

U.S. PHYSICAL THERAPY, INC.

NOTICE OF 2015 ANNUAL MEETING OF STOCKHOLDERS

**DATE:** Tuesday, May 19, 2015

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

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

**MATTERS TO BE ACTED ON:**

1. Election of eleven directors to serve until the next annual meeting of stockholders.
2. Advisory vote to approve named executive officer compensation.
3. Reapprove the material terms of the Company's Amended and Restated 2003 Stock Incentive Plan for purposes of complying with Section 162(m) of the Internal Revenue Code.
4. Ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the year ending December 31, 2015.
5. Consideration of any other matters that may properly come before the meeting or any adjournments.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE IN FAVOR OF THE ELECTION OF EACH OF THE ELEVEN NOMINEES FOR DIRECTOR, THE NON-BINDING APPROVAL OF THE NAMED EXECUTIVE OFFICER COMPENSATION, THE RE-APPROVAL OF THE COMPANY'S AMENDED AND RESTATED 2003 STOCK INCENTIVE PLAN FOR PURPOSES OF COMPLYING WITH SECTION 162(M) OF THE INTERNAL REVENUE CODE, AND THE RATIFICATION OF THE APPOINTMENT OF GRANT THORNTON LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2015.**

The Board of Directors has set Thursday, April 2, 2015, as the Record Date for the Annual Meeting of Stockholders to be held on May 19, 2015 (the "Annual Meeting"). Only holders of our common stock of record at the close of business on that date will be entitled to notice of and to attend and vote at the Annual Meeting or any adjournments thereof. A complete list of stockholders will be available for examination at the Annual Meeting and at our offices at 1300 West Sam Houston Parkway South, Suite 300, Houston, Texas 77042, for a period of ten days prior to the Annual Meeting.

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

By Order of the Board of Directors,



Richard Binstein, Secretary

April 9, 2015

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**U.S. PHYSICAL THERAPY, INC.**  
**1300 West Sam Houston Parkway South, Suite 300**  
**Houston, Texas 77042**  
**(713) 297-7000**

**PROXY STATEMENT**  
**ANNUAL MEETING OF STOCKHOLDERS**  
**MAY 19, 2015**

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**Proxy Statement**

This Proxy Statement is being provided to stockholders in connection with the solicitation of proxies by the Board of Directors for use at the Annual Meeting of Stockholders (the “Annual Meeting”) of U.S. Physical Therapy, Inc. (“we”, “us”, “our”, “USPT” or the “Company”) to be held on Tuesday, May 19, 2015 at 9:00 a.m. (central time) at the Company’s principal executive offices located at 1300 West Sam Houston Parkway, Suite 300, Houston, Texas, 77042.

**Proxy Solicitation**

Your vote and proxy are being solicited by our Board of Directors (“Board of Directors” or “Board”) for use at the Annual Meeting. This Proxy Statement and the enclosed proxy card are being mailed on behalf of our Board of Directors on or about April 13, 2015 to all of our stockholders of record as of the close of business on the record date, Thursday, April 2, 2015 (the “Record Date”).

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

**Your Vote is Important**

Whether or not you plan to attend the Annual Meeting, please take time to vote your shares by signing and returning a proxy card as soon as possible.

**Proposals To Be Voted On and the Board’s Voting Recommendations**

The following four proposals are scheduled to be voted on at the Annual Meeting:

- Election of eleven director nominees.
- Advisory vote to approve named executive officer compensation.
- Reapprove the material terms of the Company’s Amended and Restated 2003 Stock Incentive Plan for purposes of complying with Section 162(m) of the Internal Revenue Code.
- Ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the year ending December 31, 2015.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE IN FAVOR OF: THE ELECTION OF EACH OF THE ELEVEN NOMINEES FOR DIRECTOR, THE NON-BINDING APPROVAL OF THE NAMED EXECUTIVE OFFICER COMPENSATION, THE RE-APPROVAL OF THE COMPANY’S AMENDED AND RESTATED 2003 STOCK INCENTIVE PLAN FOR PURPOSES OF COMPLYING WITH SECTION 162(M) OF THE INTERNAL REVENUE CODE, AND THE RATIFICATION OF THE APPOINTMENT OF GRANT THORNTON LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2015.**

**Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be Held on May 19, 2015:**

We have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a Notice of 2015 Annual Meeting of Stockholders, proxy card and Annual Report for the year ended December 31, 2014, and by notifying you of the availability of our proxy materials on the Internet. **The Notice of 2015 Annual Meeting of Stockholders, this Proxy Statement, proxy card and Annual Report for the year ended December 31, 2014 are available at <http://www.cstproxy.com/usph/2015>.** The materials on the website are searchable, readable and printable and the website does not have “cookies” or other tracking devices which identify visitors. To obtain directions to attend the Annual Meeting and vote in person, please contact Richard Binstein, our Secretary, at 800-530-6285 or via email at [investorrelations@usph.com](mailto:investorrelations@usph.com).

**Who Can Vote:**

All holders of record of our common stock at the close of business on April 2, 2015 are entitled to vote at the Annual Meeting. Holders of our common stock are entitled to one vote per share.

**Proxies:**

**Properly executed but unmarked proxies will be voted FOR the election of our eleven director nominees, FOR the non-binding approval of named executive officer compensation, FOR the reapproval of the Company’s Amended and Restated 2003 Stock Incentive Plan for purposes of complying with Section 162(m) of the Internal Revenue Code, and FOR the ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the year ending December 31, 2015.** If you “withhold” your vote for any of the director nominees, this will be counted as a vote **AGAINST** that nominee. If any other matters are properly brought before the Annual Meeting, the persons named in the proxy card will vote your shares as directed by a majority of the Board of Directors.

**Quorum:**

Only shares of our common stock can be voted, with each share entitling its owner to one vote on all matters that come before the Annual Meeting. The close of business on Thursday, April 2, 2015 was fixed by the Board of Directors as the Record Date for determination of stockholders entitled to vote at the Annual Meeting. The number of shares of our common stock outstanding on the Record Date was 12,398,637. The presence, in person or by proxy, of at least a majority of the shares outstanding on the Record Date is necessary to constitute a quorum at our Annual Meeting. Abstentions will be treated as present for determining a quorum at the Annual Meeting. If a broker holding your shares in “street” name indicates to us on a proxy card that the broker lacks discretionary authority to vote your shares for all matters at the meeting, we will not consider your shares as present or entitled to vote for any purpose. There is no cumulative voting in the election of directors and, as required by Nevada law, the directors will be elected by a plurality of the votes cast at the Annual Meeting.

**Cost of Proxy Solicitation:**

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

**Questions and Additional Information:**

You may call our Chief Financial Officer, Lawrance W. McAfee, at 800-580-6285 or email us at [investorrelations@usph.com](mailto:investorrelations@usph.com) if you have any questions. A copy of our Annual Report on Form 10-K for the year ended December 31, 2014 accompanies this Proxy Statement. **We have filed an Annual Report on Form 10-K for the year ended December 31, 2014 (the “Form 10-K”) with the Securities and Exchange Commission (the “SEC”). You may obtain additional copies of the Form 10-K by downloading it from our website at [www.usph.com](http://www.usph.com), by writing to U.S. Physical Therapy, Inc., 1300 West Sam Houston Parkway South, Suite 300, Houston, Texas 77042, Attention: Richard Binstein, Secretary, or by emailing us at [investorrelations@usph.com](mailto:investorrelations@usph.com).**

**PLEASE VOTE — YOUR VOTE IS IMPORTANT**

## PROPOSAL 1 — ELECTION OF DIRECTORS

The accompanying proxy card, unless marked to the contrary, will be voted in favor of the election of Jerald L. Pullins, Daniel C. Arnold, Christopher J. Reading, Lawrance W. McAfee, Mark J. Brookner, Harry S. Chapman, Dr. Bernard A. Harris, Jr., Marlin W. Johnston, Edward L. Kuntz, Reginald E. Swanson and Clayton K. Trier. These eleven nominees are current directors standing for re-election at the Annual Meeting to serve until the next annual meeting of stockholders or until their successor is elected and qualified. The Governance and Nominating Committee, which consists solely of directors who are independent under the applicable New York Stock Exchange (“NYSE”) listing standards, recommended the nomination of the eleven directors to the Board of Directors. Based on that recommendation, the Board nominated such directors for election at the Annual Meeting.

The Board of Directors has affirmatively determined that Messrs. Pullins, Arnold, Brookner, Chapman, Johnston, Kuntz, Trier, and Dr. Harris are independent under the NYSE listing standards. Messrs. McAfee and Reading, who are both executive officers of the Company, and Mr. Swanson, who is an employee of the Company, were determined not to be independent under the NYSE listing standards. The nominees for director are:

<u>Nominees:</u>	<u>Age</u>	<u>Director Since</u>	<u>Position(s) Held</u>
Jerald L. Pullins . . . . .	73	2003	Chairman of the Board
Christopher J. Reading . . . . .	51	2004	President, Chief Executive Officer and Director
Lawrance W. McAfee . . . . .	60	2004	Executive Vice President, Chief Financial Officer and Director
Daniel C. Arnold . . . . .	85	1992	Vice Chairman of the Board
Mark J. Brookner . . . . .	70	1990	Director
Harry S. Chapman . . . . .	70	2010	Director
Dr. Bernard A. Harris, Jr. . . . .	58	2005	Director
Marlin W. Johnston . . . . .	83	1992	Director
Edward L. Kuntz . . . . .	70	2014	Director
Reginald E. Swanson . . . . .	61	2007	Director (and an employee of STAR Physical Therapy, LP (*))
Clayton K. Trier . . . . .	63	2005	Director

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\* STAR Physical Therapy, LP is a subsidiary of the Company.

### Director Biographies:

*Jerald L. Pullins* has served on our Board since 2003, and was appointed Chairman of the Board on May 17, 2011. He is currently engaged in the development and management of private enterprises in the healthcare field. From October 2007 to the present, Mr. Pullins has been the Managing Member of SeniorCare Homes, LLC, which develops, owns and operates supervised, residential homes for senior citizens with Alzheimers, dementia and other memory impairment conditions. Since January 2013, Mr. Pullins has been Chairman and CEO of Baldwin Brothers Cremation, LLC, which owns and operates facilities providing cremation, funeral and related services. From 2007 to May 2013, he served as Chairman of the Board of Directors of Pet Partners, LLC, a private enterprise involved in the acquisition and management of primary care, small animal veterinary hospitals. Mr. Pullins was elected a director of Live Oak Bank, Inc., a privately held financial institution, in 2011.

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

*Lawrance W. McAfee* was promoted to Executive Vice President and elected to our Board effective November 1, 2004. Mr. McAfee also serves as our Chief Financial Officer, a position he has held since joining us in 2003. Mr. McAfee’s prior experience includes having served as Chief Financial Officer of three public companies and President of two private companies.

*Daniel C. Arnold* was Chairman of the Board from July 6, 2004 to May 17, 2011, and has served as Vice Chairman since that date. Mr. Arnold is a private investor engaged primarily in managing his personal investments. He previously served as Chairman of the Board of Trustees of the Baylor College of Medicine.

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

*Harry S. Chapman* has served on our Board since August 30, 2010. Mr. Chapman is the Chairman and Chief Executive Officer of Chapman Schewe, Inc., a healthcare insurance and employee benefits consulting firm, and since January 1, 2013, also serves as Managing Director with Higginbotham, an insurance, risk management and financial services firm. Previously, he served as a Corporate Senior Vice-President and Managed Care Officer of CIGNA's South Central Region, with responsibility for HMO and PPO plans in several states. Mr. Chapman's experience also includes having served as head of EQUICOR's Health Plan and sales operation in Houston and as a Regional Vice-President for Lincoln National Insurance Company's Central Region.

*Dr. Bernard A. Harris, Jr.* joined our Board on August 23, 2005. Since 2001, Dr. Harris has been President and Chief Executive Officer of Vesalius Ventures, a venture capital firm that invests in early stage medical informatics and technology. Since 2006, Dr. Harris has served as a Class III director of Sterling Bancshares, Inc., a bank holding company. From 1996 to 2001, he served as Chief Medical Officer and Vice President for Space Hab, an aerospace company. Dr. Harris is a former astronaut, having completed two space shuttle missions. He completed his residency in Internal Medicine at the Mayo Clinic and trained as a flight surgeon at the Aerospace School of Medicine at Brooks Air Force Base.

