company.

EXHIBIT 10.2
EMPLOYMENT AGREEMENT

This agreement has been signed and executed in the current form and filed as exhibit 10.2 of this document. Blank spaces will be replaced with budgetary information when the Company finalizes its 2004 budget.

September 18, 2003

Dear Chris:

I have enjoyed our discussions to date, and it is my pleasure to offer you the position of Chief Operating Officer of U.S. Physical Therapy, Inc. (the "Company"). The terms of your retention by the Company are outlined below:

1. Your position as stated above will be Chief Operating Officer of the Company, reporting to me as the President and CEO. This is a full-time position, and you shall not accept other responsibilities for compensation unless approved by me. The scope and duties of responsibility are all clinic operations. Details of your responsibilities are listed in the attached Chief Operating Officer position description.

2. Your base salary shall be $250,000 per annum, payable in accordance with normal Company payment schedules. Performance and compensation reviews will be performed at 90 days and quarterly thereafter. You will be eligible for the following bonuses while serving the Company, which shall be set by the Compensation Committee of the Board:

   i. 40% bonus of your base salary (based upon pre tax earnings consolidated at the clinic level contributions inclusive of all G & A direct reports) as determined by the Compensation Committee of the Board;

   ii. 20% bonus will be discretionary as determined by the Compensation Committee of the Board;

   iii. 20% bonus based upon ____ new store openings as determined by the Compensation Committee of the Board;

   iv. If earnings per share for 2004 is less than $____ (which is pre taxed consolidated clinics before corporate, then no bonus will be paid other than the discretionary bonus, if approved;

   v. If earnings per share for 2004 is $____ up to $____ then ____% of the bonus will be paid for every penny of additional earnings per share over $____, for a maximum of 45%, excluding the discretionary bonus;

   vi. If earnings per share for 2004 is $____ up to $____, then ____% of the bonus will be paid for every penny of additional earnings per share over $____, for a maximum of 55%, excluding the discretionary bonus;

   vii. If earnings per share for 2004 equals or exceeds $____, then 100% of the bonus will be paid.

3. As an inducement for you to accept our offer of employment, you shall be awarded 50,000 non-qualified stock options to purchase Company common stock. The options will be issued by the Compensation Committee of the Board upon your reporting for duty, and exercisable at the fair market value of the common stock (i.e., the closing market price) on the date of issuance. These options will vest ratably each year on the anniversary date of your employment at 20% per annum, such that all shares will be vested after 5 years. However, the terms of the options shall provide that all options will become vested upon an event that constitutes a change of control (as defined in Attachment A hereto) in the Company. A copy of the 1992 Stock Option Plan is attached for your records.

4. Relocation expenses will be paid as follows:

   viii. Receipts must be submitted for reimbursement. The lowest quote/bid to be awarded upon approval by the CEO. Under Company policy, three quotes/bids are required prior to the move process;

   ix. Up to $5,000 for house hunting expenses. Receipts must be submitted for reimbursement;

x. Up to 5% for sales commission on the sale of your current residence;

xi. Up to $10,000 for temporary living expenses. Receipts must be submitted for reimbursement.

5. We expect that you will report for duty beginning November 3, 2003, and that your compensation will begin that date.

6. The initial term of your employment will be for a period of three (3) years. If you are terminated during that period without "Cause" (as defined in Attachment A hereto), the Company will continue to pay you for one (1) year following your termination in accordance with the normal payroll practices. After the initial term of your employment, you shall be an "at will" employee, but if you are terminated after the initial term, without Cause, you shall be paid 6 months salary as a severance payment. During the payout of these severance payments, the Company shall continue to provide you health insurance, but all other benefits shall cease and you shall not be eligible to receive any bonuses.

7. In the event that there is a Change of Control in the Company, as defined in Attachment A, and (a) you do not continue as the Chief Operating Officer of the Company after the Change of Control and for 6 months thereafter or (b) you are required to change your work location by more than 30 miles, then you shall be entitled to terminate your employment for "good reason" for a period of up to 90 days following the event giving rise to your right to terminate. Your termination for good reason shall be considered a termination by the Company without Cause and you shall be entitled to the same benefits if that had occurred during your first three years of employment (that is, you shall be entitled to a one year severance payment).

8. You will be entitled to the same fringe benefits as are accorded to all senior management of the Company, which benefits I have described generally to you. You shall be eligible to take up to four (4) weeks of vacation each year. Your vacations should be coordinated with me to insure that the executive offices of the Company are staffed during normal vacation times.

We hope that you will join us. This offer will remain open for acceptance until September 22, 2003. Should you choose to accept and the terms of employment stated above are acceptable to you, please sign in the space provided below.

Cordially,

/s/ Roy Spradlin

Roy Spradlin, President and CEO

AGREED TO AND ACCEPTED
This 22th day of September, 2003

/s/ Chris Reading
Chris Reading

ATTACHMENT A

For purposes of this Agreement:

"Cause" shall mean (i) the willful and material failure of Reading to perform or observe (other than by reason of disability as contemplated in paragraph 9(a)) any of the terms or provisions of this Agreement, including the failure of Reading to follow the reasonable written directions of the Company's Board of Directors, (ii) dishonesty or misconduct on the part of Reading that is or is reasonably likely to be damaging or detrimental to the business of the Company, (iii) conviction of a crime involving moral turpitude, (iv) habitual insobriety or failure to perform duties due to abuse of alcohol or drugs, or (v) misappropriation of funds.