*Marlin W. Johnston* has served on our Board since 1992. Mr. Johnston has been a management consultant with Tonn & Associates, a management consulting firm, since 1993. From 1980 through 1988, Mr. Johnston served as Commissioner of the Texas Department of Human Services. During 1992 and 1993, Mr. Johnston served as a management consultant to the Texas Department of Health and the Texas Department of Protective and Regulatory Services.

*Edward L. Kuntz* has served on our Board since August 26, 2014. Mr. Kuntz is the former Chairman and Chief Executive Officer of Kindred Healthcare, the largest diversified provider of post-acute care services in the United States. From 1998 through May 2014 he served as Chairman of the Board of Directors of Kindred and as Chief Executive Officer from 1998 to 2004. Mr. Kuntz is a director of Rotech Healthcare, Inc., one of the largest providers of home medical equipment and related products and services in the United States, where he serves as a member of the audit and board operating committees. Mr. Kuntz also serves as a director of American Electric Technologies, Inc., a provider of power delivery solutions to the energy industry in the U.S. and internationally and is Chairman of its Audit Committee.

*Reginald E. Swanson* joined our Board on September 6, 2007. Since 2007, Mr. Swanson has been the Managing Director of STAR Physical Therapy, LP, a subsidiary of the Company. Mr. Swanson is founder of STAR Physical Therapy, LLC, and from 1997 to 2007, was its president and managing member. He is a certified athletic trainer and has been involved with sports medicine and physical therapy for over 25 years.

*Clayton K. Trier* joined our Board on February 23, 2005. Mr. Trier is a private investor. He was a founder and former Chairman and Chief Executive Officer of U.S. Delivery Systems, Inc., from 1993 to 1997, which developed the first national network providing same-day delivery service. Before it was acquired in 1996, U.S. Delivery was listed for two years on the New York Stock Exchange. Mr. Trier was a founder of Digital Music Group, Inc. ("DMGI") and from September 2005 through May 2008, served as its Chairman of the Board. DMGI, listed on the NASDAQ in 2006, acquired the digital rights to master recordings, converted the recordings to digital format and sold the music through online retailers. Since 2008, Mr. Trier has served as a director of St. Luke's Health System, which operates several hospitals in the Houston, Texas metropolitan area.

The persons named on the proxy card will vote FOR all of the nominees for director listed above unless you withhold authority to vote for one or more of the nominees. Under current regulations, a broker is prohibited from voting for directors without receiving instructions from you. As required by Nevada law, nominees will be elected by a plurality of the votes cast at the Annual Meeting. Abstentions and broker non-votes will not be treated as a vote for or against any particular nominee and will not affect the outcome of the election of directors.

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

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

**CORPORATE GOVERNANCE AND BOARD MATTERS**

**Board Leadership Structure**

Our Board is led by an independent Chairman and Vice-Chairman and includes six other independent directors. Mr. Reading, our Chief Executive Officer, Mr. McAfee, our Executive Vice President and Chief Financial Officer, and Mr. Swanson, an employee of one of our subsidiaries, STAR Physical Therapy, LP, are the members of the Board who are not independent. We believe the leadership structure enhances the accountability of the executive management to the Board. Because eight of the eleven members of our Board are considered independent, we believe the Board is independent from management. Further, separating the Chairman and Chief Executive Officer roles allows Mr. Reading to focus his efforts on running our business and managing the Company in the best interest of our stockholders while we are able to benefit from prior experiences of our independent Board members.

**Board Oversight of Risk**

Our management is responsible for the Company's day-to-day risk management activities. Our Board, which functions in an oversight role in risk management, focuses on understanding the nature of the risks inherent in our business, including our operations, strategic directions and overall risk management systems. Our Board receives periodic updates on our business operations, financial results, strategy and specific risks related to our business. These updates are communicated through monthly correspondence and presentations by management at Board meetings and through discussions with appropriate management compliance and audit personnel at the meetings of the Board's Audit Committee and Compliance Committee.

In addition, we believe our approach to compensation practices and policies applicable to employees throughout our Company and those followed for our Named Executive Officers (as defined in the "Compensation Discussion and Analysis" section below) are not reasonably likely to have a material adverse effect on our Company. See "Compensation Discussion and Analysis."

**Independent Directors**

The Board has affirmatively determined the Messrs. Arnold, Brookner, Chapman, Harris, Johnston, Kuntz, Pullins, and Trier have no relationship with the Company or its subsidiaries that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and are independent, as defined in the NYSE listing standards. Specifically, the Board determined that the foregoing eight nominees are "independent" as defined in NYSE listing standards, and that the directors comprising the Company's Audit Committee are "independent" as defined in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934 (as amended, the "Exchange Act").

**Attendance at Board Meetings and Board Committees**

The Board of Directors conducts its business through its meetings and through meetings of certain committees of the Board of Directors. The Board of Directors is comprised of a majority of independent directors as required by the NYSE listing standards and is required to meet at least four times per year. In addition, the independent directors periodically meet as a group in executive session, with the Chairman of the Board presiding over such meetings.

The Board has the following standing committees: (i) Governance and Nominating, (ii) Compliance, (iii) Compensation, and (iv) Audit. During 2014, the Board of Directors met five times, the Governance and Nominating Committee met three times, the Compliance Committee met four times, the Compensation Committee met seven times and the Audit Committee met seven times. Each of our directors participated in at least 75% of the aggregate meetings of the Board of Directors and the committees on which he served.

These committees are constituted as follows:

### *Governance and Nominating Committee*

The Governance and Nominating Committee currently consists of Messrs. Pullins (Chairman), Arnold, Harris (effective March 3, 2015) and Trier, all of whom have been determined to be “independent,” as defined in the NYSE listing standards and the rules of the SEC. The function of the committee is to select, screen and recommend to the full Board nominees for election as directors, including any nominees proposed by stockholders who have complied with the procedures described below. The committee also has ongoing responsibility for oversight review of Board performance and ensuring each Board member’s continuing commitment to the Board and the Company’s goals and objectives. Additional functions include regularly assessing the appropriate size of the Board, and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the committee will consider various potential candidates for director. Candidates may come to the attention of the committee through current Board members, stockholders, or other persons. The committee may also hire third parties to identify, to evaluate, or to assist in identifying or evaluating potential nominees should it be determined necessary. The committee is required to meet at least annually and operates under a written charter, a copy of which is available on our website at [www.usph.com](http://www.usph.com).

*Nomination Criteria.* In its consideration of Board candidates, the Governance and Nominating Committee considers the following criteria: the candidate’s general understanding of the health care sector, marketing, finance and other disciplines relevant to the success of a publicly-traded company; strategic business contacts and regard or reputation in the community, other board affiliations, industry and civic affairs; financial, regulatory and business experience; integrity, honesty and reputation; size of the Board of Directors; and regulatory obligations. In the case of incumbent directors whose terms of office are set to expire, the committee reviews each such director’s overall service to the Company during said director’s terms, including the number of meetings attended, level of participation, quality of performance, and whether the director continues to meet the independence standards set forth in the applicable SEC rules and regulations and the NYSE listing standards. In the case of new director candidates, the questions of independence and financial expertise are important to determine which roles can be performed by the candidate, and the committee preliminarily determines whether the candidate meets the independence standards set forth in the SEC rules and regulations and the NYSE listing standards, and the level of the candidate’s financial expertise. Candidates are first screened by the committee, and if approved by the committee, then they are screened by other members of the Board. The full Board approves the final nomination(s) based on recommendations from the committee. The Chairman of the Board, acting on behalf of the full Board, will extend the formal invitation to become a nominee of the Board of Directors. Qualified candidates for membership on the Board will be considered without regard to race, color, religion, sex, ancestry, national origin or disability.

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

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

No stockholder nominations were received in connection with the Annual Meeting.



### ***Compliance Committee***

The Compliance Committee consists of five independent directors. The current members of the committee are Messrs. Kuntz (effective December 9, 2014)(Chairman), Brookner, Chapman, Johnston, and Dr. Harris, all of whom have been determined to be “independent,” as defined in the NYSE listing standards. The committee has general oversight of our Company’s compliance with the legal and regulatory requirements regarding healthcare operations. The Chairman of the committee is provided with information regarding calls received on the Company’s compliance hotline and reports findings to the committee. The committee relies on the expertise and knowledge of management, especially our Chief Compliance Officer, who regularly communicates with the Chairman of the committee, and other compliance, management, operations and/or legal personnel. The committee meets at least four times a year and as necessary to carry out its responsibilities and reports periodically to the Board of Directors regarding its actions and recommendations. The committee reviews and assesses the activities and findings of clinic internal audits, reviews reports of material noncompliance and reviews and approves corrective actions proposed by management.

### ***Compensation Committee***

The current members of the Compensation Committee are Messrs. Chapman (Chairman), Pullins and Trier, all of whom have been determined to be “independent,” as defined in the NYSE listing standards and the rules of the SEC. As more fully described in the Compensation Committee Charter, which can be found on our website at [www.usph.com](http://www.usph.com), the committee is responsible for, among other things:

- establishing goals and objectives relevant to incentive compensation awards (annual and long-term) for the Chief Executive Officer and other senior executive officers of the Company;
- evaluating the Chief Executive Officer’s and other senior executive officers’ performance and the overall corporate performance in light of these goals and objectives and approve any incentive compensation for such executives;
- determining any periodic adjustments to be made in the Chief Executive Officer’s and other senior executive officers’ base salary level based on the committee’s evaluation thereof;
- reviewing, for officers of the Company other than the senior executives, the proposed salary levels and annual adjustments thereto and the incentive compensation plans formulated by senior executive management and the annual bonus payments to be made thereunder, and providing input and advice to senior executive management with respect to these compensation decisions;
- approving all executive perquisites and any special benefit plans to be made available to senior executive officers;
- advising on compensation of non-employee members of the Board;
- administering the Company’s equity compensation plans and approving grants to executive officers, employees, directors, and consultants under such plans;

The committee may delegate its responsibilities to subcommittees of one or more directors. The committee meets at least two times a year to carry out its responsibilities. The Named Executive Officers and other senior executives are not permitted to be present during any deliberations or voting with respect to his or her compensation. The committee’s processes and procedures for determining executive compensation are described below under “Compensation Discussion and Analysis.”

### ***Audit Committee***

The Audit Committee currently consists of Messrs. Trier (Chairman), Brookner, Harris, Johnston and Pullins. Our Board of Directors has determined that Messrs. Brookner, Trier and Pullins are “audit committee financial experts” under the rules of the SEC. As more fully described in the Audit Committee Charter, which can be found on our website at [www.usph.com](http://www.usph.com), the committee is responsible for, among other things:

- overseeing our financial reporting processes, including the quarterly reviews and annual audits of our financial statements by the independent auditors;
- the appointment, compensation, retention and oversight of the work of the independent auditors;
- pre-approving audit and permitted non-audit services, and related fees and terms of engagement, provided by the independent auditors; and

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

The Audit Committee Charter requires that the committee consist of at least three independent members of our Board and that the committee meet at least four times per year on a quarterly basis. At each regular Audit Committee meeting, the committee meets privately with management and with the independent auditors. Each member of the Audit Committee has been determined to be “independent,” as defined in the NYSE listing standards and the rules of the SEC.

## **Codes of Conduct and Procedures Regarding Related Party Transactions**

### *Codes of Conduct*

Our Board has approved and we have adopted a Code of Business Conduct and Ethics for our officers and all employees, an additional Code of Business Conduct and Ethics which is applicable to our directors, and Corporate Governance Guidelines. The Codes and Corporate Governance Guidelines are available on our website at [www.usph.com](http://www.usph.com). Our Board, or a committee of its independent members, is responsible for reviewing and approving or rejecting any requested waivers to the Codes, as such waivers may apply to our directors and officers. Neither the Board, nor a committee of its independent members received any requests for waivers or amendments to the Codes in 2014, and none were granted. Any waivers of these Codes for directors, officers and employees will be disclosed in a Form 8-K filed with the SEC, which will be available on the SEC’s website at [www.sec.gov](http://www.sec.gov). The Code applicable to directors requires each director to disclose to the Board any interest he or she may have in a potential transaction, arrangement or agreement to which the Company is or will be a party, and refrain from participating directly or indirectly in the transaction unless the Board approves such participation with all interested directors abstaining from the consideration and deliberation of, and any votes concerning, such matter.