"Change in Control" shall mean:

(a) The transfer or sale by the Company of all or substantially all of the assets of the Company whether or not this Agreement is assigned or transferred as a part of such sale;

(b) The transfer or sale of more than fifty percent (50%) of the outstanding shares of Common Stock of the Company;

(c) A merger or consolidation involving the Company in a transaction in which the shareholders of the Company immediately prior to the merger or consolidation own less than fifty percent (50%) of the company surviving the merger or consolidation; or

(d) The voluntary or involuntary dissolution of the Company.

EXHIBIT 10.3
EMPLOYMENT AGREEMENT

Dear Mike:

I am glad that we have resolved your change of position in a manner that permits you to continue working for U.S. Physical Therapy, Inc. (the “Company”). The terms of your continued employment by the Company are outlined below:

1. Your position beginning effective September 2, 2003, is Vice President—Special Projects. You will report to me as CEO. You will continue in this position, with the role, duties and responsibilities as Vice President—Special Projects listed in the attached position description.

2. Your salary will continue to be $170,000 per annum, payable in accordance with normal Company payment schedules. Reports of work performed will be conducted at the end of each month. You will not be eligible for any cash or other bonuses during your employment. Moreover, you shall not be entitled to, nor should you expect to be awarded, any stock options or other equity incentives.

3. The Company shall provide and pay for your participation in all existing Company health, dental, long term disability and life insurance or benefits plans in accordance with past practices while you are employed by the Company. After your employment ceases you shall have whatever rights are granted you under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (“COBRA”), to continue to participate in such health plans. Except as provided above, the Company shall not be obligated to continue or provide, or to pay for, your participation in any other health and welfare benefit plans (as such term is defined under Section 3 of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) after your employment is terminated.

4. Your employment with the Company shall continue until September 30, 2004 (the “Termination Date”), at which time, absent further written agreement between you and the Company, your employment shall automatically terminate and there will be no severance payment due or payable.

5. Your current options, listed in Exhibit A hereto, shall continue to be in full force and effect and the issued options will continue to vest pursuant to your option awards and the 1992 Stock Option Plan. Any unvested options owned by you on the Termination Date shall expire and terminate. Any vested options you hold on the Termination Date shall expire on October 30, 2004. A copy of the 1992 Stock Option Plan has been delivered to you for your records.

6. To insure that your duties are limited to special projects and you are not asked, nor do you seek, to involve yourself in matters involving your former responsibilities and duties as Chief Financial Officer, we have agreed that while you will maintain an office at Company headquarters and will be present as directed by me as CEO, you will be permitted to establish an executive office near your residence at which you may work on projects assigned to you. The Company will reimburse you $350 per month for expenses you incur in establishing and maintaining such office.

7. If during your employment by the Company (a) you are terminated by the Company without “Cause” (as defined below) or (b) you resign within 30 days after being required to accept a material diminution in title or duties and responsibilities, then the Company will continue to pay you your full salary for the stipulated period of your employment, i.e. until September 30, 2004. During such period, the Company shall continue to provide you health insurance, but all other benefits shall cease. “Cause” shall mean (i) your material failure to perform or observe (other than by reason of disability) any of the terms or provisions of this letter agreement, including your failure to follow my reasonable written directions as the Company’s CEO, for more than five business days after written notice thereof from me as the CEO; (ii) dishonesty or misconduct on your part that is damaging or detrimental to the business of the Company, (iii) conviction of a felony involving moral turpitude, (iv) habitual insobriety or failure to perform your duties due to abuse of alcohol or drugs, or (v) misappropriation of any of the Company’s material assets.

8. We regret the time and difficulty involved in resolving our relationship over the past month. To put this matter to rest we have agreed to pay any legal costs billed to you at normal rates, up to $5000.

9. By signing below, we have mutually agreed to and do hereby release each other from any claims or causes of action that either of us has by virtue of any actions related to your employment, your reassignment, and any related events or statements connected therewith.

We hope that you accept this offer and look forward to continuing to work with you.

Cordially,

/s/ Roy Spradlin

Roy Spradlin, Chairman, President and CEO

AGREED TO AND ACCEPTED

/s/ J Michael Mullin
J Michael Mullin

EXHIBIT 31

CERTIFICATION

I, Roy Spradlin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of U.S. Physical Therapy, Inc.;

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

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

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

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

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

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

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

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

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

/s/ ROY SPRADLIN

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

Date: November 13, 2003

EXHIBIT 31

CERTIFICATION

I, Lawrance W. McAfee, certify that:

1. I have reviewed this quarterly report on Form 10-Q of U.S. Physical Therapy, Inc.;

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

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

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

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

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

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

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

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

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

/s/ LAWRANCE W. MCAFEE

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

Date: November 13, 2003

EXHIBIT 32

CERTIFICATION OF PERIODIC REPORT

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

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

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

/s/ Roy Spradlin

Name: Roy W. Spradlin
Title: Chairman, President and CEO
Date: November 13, 2003

/s/ Lawrance W. McAfee

Name: Lawrance W. McAfee
Title: Chief Financial Officer
Date: November 13, 2003

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