Our Board has further approved and we have adopted an additional Code of Business Conduct and Ethics, applicable to our Chief Executive Officer, Chief Financial Officer and senior financial officers, relating to dealings with our auditors and the preparation of our financial statements and other disclosures made to the public under SEC rules and regulations. This Code is available on our website at [www.usph.com](http://www.usph.com). The Board, or a committee of its independent members, is responsible for reviewing and approving or rejecting any requested waivers from, and amendments to, this Code. Neither the Board, nor a committee of its independent members received any requests for waivers or amendments to the Code in 2014, and none were granted. Any waivers from, and amendments to, the Code will be disclosed in a Form 8-K filed with the SEC, which will be available on the SEC’s website at [www.sec.gov](http://www.sec.gov). The Code requires the officers to disclose directly to the Audit Committee any conflicts of interest, including any material transaction or relationship involving a potential conflict of interest.

### *Certain Relationships and Related Transactions*

The charter of the Audit Committee requires that the Audit Committee review and approve all insider and affiliated party transactions.

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

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

The Board of Directors also maintains an informal process for interested persons to communicate directly with the independent directors who periodically meet as a group in executive session. In the event an interested party wants to communicate directly with our Chairman (who presides over the executive sessions) or with the independent directors as a group, the interested party should send such communication to the attention of Chairman of the Board, labeled “CONFIDENTIAL”, to our principal executive offices.

Although the Company does not have a formal policy requiring them to do so, all of the members of our Board of Directors are encouraged to attend our annual meeting of stockholders. At the 2014 annual meeting, all directors were in attendance.

### Compensation of Directors

During 2014, each of our non-employee directors received \$10,000 per quarter (“Retainer Fee”) for serving as a member of our Board of Directors. In addition, each of our non-employee directors is paid \$1,000 for each committee meeting attended in person or telephonically (hereinafter referred to as “Meeting Fees”). In addition to the Retainer Fee, the Chairman of our Board of Directors, who is also the Chairman of our Governance and Nominating Committee, is paid an annual fee of \$55,000, the Chairman of the Audit Committee is paid an annual fee of \$18,000, the Chairman of the Compensation Committee is paid an annual fee \$12,000, and the Chairman of the Compliance Committee is paid an annual fee of \$10,000 (hereinafter all referred to as “Chairman Fees”). Directors are also reimbursed for their out-of-pocket travel and related expenses incurred in attending Board and committee meetings. Directors who are also our employees are not compensated separately for serving on our Board. In addition, in May 2014, each of the non-employee directors elected at the 2014 annual meeting received a grant of 3,000 shares of restricted stock, under the terms of the Company’s Amended and Restated 2003 Stock Incentive Plan (“Stock Incentive Plan”), vesting quarterly through April 1, 2015. Upon his appointment to the Board, Mr. Kuntz was granted 3,000 shares of restricted stock vesting quarterly through July 1, 2015.

### Director Compensation Table

The following table discloses the cash, equity awards and other compensation earned, paid or awarded, as the case may be, to each of the Company’s directors who are not Named Executive Officers during the fiscal year ended December 31, 2014.

Name	Fees Earned or Paid in Cash (1)	Stock Awards (2)	Option Awards	Non-equity incentive plan compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
Daniel C. Arnold . . . . .	\$ 42,000	\$ 97,470	\$ —	\$ —	\$ —	\$ —	\$ 139,470
Mark J. Brookner . . . . .	\$ 53,000	\$ 97,470	\$ —	\$ —	\$ —	\$ —	\$ 150,470
Harry S. Chapman . . . . .	\$ 60,750	\$ 97,470	\$ —	\$ —	\$ —	\$ —	\$ 158,220
Dr. Bernard A. Harris, Jr. . . . .	\$ 51,000	\$ 97,470	\$ —	\$ —	\$ —	\$ —	\$ 148,470
Marlin W. Johnston . . . . .	\$ 61,750	\$ 97,470	\$ —	\$ —	\$ —	\$ —	\$ 159,220
Edward L. Kuntz . . . . .	\$ 13,333	\$107,970	\$ —	\$ —	\$ —	\$ —	\$ 121,303
Jerald L. Pullins . . . . .	\$108,500	\$ 97,470	\$ —	\$ —	\$ —	\$ —	\$ 205,970
Reginald E. Swanson (3) .	\$ —	\$ —	\$ —	\$ —	\$ —	\$128,172	\$ 128,172
Clayton K. Trier . . . . .	\$ 71,250	\$ 97,470	\$ —	\$ —	\$ —	\$ —	\$ 168,720

- (1) Includes Retainer Fees, Chairman Fees and Meeting Fees.
- (2) Stock awards were granted as restricted stock under the terms of the Stock Incentive Plan. With the exception of Mr. Kuntz, who was granted restricted stock in August, 2014 upon his appointment to the Board, the restrictions lapsed as to 750 shares on each of July 1, 2014, October 1, 2014, January 1, 2015 and April 1, 2015. For Mr. Kuntz, the restrictions lapsed as to 750 shares on each of October 1, 2014, January 1, 2015 and April 1, 2015 with the restrictions of the remaining 750 shares lapsing on July 1, 2014. Amounts shown are the grant date fair value of the awards computed in accordance with FASB ASC Topic 718, which amounted to \$32.49 per share with the exception of Mr. Kuntz which was \$35.99 per share. Assumptions used in the calculation of these amounts are included in “Note 10 — Equity Based Plans” to our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on March 12, 2015.
- (3) Other compensation represents salary and car allowance received by Mr. Swanson in his role as an employee of STAR Physical Therapy, LP, a subsidiary of the Company. During 2014, Mr. Swanson did not receive any additional compensation for being a director.

## STOCK OWNERSHIP

### Stock Owned by Directors, Nominees and Executive Officers

The following table shows the number and percentage of shares of our common stock beneficially owned by our directors, Named Executive Officers (as defined under “—Compensation Discussion and Analysis”) and all directors and executive officers as a group as of April 2, 2015. Each person has sole voting and investment power for the shares shown below unless otherwise indicated.

<u>Name of Beneficial Owner</u>	<u>Number of Shares Owned (1)</u>	<u>Percent of Common Stock</u>
Directors:		
Jerald L. Pullins . . . . . Chairman of the Board	30,846	0.2%
Christopher J. Reading . . . . . President, Chief Executive Officer and Director	119,157(2)	1.0%
Lawrance W. McAfee . . . . . Executive Vice President, Chief Financial Officer and Director	50,552(3)	0.4%
Daniel C. Arnold . . . . . Vice Chairman of the Board	125,904	1.0%
Mark J. Brookner . . . . .	53,750(4)	0.4%
Harry S. Chapman . . . . .	30,000	0.4%
Dr. Bernard A. Harris, Jr. . . . .	32,084	0.4%
Marlin W. Johnston . . . . .	34,099	0.3%
Edward L. Kuntz . . . . .	3,000(5)	0.0%
Reginald E. Swanson . . . . .	8,881(6)	0.1%
Clayton K. Trier . . . . .	13,000	0.1%
Non-Director Executive Officers:		
Glenn D. McDowell . . . . . Chief Operating Officer	44,308(3)	0.4%
All directors and executive officers as a group (12 persons) . . . . .	<u>545,581</u>	4.4%

(1) There are no outstanding stock options.

(2) Includes 78,566 shares of common stock granted as restricted stock in which the restrictions will lapse as follows:

<u>Date</u>	<u># Shares</u>	<u>Date</u>	<u># Shares</u>	<u>Date</u>	<u># Shares</u>
6/30/2015	1,443	4/1/2016	6,675	10/1/2017	4,375
7/1/2015	6,675	7/1/2016	6,675	1/1/2018	4,375
9/30/2015	1,443	10/1/2016	6,675	4/1/2018	2,500
10/1/2015	6,675	1/1/2017	6,675	7/1/2018	2,500
12/31/2015	1,455	4/1/2017	4,375	10/1/2018	2,500
1/1/2016	6,675	7/1/2017	4,375	1/1/2019	2,500

(3) Includes 40,009 shares of common stock granted as restricted stock in which the restrictions will lapse as follows:

<u>Date</u>	<u># Shares</u>	<u>Date</u>	<u># Shares</u>	<u>Date</u>	<u># Shares</u>
6/30/2015	962	4/1/2016	3,337	10/1/2017	2,187
7/1/2015	3,337	7/1/2016	3,337	1/1/2018	2,195
9/30/2015	962	10/1/2016	3,337	4/1/2018	1,250
10/1/2015	3,337	1/1/2017	3,337	7/1/2018	1,250
12/31/2015	970	4/1/2017	2,187	10/1/2018	1,250
1/1/2016	3,337	7/1/2017	2,187	1/1/2019	1,250

(4) Includes 50,000 shares of our common stock owned directly by Mr. Brookner and 3,750 shares of common stock held in a trust of which Mr. Brookner is the trustee.

- (5) Includes 750 shares of common stock granted as restricted stock in which the restrictions will lapse on July 1, 2015.
- (6) These shares of our common stock are held by the Regg E. Swanson Revocable Trust of which Mr. Swanson is the trustee and beneficiary.

### Stock Owned by Certain Beneficial Holders

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

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Common Stock Outstanding</u>
Royce & Associates, LLC . . . . . 745 Fifth Avenue New York, NY 10151	1,098,171(1)	8.9%
RBC Global Asset Management (U.S.) Inc . . . . . 100 South Fifth Street Minneapolis, MN 55402	931,930(2)	7.6%
BlackRock, Inc . . . . . 40 East 52nd Street New York, NY 10022	759,072(3)	6.2%
Renaissance Technologies LLC . . . . . 800 Third Avenue New York, NY 10022	659,074(4)	5.4%

- (1) Royce & Associates, LLC has sole voting and dispositive power over all of the shares as disclosed in a Schedule 13G/A filed on January 29, 2015.
- (2) RBC Global Asset Management (U.S.) Inc. has shared voting power over 591,487 of the shares and shared dispositive power over 931,930 of the shares as disclosed in a Schedule 13G filed on February 4, 2015.
- (3) BlackRock, Inc. has sole voting power over 729,466 of the shares and sole dispositive power over 759,072 of the shares as disclosed in a Schedule 13G/A filed on January 30, 2015. Various persons associated with BlackRock, Inc. have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the Company. No one person's interest in the common stock of the Company is more than five percent of the total outstanding common stock.
- (4) Renaissance Technologies, LLC ("RTC") and Renaissance Technologies Holdings Corporation ("RTHC") have sole voting power over 636,400 and sole dispositive power over 658,997 shares as disclosed in a Schedule 13G filed on January 29, 2015. RTC and RTHC have shared dispositive power over 77 shares. RTHC has a majority ownership of RTC. Certain funds and accounts managed by RTC have the right to receive dividends and proceeds from the sale of the securities.

### EXECUTIVE OFFICERS

The current executive officers of the Company are as follows:

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

For information concerning Messrs. Reading and McAfee see "Proposal 1 — Election of Directors" above.

*Glenn D. McDowell*, 58, was promoted to Chief Operating Officer effective January 24, 2005. Mr. McDowell served as our Vice President of Operations overseeing the west region since joining us in October 2003 until January 2005. From 1996 to 2003, Mr. McDowell was employed by HealthSouth Corporation, a provider of outpatient surgery, diagnostic imaging and rehabilitative healthcare services. His most recent position with HealthSouth Corporation was Vice President of Operations — West Ambulatory Division where he oversaw the operations of more than 165 outpatient rehabilitation and other facilities. Mr. McDowell is a physical therapist.

## COMPENSATION DISCUSSION AND ANALYSIS

The Compensation Committee, composed entirely of independent directors, administers the Company's executive compensation program. The role of the committee includes establishing and overseeing compensation and benefit programs for our executive officers including the Chief Executive Officer ("CEO") and the other executive officers listed in the Summary Compensation table below (the "Named Executive Officers"). The committee also evaluates the performance of the CEO and reviews the performance of our other executive officers every year. Based upon these performance evaluations, the committee establishes compensation for the CEO and other executive officers, and executive management consults with the committee with respect to compensation levels and plans for key employees. Elements of our executive compensation program include: base salary; annual cash incentive compensation; long-term equity incentive awards; post-employment benefits; and benefits and perquisites.

In establishing and overseeing the program, the committee's goal is to ensure that we can attract and retain superior management talent critical to our long-term success. To ensure that executive compensation is aligned with the performance of the Company and the interests of its stockholders, a significant portion of compensation available to executives is linked directly with financial results and other factors that influence stockholder value.

### Compensation Support

Our management, our Human Resources department and our outside consultants, from time to time, support the committee in discharging its duties. In performing duties relating to the development and administration of our executive compensation program, our Human Resources department and the committee periodically review matters that relate to the competitive position, value and design of our short-term and long-term incentive compensation plans, performance goals and rewards available at various levels of performance.

Under its charter, the committee also may retain, at the Company's expense, compensation consultants to provide independent advice and counsel directly to the committee.

### Peer Group Compensation

In evaluating appropriate levels of total compensation for the Named Executive Officers, the committee gathers and analyzes data from a variety of sources. While there is not a comparable "peer group" of publicly-traded companies serving the outpatient rehab sector, the committee monitors public information on executive compensation for a number of companies providing various healthcare services which are similar in revenue volume and market capitalization to the Company. The Compensation Committee believes that this information is useful in evaluating the competitiveness of our executive compensation program.

### Limitation on Certain Trades of Company Securities

In addition to the various trading restrictions required of Company directors and certain employees under the Exchange Act, Securities Act of 1933, as amended, and SEC rules, the U.S. Physical Therapy, Inc. Insider Trading Policy restricts certain transactions involving company securities. Among other things, directors, officers, employees and other insiders of the Company are prohibited from entering into certain hedging or monetization transactions regarding Company securities (*e.g.*, the purchase of "put" options, short positions, zero-cost collars or forward sale contracts).

### Compensation Philosophy and Objectives

Our compensation policies are designed to enable us to attract, motivate and retain experienced and qualified executives. We seek to provide competitive compensation. Historically, our policy has been to provide a significant component of an executive officers' compensation through the grant of stock options or restricted shares that vest over a number of years. We believe that grants of equity-based incentives to executives and key employees help to align the interests of these persons with the interests of our stockholders.

The committee's policy is to compensate and reward executive officers and other key employees based on the combination of some or all of the following factors, depending on the person's responsibilities: corporate performance, business unit performance and individual performance. The committee evaluates corporate performance and business unit performance by reviewing the extent to which the Company has accomplished strategic business objectives such as improved profitability, cash flow, management of working capital, improvements in clinic productivity and efficiency, and the overall quality of patient care. The committee evaluates

individual performance by comparing actual accomplishments to the objectives established for the individual under the Company's management development program. The committee determines increases in base salary and annual cash incentive awards based on actual accomplishments during the performance period and determines long-term incentive awards based on LTIP (as defined below) criteria.

The committee believes that compensation to executive officers should be aligned closely with the Company's performance on both a short-term and long-term basis. As a result, a significant portion of compensation to each executive officer is "at risk" and tied to the achievement of financial performance goals, regulatory compliance, improvements in operating efficiency and the quality of care provided, and other quantitative and qualitative factors. The executive compensation program is also designed to incentivize continuous improvements by providing enhanced compensation as results improve. While a significant portion of compensation to the Company's executive officers is performance-based, the committee also believes it prudent to provide competitive base salaries and benefits in order to attract and retain the management talent necessary to achieve our long-term strategic objectives. The committee also takes into account the compensation practices of certain comparably-sized healthcare service companies to ensure that the Company is able to attract, retain and reward executive officers whose contributions are critical to our long-term success.

### ***Base Salaries***

Other than the base salary of our Chief Executive Officer, Chief Financial Officer and Chief Operating Officer which were initially set by an employment agreement (see "Employment and Consulting Agreements" below), base salaries of executives are initially determined by evaluating the responsibilities of the position, the experience and knowledge of the individual and the competitive marketplace for executive talent. Base salaries for executive officers, including those with employment agreements, are reviewed annually by the committee based on, among other things, individual performance and responsibilities, inflation and competitive market conditions.

### ***Annual Cash Incentive Compensation***

Based on individual and Company performance, incentive compensation opportunities are available to a wide range of our employees. We believe that incentive compensation is effective in reinforcing both the overall values of our Company and our specific operating goals.

Incentive compensation programs are designed to focus employees' attention on our key performance goals, to identify the expected levels of performance and to reward individuals who meet or exceed our expectations. The aggregate amounts available for incentive awards are determined by our overall financial performance. The actual awards paid to individual recipients, other than to executive officers, are formulated by management, generally payable on an annual basis and reviewed by the committee prior to payment. The committee formulates and determines incentive awards for Named Executive Officers. See "Summary Compensation Table" below.

For 2014, the Company's Chief Executive Officer, Chief Financial Officer and Chief Operating Officer (the "Executive Participants") were eligible to receive cash bonus awards under the Company's Objective Cash Bonus Plan and Discretionary Cash Bonus Plan that amounted to a maximum of 125% of their respective base salaries. For a detailed description of these plans, see the Company's Current Report on Form 8-K filed with the SEC on March 27, 2014. Under the Objective Cash Bonus Plan, the Executive Participants were eligible to earn a cash bonus award of up to 75% of their respective base salaries dependent upon the Company achieving diluted earnings per share in the range of \$1.51 to \$1.70 or more. Based on the adjusted diluted earnings per share from continuing operations of \$1.71 for 2014, the Executive Participants received an Objective Cash Bonus award for 2014 equal to 75% of their respective base salaries. Under the Discretionary Cash Bonus Plan, the Executive Participants were awarded a cash bonus award of 50% of their respective base salaries. The discretionary cash award was based upon a subjective determination of the committee utilizing certain performance criteria as detailed in the plan. However, the committee did not consider it practicable to, nor did it attempt to, quantify, rank or otherwise assign relative weights to the specific performance criteria it considered in reaching its decision. In considering these performance criteria, the individual members of the committee may have given different weights to different performance criteria. The discretionary performance criteria were not intended to be rigid or formulaic but rather served as a framework under which the committee reviews the total compensation and performance of the Executive Participants to determine what incentive amount is appropriate for any specific year. The total cash bonus for the 2014 year, inclusive of the Objective Cash Bonus Plan and Discretionary Cash Bonus Plan, paid to Messrs. Reading, McAfee and McDowell was \$721,250, \$525,000, and \$471,250, respectively. These bonuses were paid in March 2015.

### ***Long-term Equity Incentive Awards***

For the 2014 year, the Executive Participants were eligible to receive awards consisting of shares of restricted common stock under the Company's Objective Long-Term Incentive Plan and Discretionary Long-Term Incentive Plan. For a detailed description of these plans, see the Company's Current Report Form 8-K filed with the SEC on March 27, 2014. Under the Objective Long-Term Incentive Plan, Messrs. Reading, McAfee and McDowell were eligible to earn up to 20,000, 10,000 and 10,000 shares of restricted common stock, respectively, dependent upon the Company achieving diluted earnings per share in the range of \$1.51 to \$1.65 or more. Based on the adjusted reported diluted earnings per share of \$1.71 for 2014, Messrs. Reading, McAfee and McDowell were awarded 20,000, 10,000 and 10,000 shares of restricted common stock, respectively. Under the Discretionary Long-Term Incentive Plan, Messrs. Reading, McAfee and McDowell were eligible to earn up to 20,000, 10,000 and 10,000 shares of restricted common stock, respectively, based upon a subjective determination of the committee. The committee utilized certain performance criteria as detailed in the plan but generally did not consider it practicable to, nor did it attempt to, quantify, rank or otherwise assign relative weights to the specific performance criteria it considers in reaching its decision. In considering these performance criteria, the individual members of the committee may have given different weights to different performance criteria. The discretionary performance criteria were not intended to be rigid or formulaic but rather served as a framework under which the committee reviews the total compensation and performance of the Executive Participants to determine what incentive amount is appropriate for any specific year. For 2014, Messrs. Reading, McAfee and McDowell were awarded 20,000, 10,000 and 10,000 shares of restricted common stock, respectively, under the Discretionary Long-Term Incentive Plan. On March 2, 2015, for the 2014 year, Messrs. Reading, McAfee and McDowell were granted an aggregate of 40,000, 20,000 and 20,000 shares of restricted common stock, respectively, representing the total shares awarded under the Objective Long-Term Incentive Plan and Discretionary Long-Term Incentive Plan. The restricted shares vest evenly over 16 quarters with the first vesting occurring on April 1, 2015.

The Objective Cash Bonus Plan, Discretionary Cash Bonus Plan, Objective Long-Term Incentive Plan, and Discretionary Long-Term Incentive Plan collectively are hereinafter referred to as the "2014 Executive Incentive Plan".

The Stock Incentive Plan and our Amended and Restated 1999 Employee Stock Option Plan ("1999 Stock Option Plan") are intended to align employee and outside director interests with stockholders' interests, to provide incentives to our key employees by encouraging their ownership of our common stock and to aid us in attracting and retaining key employees, upon whose efforts our success and future growth depends.

Equity grants are made at the discretion of the committee, which administers the Company's equity compensation plans. The objective of such long-term equity-based awards, which generally vest over three to five years, is primarily to incentivize management and key employees for future performance rather than to reward specific past performance. Individual grant sizes are primarily determined based on the employee's duties and level of responsibility and his or her ability to exert significant influence and make meaningful contributions to the overall future success of the Company and, to a lesser degree, organizational and individual performance. At the discretion of the committee, and based on the recommendation of management, equity grants may also be used as an incentive for candidates recruited to fill key positions and for existing employees who receive significant promotions with increased responsibilities.

### ***Post-Employment Benefits***

We have entered into employment agreements with our Named Executive Officers that provide for the payment of severance and other post-termination benefits depending on the nature of the termination, including severance payments in the event of a termination following a "change in control." The committee believes that the terms and conditions of these agreements are reasonable and assist us in retaining the executive talent needed to achieve our objectives. In particular, the termination agreements, in the event of a "change in control," help executives focus their attention on the performance of their duties in the best interests of the stockholders without being concerned about the consequences to them of a change in control and help promote continuity of senior management. Information regarding the specific payments that are applicable to each termination event, as well as the effect on unvested equity awards, is provided under the heading "Executive Compensation — Post Termination/Change-in-Control Benefits" below.



### ***Benefits and Perquisites***

*Defined Contribution Plan.* The Company maintains a qualified retirement plan pursuant to Internal Revenue Code Section 401(k) (the “401(k) Plan”) covering substantially all employees subject to certain minimum service requirements. The 401(k) Plan allows employees to make voluntary contributions and provides for discretionary matching contributions by the Company. The assets of the 401(k) Plan are held in trust for grantees and are distributed upon the retirement, disability, death or other termination of employment of the grantee. The Board, in its discretion, determines the amount of any Company contributions. We did not make any contributions to the 401(k) Plan during 2014.

*Life Insurance.* The Company maintains, at its expense, for the benefit of each of its full-time employees, life insurance policies in the amount of one times the employee’s annual salary, up to \$200,000.

*Health and Welfare Benefits.* All executive officers, including the Named Executive Officers, are eligible for welfare benefits from the Company including: medical, dental, vision, life insurance, short-term disability and long-term disability. Named Executive Officers participate in these plans on the same basis and subject to the same costs, terms and conditions as other salaried employees at their work location.

### **Employment and Consulting Agreements**

The Company has entered into employment agreements with each of Messrs. Reading and McAfee. These agreements, which presently expire on December 31, 2016, provide for automatic one-year renewals if not terminated on at least 12 months prior notice. If either executive is terminated without cause or resigns for good reason (as defined under their respective agreement), he is entitled to his base salary through the remaining term of the contract, an amount equal to his last year’s bonus or the average over the last three years, whichever is greater, and accrued but unpaid vacation. In addition, both Messrs. Reading and McAfee are entitled to a special benefit payment equal to \$500,000 (payable in equal amounts over the remaining term of the agreement) in the event of a change in control, as defined by their respective employment agreements. The employment agreements also provide for certain non-competition and non-solicitation covenants that extend up to two years after termination of employment. Effective January 1, 2015, the annual base salaries under the agreements were increased to \$595,000 for Mr. Reading and \$430,000 for Mr. McAfee.

The Company has also entered into an employment agreement with Mr. Glenn D. McDowell. This agreement, which presently expires on December 31, 2016, provides for automatic one-year renewals if not terminated on at least 12 months prior notice. If the employment of Mr. McDowell is terminated by the Company without cause or by Mr. McDowell for good reason, he would be entitled to receive the compensation then in effect for the remainder of the term of the contract, an amount equal to his last year’s bonus or the average over the last three years, whichever is greater, and accrued but unpaid vacation. In addition, if a change in control occurs, Mr. McDowell will be entitled to a change of control benefit payment of \$283,333 (payable in equal amounts over the remaining term of the agreement). The employment agreement also provides for certain non-competition and non-solicitation covenants that extend up to two years after termination of employment. Effective January 1, 2015, Mr. McDowell’s annual base salary was increased to \$400,000 per year.

Messrs. Reading, McAfee and McDowell’s employment agreements may each be terminated by the Company prior to the expiration of their term. See “Executive Compensation — Post Termination/Change-in-Control Benefits” below for a detailed discussion of the termination and change in control provisions contained in these agreements.

We do not have any executive retention and severance arrangements or change in control agreements with our Named Executive Officers other than those described above.

### **Compensation of Named Executive Officers**

Mr. Reading joined our Company in November 2003 as Chief Operating Officer and, effective November 1, 2004, was promoted to President and Chief Executive Officer. Under his employment agreement with us (see “Employment and Consulting Agreements” above), Mr. Reading’s annual base salary is subject to adjustment by the Compensation Committee. For the last three years, his annual base salary was \$530,000 (during 2012), \$560,000 (during 2013) and \$577,000 (during 2014) and further increased to \$595,000 effective as of January 1, 2015. During each of 2012, 2013 and 2014, Mr. Reading participated in an executive incentive plan specific to such year that was approved by the Compensation Committee and filed with the SEC on Form 8-K. In accordance with such executive incentive plans, Mr. Reading (i) was granted 36,800 shares of restricted stock and

was paid a cash bonus of \$445,200 for 2012, and (ii) was granted 30,000 shares of restricted stock and was paid a cash bonus of \$369,516 for 2013. As previously disclosed, for 2014, Mr. Reading was paid a cash bonus of \$721,250 on March 13, 2015 and was granted 40,000 shares of restricted stock on March 2, 2015.

Mr. McAfee joined our Company in September 2003 as Chief Financial Officer and, effective November 1, 2004, was promoted to Executive Vice President. Under his employment agreement with us (see “Employment and Consulting Agreements” above), Mr. McAfee’s annual base salary is subject to adjustment by the Compensation Committee. For the last three years, his annual base salary was \$400,000 (during 2012), \$410,000 (during 2013), and \$420,000 (during 2014) and further increased to \$430,000 effective as of January 1, 2015. During each of 2012, 2013 and 2014, Mr. McAfee participated in an executive incentive plan specific to such year that was approved by the Compensation Committee and filed with the SEC on Form 8-K. In accordance with such executive incentive plans, Mr. McAfee (i) was granted 18,400 shares of restricted stock and was paid a cash bonus of \$256,000 for 2012, and (ii) was granted 15,000 shares of restricted stock and was paid a cash bonus of \$278,880 for 2013. As previously disclosed, for 2014, Mr. McAfee was paid a cash bonus of \$525,000 on March 13, 2015 and was granted 20,000 shares of restricted stock on March 2, 2015.

Mr. McDowell joined our Company in October 2003 as Vice President of Operations overseeing the west region and, effective January 24, 2005, was promoted to Chief Operating Officer. Mr. McDowell’s employment agreement with us was entered into on May 24, 2007 (see “Employment and Consulting Agreements” above). For the last three years, his annual base salary was \$340,000 (during 2012), \$365,000 (during 2013), and \$377,000 (during 2014) and further increased to \$400,000 effective as of January 1, 2015. During each of 2012, 2013 and 2014, Mr. McDowell participated in an executive incentive plan specific to such year that was approved by the Compensation Committee and filed with the SEC on Form 8-K. In accordance with such executive incentive plans, Mr. McDowell (i) was granted 18,000 shares of restricted stock and was paid a cash bonus of \$217,600 for 2012, and (ii) was granted 15,000 shares of restricted stock and was paid a cash bonus of \$230,408 for 2013. As previously disclosed, for 2014, Mr. McDowell was paid a cash bonus of \$471,250 on March 13, 2015 and was granted 20,000 shares of restricted stock on March 2, 2015.

In determining the appropriate compensation for Messrs. Reading, McAfee and McDowell, the Compensation Committee evaluates our overall corporate performance under their leadership, as well as each individual contribution to key strategic, financial and development objectives. The committee utilizes a combination of quantitative measures and qualitative factors in reviewing executive performance and compensation.

### **Compensation Deductibility Policy**

Under Section 162(m) of the Code and applicable Treasury regulations, no deduction is allowed for annual compensation in excess of \$1 million paid by a publicly traded corporation to its chief executive officer and the four other most highly compensated officers. Under those provisions, however, there is no limitation on the deductibility of “qualified performance-based compensation.”

In general, our policy is to maximize the extent of tax deductibility of executive compensation under the provisions of Section 162(m) so long as doing so is compatible with the most appropriate methods and approaches for the design and delivery of compensation to our executive officers.

## Executive Compensation

### Summary Compensation Table

The following table sets forth the compensation paid or accrued for services rendered in all capacities on behalf of the Company during 2014, 2013 and 2012 to Messrs. Reading, McAfee and McDowell.

#### Summary Compensation Table For the Fiscal Years Ended December 31, 2014, 2013 and 2012

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (1) (\$)	Option Awards (\$)	Non - Equity Incentive Plan Compensation (2) (\$)	Change in Pension Value and Non- Qualified Deferred Compensation Earnings (\$)	All Other Compensation (3) (\$)	Total (\$)
Christopher J. Reading . . . . .	2014	575,692		1,552,200		721,250		1,242	2,850,384
Chief Executive Officer	2013	558,730		974,400		369,516		1,242	1,903,888
	2012	526,154	—	853,768	—	445,200	—	810	1,825,932
Lawrance W. McAfee . . . . .	2014	419,231		776,100		525,000		2,322	1,722,653
Chief Financial Officer	2013	409,577		487,200		278,880		2,322	1,177,979
	2012	399,423	—	426,884	—	336,000	—	2,322	1,164,629
Glenn D. McDowell . . . . .	2014	376,077		776,100		471,250		2,322	1,625,749
Chief Operating Officer	2013	363,942		487,200		230,408		2,322	1,083,872
	2012	338,076	—	426,884	—	277,600	—	2,322	1,044,882

- For 2014, stock awards were granted in accordance with the 2014 Executive Incentive Plan as restricted stock under the terms of the Stock Incentive Plan as follows: Mr. Reading was awarded 40,000 shares and Messrs. McAfee and McDowell were awarded 20,000 shares each. For 2013, stock awards were granted in accordance with the 2013 Executive Incentive Plan as restricted stock under the terms of the Stock Incentive Plan as follows: Mr. Reading was awarded 30,000 shares and Messrs. McAfee and McDowell were awarded 15,000 shares each. For 2012, stock awards were granted in accordance with the 2012 Executive Incentive Plan as restricted stock under the terms of the Stock Incentive Plan as follows: Mr. Reading was awarded 36,800 shares and Messrs. McAfee and McDowell were awarded 18,400 shares each. Amounts shown are the grant date fair value of the awards computed in accordance with FASB ASC Topic 718 which amounted to a weighted average of \$38.81 per share for 2014, \$32.48 per share for 2013 and \$23.20 per share for 2012. Assumptions used in the calculation of these amounts are included in “Note 10 — Equity Based Plans” of the Notes to the Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on March 12, 2015.
- For 2013, the amounts represent the cash bonuses earned under the Company’s 2013 Executive Incentive Plan and paid in March 2014. For 2012, the amounts represent the cash bonuses earned under the Company’s 2012 Executive Incentive Plan of which a portion was paid in December 2012 and a portion in March 2013. See “Compensation Discussion and Analysis — Annual Cash Incentive Compensation” for further details.
- Represents the value of life insurance premiums for life insurance coverage provided to the Named Executive Officers.

### Grants of Plan-Based Awards

The following table sets forth the grants of plan-based awards during 2014 to the Named Executive Officers:

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1):			Estimated Possible Payouts Under Equity Incentive Plan Awards (1):			Grant Date Fair Value of Stock Awards (2)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)	
Christopher J. Reading . . .	3/27/2014	\$ —	\$721,250	\$721,250	—	40,000	40,000	\$1,388,800
Lawrance W. McAfee . . . .	3/27/2014	\$ —	\$525,000	\$525,000	—	20,000	20,000	\$ 694,400
Glenn D. McDowell . . . . .	3/27/2014	\$ —	\$471,250	\$471,250	—	20,000	20,000	\$ 694,400

- Possible payments and equity grants under the 2014 Executive Incentive Plan. See the Summary Compensation Table above for actual amounts earned for 2014. The cash earned was paid on March 13, 2015 and the shares of restricted common stock were granted on March 2, 2015.

2. Amounts shown are the grant date fair value of the awards computed in accordance with FASB ASC Topic 718 which amounted to a weighted average of \$38.81 per share. See “Note 10 — Equity Based Plans” of the Notes to the Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on March 12, 2015 for a description of the valuations and a description of the equity plans.

### Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table

See “Employment and Consulting Agreements” above and “Post-Termination/Change-in-Control Benefits” below for the material terms of our employment agreements with our Named Executive Officers. See “Compensation Discussion and Analysis” above for an explanation of the amount of salary and bonus in proportion to total compensation. See the footnotes to the Summary Compensation Table above and Grants of Plan-Based Awards table paid to the Named Executive Officers above for narrative disclosure with respect to those tables.

### Outstanding Equity Awards at Fiscal Year-End

The following table shows outstanding awards of shares of restricted common stock that have not vested as of December 31, 2014 for each Named Executive Officer. There are no outstanding stock option awards for the Named Executive Officers as of December 31, 2014.

Name	Stock Awards	
	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (1)
Christopher J. Reading . . . . .	50,859(2)	\$2,134,044
Lawrance W. McAfee . . . . .	26,395(3)	\$1,107,534
Glenn D. McDowell . . . . .	26,395(3)	\$1,107,534

1. Calculated based on the closing market price of our common stock on December 31, 2014 of \$41.96 per share.  
 2. The restrictions on these shares of common stock granted as restricted stock will lapse as follows:

Date	# Shares	Date	# Shares	Date	# Shares
1/1/2015	4,175	10/1/2015	4,175	1/1/2017	4,175
3/31/2015	1,443	12/31/2015	1,455	4/1/2017	1,875
4/1/2015	4,175	1/1/2016	4,175	7/1/2017	1,875
6/30/2015	1,443	4/1/2016	4,175	10/1/2017	1,875
7/1/2015	4,175	7/1/2016	4,175	1/1/2018	1,875
9/30/2015	1,443	10/1/2016	4,175		

3. The restrictions on these shares of common stock granted as restricted stock will lapse as follows:

1/1/2015	2,087	10/1/2015	2,087	1/1/2017	2,087
3/31/2015	962	12/31/2015	970	4/1/2017	937
4/1/2015	2,087	1/1/2016	2,087	7/1/2017	937
6/30/2015	962	4/1/2016	2,087	10/1/2017	937
7/1/2015	2,087	7/1/2016	2,087	1/1/2018	945
9/30/2015	962	10/1/2016	2,087		

### Option Exercises and Stock Vested Table

The following table shows the number of shares of our common stock acquired by the Named Executive Officers during 2014 upon the vesting of restricted stock. As of December 31, 2014, there were no outstanding stock options for the Named Executive Officers.

Stock Vested

Name	Option Awards		Stock Awards	
	Number of shares acquired on exercise (#)	Value realized on exercise (\$)	Number of shares acquired on vesting (#)	Value realized on Vesting
Christopher J. Reading . . . . .	—	\$ —	28,097	\$1,004,725
Lawrance W. McAfee . . . . .	—	\$ —	16,259	\$ 583,109
Glenn D. McDowell . . . . .	—	\$ —	16,259	\$ 583,109

The value realized on vesting is computed by multiplying the number of shares of stock by the market value of the underlying shares on the vesting date. The closing price of the stock is used as the market value.

**Post Termination/Change-in-Control Benefits**

The employment agreements of Messrs. Reading, McAfee and McDowell may each be terminated by us prior to the expiration of its term in the event their respective employment is terminated for “cause” (as defined in each agreement) and may be voluntarily terminated by the Named Executive Officer. In such circumstances, the Named Executive Officer would receive no additional remuneration. If a “change in control” (as defined in each agreement) occurs, each of Messrs. Reading and McAfee, as applicable, will be entitled to (A) a change of control benefit of \$500,000 (payable in equal amounts over the remaining term of the agreement), and (B) the acceleration of their outstanding equity incentive awards. If the employment of Mr. Reading or Mr. McAfee is terminated by us without “cause” or by the executive for “good reason,” regardless of whether there has been a change in control, they would be entitled to receive the compensation then in effect for the remainder of the term of their respective agreement and the greater of: (i) the bonus paid or payable to Mr. Reading or Mr. McAfee, as applicable, with respect to the last fiscal year completed prior to the termination, or (ii) the average of the bonuses paid to Mr. Reading or Mr. McAfee, as applicable, over the last three fiscal years of employment ending with the last fiscal year prior to termination. If a “change in control” (as defined in his agreement) occurs Mr. McDowell will be entitled to a change of control benefit of (A) \$283,333 (payable in equal amounts over the remaining term of his agreement), and (B) the acceleration of his outstanding equity incentive awards. If the employment of Mr. McDowell is terminated by the Company without “cause” or by Mr. McDowell for “good reason,” regardless of whether there has been a change in control, he would be entitled to receive the compensation then in effect for the remainder of the term of his agreement and the greater of: (i) the bonus paid or payable to Mr. McDowell with respect to the last fiscal year completed prior to the termination, or (ii) the average of the bonuses paid to Mr. McDowell over the last three fiscal years of employment ending with the last fiscal year prior to termination.

The amount of compensation payable to each Named Executive Officer under the agreements is detailed in the tables below:

**Christopher Reading  
President and Chief Executive Officer**

Executive Benefits and Payments Upon Termination (1)	Voluntary Termination or For Cause	Without Cause	Executive Resigns For Good Reason	In Conjunction with a Change In Control
<b>Compensation</b>				
Severance (2) . . . . .	\$ —	\$1,154,000	\$1,154,000	\$ 577,000
Annual Cash Incentive (3) . . . . .	—	721,250	721,250	721,250
Change of Control Benefit (4) . . . . .	—	—	—	500,000
Restricted Stock (Unvested and Accelerated) (5) . . . . .	—	—	—	2,134,044
<b>Benefits and Perquisites</b>				
Health and Dental Coverage (6) . . . . .	—	23,540	23,540	11,770
Total . . . . .	<u>\$ —</u>	<u>\$1,898,790</u>	<u>\$1,898,790</u>	<u>\$3,944,064</u>

**Lawrance McAfee**  
**Executive Vice President and Chief Financial Officer**

<b>Executive Benefits and Payments Upon Termination (1)</b>	<b>Voluntary Termination or For Cause</b>	<b>Without Cause</b>	<b>Executive Resigns For Good Reason</b>	<b>In Conjunction with a Change In Control</b>
<b>Compensation</b>				
Severance (2) . . . . .	\$ —	\$ 840,000	\$ 840,000	\$ 420,000
Annual Cash Incentive (3) . . . . .	—	525,000	525,000	525,000
Change of Control Benefit (4) . . . . .	—	—	—	500,000
Restricted Stock (Unvested and (Accelerated) (5) . . . . .	—	—	—	1,107,534
<b>Benefits and Perquisites</b>				
Health and Dental Coverage (6) . . . . .	—	23,540	23,540	11,770
Total . . . . .	<u>\$ —</u>	<u>\$1,388,540</u>	<u>\$1,388,540</u>	<u>\$2,564,304</u>

**Glenn McDowell**  
**Chief Operating Officer**

<b>Executive Benefits and Payments Upon Termination (1)</b>	<b>Voluntary Termination or For Cause</b>	<b>Without Cause</b>	<b>Executive Resigns For Good Reason</b>	<b>In Conjunction with a Change In Control</b>
<b>Compensation</b>				
Severance (2) . . . . .	\$ —	\$ 754,000	\$ 754,000	\$ 377,000
Annual Cash Incentive (3) . . . . .	—	471,250	471,250	471,250
Change of Control Benefit (4) . . . . .	—	—	—	283,333
Restricted Stock (Unvested and (Accelerated) (5) . . . . .	—	—	—	1,107,534
<b>Benefits and Perquisites</b>				
Health and Dental Coverage (6) . . . . .	—	23,540	23,540	11,770
Total . . . . .	<u>\$ —</u>	<u>\$1,248,790</u>	<u>\$1,248,790</u>	<u>\$2,250,887</u>

- For purposes of this analysis, we assumed the effective date of termination is December 31, 2014, the current term of the employment agreements was automatically renewed through December 31, 2016, the price per share of our common stock on the date of termination is \$41.96 (the closing price on December 31, 2014) and that the executive's base salary is as follows: Mr. Reading — \$577,000; Mr. McAfee — \$420,000; and Mr. McDowell — \$377,000.
- Under "Without Cause" and "Executive Resigns for Good Reason", severance is calculated as base salary from January 1, 2015 through the remaining term of the employment agreement which expires on December 31, 2016.
- Annual cash incentive is based on the greater of (i) the bonus paid or payable to the executive with respect to last fiscal year of the Company completed prior to termination or (ii) the average of the bonuses paid to the executive over the three fiscal years of the Company ending with the last fiscal year completed prior to the termination.
- Based on amounts stipulated in the respective employment agreements.
- Pursuant to the Restricted Stock Agreement for each executive, all restrictions and conditions on shares of restricted stock will be deemed satisfied and shares will be fully vested upon a "Change in Control".
- Calculated for the remaining term of the agreement which expires on December 31, 2016. In the event of a "Change in Control", the remaining term of the agreements is one year from such event.

## COMPENSATION COMMITTEE REPORT

The Compensation Committee was composed of three independent directors during 2014. It acts under a written charter adopted by the Board. The primary function of the Compensation Committee is to determine the compensation for our executive officers, administer incentive stock plans and recommend to the Board the compensation to be paid to our non-employee directors. The committee has reviewed and discussed with management the Compensation Discussion and Analysis set forth herein. Based on its review, the related discussions and such other matters deemed relevant and appropriate by the committee, the committee has recommended to the Board that the Compensation Discussion and Analysis be included in the Company's Proxy Statement relating to the 2015 Annual Meeting of Stockholders.

Respectfully submitted,

*The Compensation Committee*  
Harry S. Chapman, Chairman  
Jerald L. Pullins  
Clayton K. Trier

### **Compensation Committee Interlocks and Insider Participation**

The current members of the Compensation Committee are Messrs. Chapman (Chairman), Pullins and Trier. None of the members of the Compensation Committee is or has been an officer or employee of the Company or any of its subsidiaries and none of our executive officers has served on the board of directors or compensation committee of any other entity that has or has had an executive officer who served as a member of our Board of Directors or Compensation Committee during 2014.

### **Securities Authorized for Issuance Under Equity Compensation Plans**

The following table provides information about our common stock that may be issued upon the exercise of options and rights under all of our existing equity compensation plans as of December 31, 2014:

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights</u>	<u>Weighted Average Exercise Price of Outstanding Options and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans Excluding Securities Reflected in 1st Column</u>
Equity Compensation Plans Approved by Stockholders (1) . . . . .	700	\$18.42	496,903

1. The Stock Incentive Plan permits us to grant stock-based compensation to employees, consultants and outside directors of the Company. The 1999 Stock Option Plan permits us to grant stock-based compensation to employees and non-employee directors. For further descriptions of the Stock Incentive Plan and the 1999 Stock Option Plan, see "Note 10 — Equity Based Plans" of the Notes to the Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on March 12, 2015.

All current Equity Compensation Plans have been approved by stockholders.

### **Certain Relationships and Related Transactions**

The charter of the Audit Committee requires that the Audit Committee review and approve all insider and affiliated party transactions. There were no such transactions during 2014.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) Exchange Act requires our directors and executive officers, and persons who own more than 10% of our equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock. Officers, directors and greater than 10% stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) reports they file.

To our knowledge, based solely on a review of the copies of those forms furnished to the Company and written representations from the executive officers and directors, we believe that during 2014 all other Section 16(a) filing requirements applicable to our directors and officers were complied with on a timely basis.

**PROPOSAL 2. — ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION**

Regulation 14A of the Exchange Act requires that we include in our annual Proxy Statement at least once every three years a non-binding stockholder vote on our executive compensation as described in this Proxy Statement (commonly referred to as “Say-on-Pay”). In 2011, we adopted a policy to hold an advisory vote on executive compensation each year.

We encourage stockholders to review the Compensation Discussion and Analysis on pages 12 to 20 to this Proxy Statement.

The Board strongly endorses the Company’s executive compensation program and recommends that the stockholders vote in favor of the following resolution:

“RESOLVED, that the stockholders approve the compensation of the Company’s named executive officers as described in this Proxy Statement under “Executive Compensation”, including the Compensation Discussion and Analysis and the tabular and narrative disclosure contained in this Proxy Statement.”

Your vote will not be binding upon the Board or the Compensation Committee and neither the Board nor the Compensation Committee will be required to take any action as a result of the outcome of the vote on this proposal. However, the Compensation Committee will carefully consider the outcome of the vote when considering future executive compensation arrangements.

Properly executed but unmarked proxies will be voted FOR approval of the compensation of the Named Executive Officers. Under current regulations, a broker is prohibited from voting for this proposal without receiving instructions from you. **The Board of Directors believes that approving the compensation of the Named Executive Officers is in the best interest of the Company. The approval of the compensation of the Named Executive Officers will require the affirmative vote of holders of a majority of votes cast on this matter in person or by proxy. Accordingly, abstentions applicable to shares present at the meeting will not be included in the tabulation of votes cast on this matter.**

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR THE APPROVAL OF THE RESOLUTION APPROVING THE COMPENSATION OF THE COMPANY’S NAMED EXECUTIVE OFFICERS.**

**PROPOSAL 3 — REAPPROVAL OF THE MATERIAL TERMS OF THE AMENDED AND RESTATED 2003 STOCK INCENTIVE PLAN FOR PURPOSES OF COMPLYING WITH SECTION 162(M) OF THE INTERNAL REVENUE CODE**

**Reasons for the Proposal**

The Company intends that awards under the Amended and Restated 2003 Stock Incentive Plan, as amended (the “Stock Incentive Plan”), be able to qualify for exemption from the deduction limitations of Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”). Under Section 162(m), the federal income tax deductibility of compensation paid to the Company’s “Covered Employees” may be limited to the extent such Covered Employee’s compensation exceeds \$1,000,000 in any taxable year. However, the Company may deduct compensation paid to a Covered Employee in excess of that amount if it qualifies as “performance-based compensation” as defined in Section 162(m). For awards under the Stock Incentive Plan to constitute “performance-based compensation,” the material terms of the Stock Incentive Plan must be disclosed to and approved by the Company’s stockholders no later than the first stockholder meeting that occurs in the fifth year following the year in which stockholders last approved the Stock Incentive Plan, or at a time when a material amendment is made to the Stock Incentive Plan.

The Stock Incentive Plan was last approved by stockholders for Section 162(m) purposes at our 2010 Annual Meeting and an amendment to the Stock Incentive Plan was approved by stockholders at the 2013 Annual Meeting. Accordingly, the Company is now asking stockholders to reapprove the material terms of the Stock Incentive Plan for Section 162(m) purposes so that new awards under the Stock Incentive Plan that are intended to qualify as “performance-based compensation” within the meaning of Section 162(m) will be fully deductible by the Company.



## **Description of the Stock Incentive Plan**

The principal provisions of the Stock Incentive Plan, as amended, are summarized below. Such summary does not, however, purport to be complete and is qualified in its entirety by the terms of the Stock Incentive Plan.

**Eligibility and Types of Awards.** The Stock Incentive Plan provides for the grant of options that are intended to qualify as Non-qualified Options as well as “incentive stock options” (“Incentive Options” and together with Non-Qualified Options (“Options”)) under Section 422 of the Code, Purchased Stock, Bonus Stock, Stock Appreciation Rights, Phantom Shares, Restricted Stock, Other Stock-Based Awards and Other Performance-Based Awards (payable in stock or cash). The Stock Incentive Plan is administered by the Compensation Committee, which is appointed by the Board of Directors. The compensation committee, with input from executive management, selects the employees, consultants and non-employee directors (“Participants”) of the Company and its affiliates to whom options are granted. The current members of the Compensation Committee are Messrs. Chapman (Chairman), Mr. Pullins and Mr. Trier.

**Amendment and Termination.** The Board may amend, suspend or terminate the Stock Incentive Plan at any time; provided, however, any amendment of the Stock Incentive Plan which (a) except as provided in Section 1.2 or 12.10 of the Stock Incentive Plan, increases the maximum number of shares of stock which may be issued under the Stock Incentive Plan, (b) materially modifies the requirements as to eligibility for participation in the Stock Incentive Plan, or (c) materially increases benefits under the Stock Incentive Plan, shall be subject to Company stockholder approval. In addition, except as otherwise provided in the plan, no such amendment will be made without the consent of the holder of an Award to terminate such Award or adversely affect such person’s rights with respect to such Award.

**Shares Subject to the Stock Incentive Plan.** The aggregate number of shares of our common stock, \$.01 par value per share (“Common Stock”), of the Company that may be issued under the Stock Incentive Plan for Awards that are granted wholly or partially or by reference to Common Stock (including Options and Incentive Options that may be exercised for or settled in Common Stock) shall not exceed 1,750,000; of this amount 1,750,000 shares of Common Stock reserved under this Stock Incentive Plan shall be available for any one of the types of Awards available under the Stock Incentive Plan, including Non-Qualified Options, Incentive Options, Purchased Stock, Bonus Stock, Stock Appreciation Rights, Phantom Stock or Other Stock or Performance-Based Awards. Notwithstanding the above, however, in the event that at any time after the Effective Date, the outstanding shares of Common Stock are changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of a merger, consolidation, recapitalization, reclassification, stock split, stock dividend, combination of shares or the like, the aggregate number and class of securities available under the Stock Incentive Plan shall be ratably adjusted by the compensation committee, whose determination shall be final and binding upon the Company and all other interested persons. In the event the number of shares to be delivered upon the exercise or payment of any Award granted under the Stock Incentive Plan is reduced or not issued for any reason whatsoever or in the event any Award granted under the Stock Incentive Plan can no longer under any circumstances be exercised or paid, including but not limited to, Awards that are terminated, forfeited, expired, settled in cash or withheld for taxes or withheld for the purchase price, the number of shares no longer subject to such Award shall thereupon be released from such Award and shall thereafter be available under the Stock Incentive Plan for the grant of additional Awards.

The maximum aggregate number of shares of Common Stock (including, but not limited to, Non-Qualified Options, Incentive Options, Restricted Stock, or Other Stock-Based Awards paid out in shares of Common Stock) that may be granted in any calendar year pursuant to any award held by any individual or employee is 100,000 shares. The maximum aggregate cash payout (including Other Stock-Based Awards paid out in cash) with respect to Awards granted in any calendar year which may be made to any individual or employee is One Million Dollars (\$1,000,000). The term or restricted period of each Award that is an Option, Stock Appreciation Right, Phantom Stock or Restricted Stock shall be for such period as may be determined by the compensation committee; provided that in no event shall the term of any such Award exceed a period of ten years (or such shorter terms as may be required in respect of an Incentive Option under Section 422 of the Code). Any issuance of Company stock pursuant to the exercise of an Option or payment of any other Award under the Stock Incentive Plan shall not be made until appropriate arrangements satisfactory to the Company have been made for the payment of the purchase price, (if applicable) or of any tax amounts (federal, state, local or other) that may be required to be withheld or paid by the Company.

**Term of the Stock Incentive Plan.** If not sooner terminated by the Board, the Stock Incentive Plan shall terminate upon, and no further Awards shall be made, as of March 26, 2020.

### **Description of Awards.**

*Non-qualified Options.* Non-qualified stock options granted under the Stock Incentive Plan may be granted to employees, consultants or non-employee directors of the Company or a corporate subsidiary and at a per share exercise price of not less than the fair market value (also referred to as “FMV”) of a share of Company common stock on the date of grant. The Compensation Committee determines which eligible individuals receive options and how many are issued. No non-qualified option may be granted more than 10 years after the effective date of the Stock Incentive Plan. Payment for shares purchased under the Stock Incentive Plan may be made either in cash or cash equivalents or by tendering to the Company shares of common stock owned by the person for more than six months having an aggregate fair market value equal to or less than the total option price plus cash for any difference, as determined in the discretion of the Compensation Committee. The Compensation Committee may, in its sole discretion, also permit payment of a purchase price or withholding of taxes by the withholding of shares of Common Stock to be purchased. Unless otherwise provided in the Award agreement, non-qualified option grants shall not be exercisable more than six months after the optionee ceases employment for any reason other than death or disability, or more than one year after the optionee ceases employment due to death or disability.

*Incentive Options.* Incentive Options are subject to the terms above under the caption “Non-qualified Options.” Additionally, Incentive Options (those intended to qualify for special tax treatment under the Code) granted under the Stock Incentive Plan may be granted only to employees of the Company or a company parent or subsidiary and at a per share exercise price of not less than 100% of the fair market value per share of Common Stock on the date of grant. Notwithstanding any contrary provision in the Stock Incentive Plan, to the extent that the aggregate FMV (determined as of the time the Incentive Option is granted) of the shares of Common Stock with respect to which Incentive Options are exercisable for the first time by any optionee during any single calendar year (under the Stock Incentive Plan and any other stock option plans of the Company and its Subsidiaries or Parent) exceeds the sum of \$100,000, such Incentive Option shall be treated as a Non-Qualified Stock Option to the extent in excess of the \$100,000 limit, and not an Incentive Option, but all other terms and provisions of such Option shall remain unchanged. No person may be granted an Incentive Option if, at the time of the grant, such person owns, directly or indirectly, more than 10% of the total combined voting power of the Company or of any affiliate unless the option price is at least 110% of the fair market value of the Common Stock on the date of grant of the option and the exercise period of such incentive option is by its terms limited to five years from the option grant date. No Incentive Option shall be exercisable more than ninety days after the optionee ceases to be an employee for any reason other than death or disability, or more than one year after the optionee ceases to be an employee due to death or disability.

*Purchased Stock.* The Compensation Committee shall have the authority to sell shares of Common Stock to Participants as may be selected by it, on such terms and conditions as it may establish. Each issuance of Common Stock under the Stock Incentive Plan shall be evidenced by an agreement. The price per share of common stock to be purchased by a participant shall not be less than the FMV Per Share at the time of purchase. Payment of the purchase price of Purchased Stock under the Stock Incentive Plan shall be made in full in cash.

*Bonus Stock.* The Compensation Committee may grant shares of Bonus Stock to Participants. Bonus Stock shall be shares of Common Stock that are not subject to a restricted period.

*Stock Appreciation Rights.* The Compensation Committee is authorized to grant Stock Appreciation Rights to Participants. A Stock Appreciation Right shall confer on the Participant to whom it is granted a right to receive, upon exercise, the excess of the fair market value per share on the date of exercise over the grant price of the Stock Appreciation Right as determined by the compensation committee. The Stock Appreciation Right shall be granted with an exercise price equal to fair market value per share on the date of grant. A Stock Appreciation Right granted in connection with an option shall entitle a participant, upon exercise, to surrender that option or any portion thereof, to the extent unexercised, and to receive payment of an amount computed pursuant to the preceding sentence. That option shall then cease to be exercisable to the extent surrendered. A Stock Appreciation Right granted in connection with an option shall be exercisable only at such time or times and only to the extent that the related option is exercisable and shall not be transferable (other than by will or the laws of descent and distribution) except to the extent that the related option is transferable. A Stock Appreciation Right granted independent of an option shall be exercisable as determined by the Compensation Committee and set forth in the Award Agreement governing the Stock Appreciation Right. The Compensation Committee shall determine at the date of grant the time or times at which and the circumstances under which a Stock Appreciation Right may be exercised in whole or in part (including based on

achievement of performance goals and/or future service requirements), the method of exercise, whether or not a Stock Appreciation Right shall be in tandem or in combination with any other Award, and any other terms and conditions of any Stock Appreciation Right as provided in the Award Agreement.

*Phantom Stock.* The Compensation Committee is authorized to grant Phantom Stock Awards to Participants, which are rights to receive cash equal to the fair market value of a specified number of shares of Common Stock at the end of a specified deferral period. Satisfaction of a Phantom Stock Award occurs upon expiration of the deferral period specified for such Phantom Stock Award Agreement by the Compensation Committee or, if permitted by the Compensation Committee, as elected by the Participant. In addition, Phantom Stock Awards are subject to such restrictions as the Compensation Committee may impose. These restrictions may lapse at the expiration of the deferral period or at earlier specified times (including based on achievement of performance goals and/or future service requirements), separately or in combination, installments or otherwise, as the Compensation Committee determines in the award Agreement. Except as otherwise determined by the Compensation Committee or as set forth in any Award, employment or other agreement pertaining to a Phantom Stock Award, upon termination of employment or services during the applicable deferral period or portion thereof to which forfeiture conditions apply, all Phantom Stock Awards that are at that time subject to deferral (other than a deferral at the election of the Participant) shall be forfeited; provided that the Compensation Committee may provide, by rule or regulation or in any Award agreement, or may determine in any individual case, that restrictions or forfeiture conditions relating to Phantom Stock Awards shall be waived in whole or in part in the event of terminations resulting from specified causes, and the Compensation Committee may in other cases waive in whole or in part the forfeiture of Phantom Stock Awards. To the extent the Compensation Committee determines that any award granted shall constitute Performance-Based Compensation for purposes of Section 162(m) of the Code, the grant or settlement of the award shall, in the Compensation Committee's discretion, be subject to the achievement of performance goals. Also, these Awards may be subject to Code Section 409A as described below.

*Restricted Stock.* Participants are eligible for grants of Restricted Stock. Restricted Stock is subject to such restrictions on transfer by the Participant and repurchase by the Company as the Compensation Committee, in its sole discretion, shall determine. Prior to the lapse of such restrictions the Participant shall not be permitted to transfer such shares. The Company shall have the right to repurchase or recover such shares for the amount of cash paid, if any, if the Participant shall terminate employment from or services to the Company prior to the lapse of such restrictions or the Restricted Stock is forfeited by the Participant pursuant to the terms of the Award. Unless the Award specifically provides otherwise, all Restricted Stock not otherwise vested shall vest upon termination of an employee or consultant or removal of a non-employee director without cause; termination, resignation or removal of an Employee, Consultant or Non-Employee Director for any reason within one year from the effective date of a Change of Control; or death or disability of the Participant. Each certificate representing Restricted Stock awarded under the Stock Incentive Plan shall be registered in the name of the Participant and, during the Restricted Period, shall be left in deposit with the Company and a stock power endorsed in blank. The grantee of Restricted Stock shall have all the rights of a stockholder with respect to such shares including the right to vote and the right to receive dividends or other distributions paid or made with respect to such shares.

*Performance Award.* The Compensation Committee may grant Performance Awards based on performance criteria measured over a period of not less than one year and not more than five years as determined by the Compensation Committee in its sole discretion. Each grant of a Performance Award shall be evidenced by an Agreement in such amount and terms as determined by the Compensation Committee. The Compensation Committee may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions, and may exercise its discretion to increase the amounts payable under any Award subject to performance conditions except as limited by the Stock Incentive Plan in the case of a Performance Award granted to an executive officer. The Compensation Committee shall designate whether a Performance Award is intended to be performance-based compensation under Code Section 162(m). The business criteria that may be used for Performance Awards that are designated by the Compensation Committee to be performance-based compensation under Code Section 162(m) are: (i) earnings per share; (ii) increase in revenues; (iii) increase in cash flow; (iv) increase in cash flow return; (v) return on net assets; (vi) return on assets; (vii) return on investment; (viii) return on equity; (ix) economic value added; (x) gross margin; (xi) net income; (xii) pretax earnings; (xiii) pretax earnings before interest, depreciation and amortization; (xiv) pretax operating earnings after interest expense and before incentives, service fees, and extraordinary or special items; (xv) operating income; (xvi) total stockholder return;

(xvii) debt reduction; (xviii) the price of a share of Common Stock; and (xix) any of the above goals determined on the absolute or relative basis or as compared to the performance of a published or special index deemed applicable by the Committee including, but not limited to, the Standard & Poor's 500 Stock Index or a group of comparable companies.

*Other Stock-Based Awards and Other Performance-Based Awards.* The Compensation Committee is authorized to grant Other Stock-Based Awards or Other Performance-Based Awards. An Other Stock-Based Award shall consist of a right which is not an award described above and is denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, shares of Common Stock (including, without limitation, securities convertible into shares of Common Stock) and may be paid in Common Stock or cash. Other Performance-Based Awards may be paid in Common Stock or Cash. The Compensation Committee shall determine the terms and conditions of any such Other Stock-Based or Performance-Based Awards and to the extent such awards are performance-based compensation under Code Section 162(m) or otherwise performance-based.

### **Federal Income Tax Implications of the Stock Incentive Plan**

The following is a brief description of the federal income tax consequences generally arising with respect to awards under the Stock Incentive Plan.

The grant of an Incentive Option will create no tax consequences for the participant or the Company. A participant will not recognize taxable income upon exercising an Incentive Option (except that the alternative minimum tax may apply). Upon exercising an option other than an Incentive Option, the participant must generally recognize ordinary income equal to the difference between the exercise price and fair market value of the freely transferable and non-forfeitable shares acquired on the date of exercise.

The Company generally will be entitled to a tax deduction equal to the amount recognized as ordinary income by the participant in connection with an Option. The Company generally is not entitled to a tax deduction relating to amounts that represent a capital gain to a participant. Accordingly, the Company will not be entitled to any tax deduction with respect to an Incentive Option if the participant holds the shares for the Incentive Option holding periods prior to disposition of the shares.

With respect to awards granted under the Stock Incentive Plan that result in the payment or issuance of cash or shares or other property that is either not restricted as to transferability or not subject to a substantial risk of forfeiture, the participant must generally recognize ordinary income equal to the cash or the fair market value of shares or other property received. Thus, deferral of the time of payment or issuance will generally result in the deferral of the time the participant will be liable for income taxes with respect to such payment or issuance. The Company generally will be entitled to a deduction in an amount equal to the ordinary income recognized by the participant.

With respect to awards involving the issuance of shares or other property that is restricted as to transferability and subject to a substantial risk of forfeiture, the participant must generally recognize ordinary income equal to the fair market value of the shares or other property received at the first time the shares or other property becomes transferable or is not subject to a substantial risk of forfeiture, whichever occurs earlier. A participant may elect to be taxed at the time of receipt of shares or other property rather than upon lapse of restrictions on transferability or substantial risk of forfeiture, but if the participant subsequently forfeits such shares or property, the participant would not be entitled to any tax deduction, including as a capital loss, for the value of the shares or property on which he previously paid tax. The participant must file such election with the Internal Revenue Service within 30 days of the receipt of the shares or other property. The Company generally will be entitled to a deduction in an amount equal to the ordinary income recognized by the participant.

Awards that are granted, accelerated or enhanced upon the occurrence of a change in control may give rise, in whole or in part, to excess parachute payments within the meaning of Code Section 280G and, to such extent, will be non-deductible by the Company and subject to a 20% excise tax by the participant.

Section 409A of the Code generally provides that any deferred compensation arrangement which does not meet specific requirements regarding: (i) timing of payouts, (ii) advance election of deferrals, and (iii) restrictions on acceleration of payouts results in immediate taxation of any amounts deferred to the extent not subject to a substantial risk of forfeiture. In addition, taxes on the amounts included in income are also subject to a 20% excise tax and interest. In general, to avoid a violation of Section 409A of the Code, amounts deferred may only be paid out on separation from service, disability, death, a specified time, a change in control (as defined by the Treasury Department) or an unforeseen emergency. Furthermore, the election to defer generally must be made in the calendar

year prior to performance of services, and any provision for accelerated payout other than for reasons specified by the Treasury Department may cause the amounts deferred to be subject to early taxation and to the imposition of the excise tax. Section 409A of the Code is broadly applicable to any form of deferred compensation other than tax-qualified retirement plans and bona fide vacation, sick leave, compensatory time, disability pay or death benefits, and may be applicable to certain awards under the Stock Incentive Plan. The Treasury Department has provided final regulations under Section 409A of the Code. Awards, if any, under the Stock Incentive Plan that are subject to Section 409A of the Code that are intended to satisfy the requirements of Section 409A of the Code will be so specified in the Award agreement.

Under Section 162(m) of the Code, the Company is denied a deduction for annual compensation paid to “covered employees” in excess of one million dollars (\$1,000,000), unless such compensation qualified as performance-based compensation. Generally, taxable compensation earned by “covered employees” (as defined in Section 162(m) of the Code) for Options or certain other applicable awards is intended to constitute qualified performance-based compensation. However, the Committee may determine, within its sole discretion, to grant Awards to such covered employees that do not qualify as performance-based compensation.

**THE FOREGOING IS A SUMMARY OF THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES THAT GENERALLY WILL ARISE UNDER THE CODE WITH RESPECT TO AWARDS GRANTED UNDER THE STOCK INCENTIVE PLAN AND DOES NOT PURPORT TO BE A COMPLETE STATEMENT OF ALL RELEVANT PROVISIONS OF THE CODE. MOREOVER, THIS SUMMARY IS BASED UPON CURRENT FEDERAL INCOME TAX LAWS UNDER THE CODE, WHICH ARE SUBJECT TO CHANGE. THE TREATMENT OF FOREIGN, STATE, LOCAL OR ESTATE TAXES IS NOT ADDRESSED. THE TAX CONSEQUENCES OF THE AWARDS ARE COMPLEX AND DEPENDENT UPON EACH INDIVIDUAL’S PERSONAL TAX SITUATION. ALL GRANTEEES ARE ADVISED TO CONSULT WITH HIS OR HER OWN TAX ADVISOR RESPECTING AWARDS.**

The Board of Directors believes the Stock Incentive Plan is necessary to promote the interest of the Company and its stockholders by encouraging grantees to acquire or increase their equity interest in the Company, thereby giving them an added incentive to work toward the continued growth and success of the Company. The Board of Directors also contemplates that through the Stock Incentive Plan, the Company will be better able to compete for the services of the individuals needed for the continued growth and success of the Company.

The approval by the affirmative vote of a majority of the shares present, in person or by proxy, and entitled to vote at the Annual Meeting is required to reapprove the material terms of the Stock Incentive Plan for purposes of Section 162(m) of the Internal Revenue Code. As a result, abstentions will have the same effect as votes against this proposal. Because brokers do not have discretionary authority to vote on the adoption or approval of stock incentive plans, broker no votes will not affect the outcome of the vote on this proposal.

If Proposal 3 is not approved, the Company will be required to reevaluate its compensation policies since compensation paid to a Covered Employee in future years may not be deductible by the Company to the extent it exceeds \$1,000,000. The Board believes strongly that the approval of this Proposal 3 is essential to the Company’s success. For the reasons stated above, stockholders are being asked to approve this proposal.

**THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS  
VOTE “FOR” THE REAPPROVAL OF THE MATERIAL TERMS OF  
THE AMENDED AND RESTATED 2003 STOCK INCENTIVE PLAN FOR  
PURPOSES OF COMPLYING WITH SECTION 162(m) OF  
THE INTERNAL REVENUE CODE OF 1986, AS AMENDED.**

**PROPOSAL 4 — *RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM***

Our Audit Committee has appointed and recommends the ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm to conduct the audit of our financial statements for the year ending December 31, 2015. Grant Thornton LLP has acted as our independent registered public accounting firm since 2004. Representatives of Grant Thornton LLP are expected to attend our Annual Meeting, are expected to be available to respond to questions by stockholders and will have an opportunity to make a statement if they desire to do so, although it is not expected that a statement will be made.

Shareholder ratification of the appointment of Grant Thornton LLP is not required by the rules of the NYSE or the SEC or by our bylaws. If the stockholders fail to ratify the appointment of Grant Thornton LLP, the Audit Committee will consider whether or not to retain that firm since stockholder ratification of the appointment is not required and the committee has the responsibility for appointment of our independent registered public accounting firm. Even if the stockholders ratify the appointment, the committee, in its discretion, may direct the appointment of a different independent firm at any time during the year if it determines that such a change would be in the best interests of the Company and our stockholders.

**Properly executed but unmarked proxies will be voted FOR approval of the ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the year ending December 31, 2015.** The Board of Directors believes that ratifying the appointment of Grant Thornton LLP is in the best interest of the Company. The approval of the ratification of Grant Thornton LLP will require the affirmative vote of holders of a majority of votes cast on this matter in person or by proxy. Accordingly, abstentions applicable to shares present at the meeting will not be included in the tabulation of votes cast on this matter.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS  
VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF  
GRANT THORNTON LLP AS OUR INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM  
FOR THE YEAR ENDING DECEMBER 31, 2015**

**Audit and Audit-Related Fees**

The following table sets forth the fees billed for services performed by Grant Thornton LLP for fiscal years 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Audit Fees . . . . .	\$ 443,335	\$ 408,637
Audit-Related Fees . . . . .	\$ —	—
Tax Fees . . . . .	—	—
All Other Fees . . . . .	—	—
	<u>\$ 443,335</u>	<u>\$ 408,637</u>

“Audit Fees” include fees for professional services rendered in connection with the audit of our financial statements and internal controls over financial reporting for the fiscal year as well as reviews of our interim financial statements included in our quarterly reports on Form 10-Q. The Audit Committee is authorized to delegate to one or more of its members the authority to pre-approve any defined audit and permitted non-audit services to be provided by the independent auditors, and related fees and other terms of engagement on these matters, provided that each pre-approval decision is presented to the full Audit Committee at its next scheduled meeting. In 2014 and 2013, 100% of the audit-related services were pre-approved under authority within certain limits granted by the committee to its chairman pursuant to these pre-approval procedures. Grant Thornton LLP has not provided any tax or other non-audit services to the Company.

## Report of the Audit Committee

The following Audit Committee Report is provided in accordance with the rules and regulations of the SEC. Pursuant to such rules and regulations, this report does not constitute “soliciting materials” and should not be deemed filed with or incorporated by reference into any other Company filings with the SEC under the Securities Act of 1933 or the Exchange Act or subject to the liabilities of Section 18 of the Exchange Act, except to the extent the Company specifically incorporates such information by reference.

The Board of Directors has appointed an Audit Committee consisting of Messrs. Trier (Chairman), Brookner, Harris, Johnston and Pullins, all of whom are financially literate and independent (as that term is defined by the NYSE listing standards and SEC Rule 10A-3(b)). The Board of Directors has determined Messrs. Brookner, Pullins and Trier to be “audit committee financial experts” under the rules of the SEC.

Under the Sarbanes-Oxley Act, the Audit Committee is directly responsible for the selection, appointment, retention, compensation and oversight of the Company’s independent auditors, including the pre-approval of both audit and non-audit services (including fees and other terms), and the resolution of disagreements between management and the auditors regarding financial reporting, accounting, internal controls, auditing or other matters.

In carrying out its responsibilities, the Audit Committee: (i) makes such inquiries and reviews as are necessary to monitor the Company’s financial reporting, its external and internal audits and its processes for compliance with laws and regulations that govern financial reporting, (ii) monitors the adequacy and effectiveness of the accounting and financial controls of the Company and elicits recommendations for the improvement of internal control processes and systems, (iii) reviews the planning, scope and results of the annual audit of the Company’s financial statements conducted by the Company’s independent auditors, (iv) reviews the scope and approves in advance any other services to be provided by the Company’s independent auditors, and (v) provides to the Board of Directors the results of its reviews and any recommendations derived therefrom, including such additional information and materials as it may deem necessary to make the Board aware of significant financial matters that may require Board attention.

The Audit Committee is authorized to engage independent counsel and other advisors it determines necessary to carry out its duties. The committee did not deem it necessary to engage independent counsel for any matters during 2014.

Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls, and for the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. The Company’s independent auditors are responsible for auditing the financial statements and expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States of America. The Audit Committee monitors and reviews these processes, and reviews the Company’s periodic reports and quarterly earnings releases before they are filed with the SEC, but is not responsible for the preparation of the Company’s financial statements and reports.

In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed the audited financial statements included in the Company’s Annual Report on Form 10-K with management, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements. The committee also met with the Company’s Chief Executive Officer and Chief Financial Officer to discuss their review of the Company’s disclosure controls and procedures and internal control over financial reporting in connection with the filing of the Annual Report on Form 10-K and other periodic reports with the SEC. However, members of the Audit Committee are not employees of the Company and have relied, without independent verification, on management’s representation that the financial statements have been prepared with integrity and objectivity and in conformity with accounting principles generally accepted in the United States of America and on the representations of the independent auditors included in their report on the Company’s financial statements.

Prior to commencement of audit work, the Audit Committee reviewed and discussed with representatives of Grant Thornton LLP, the Company’s independent auditors for fiscal 2014, the overall scope and plans for their audit of the Company’s financial statements for fiscal 2014. The committee also reviewed and discussed with representatives of Grant Thornton LLP, who are responsible for expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States of America, their judgments as to the quality, not just the acceptability, of the Company’s financial statements, any changes in accounting policies, sensitive accounting estimates, accounting principles and such other matters as are required to be discussed with the Audit Committee under auditing standards generally accepted in the United States of America,

including the matters required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. The Audit Committee met with Grant Thornton LLP, with and without Company management present, to discuss whether any significant matters regarding internal control over financial reporting had come to the auditors' attention during the conduct of the audit, and the overall quality of the Company's financial reporting.

The Audit Committee has received the written disclosures and the letter from Grant Thornton LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditors' communications with the Audit Committee concerning independence and the Audit Committee has discussed with Grant Thornton LLP their independence. The Audit Committee considered, among other things, whether the services Grant Thornton LLP provided to the Company were compatible with maintaining Grant Thornton LLP's independence. The Audit Committee also considered the amount of fees Grant Thornton LLP received for audit and non-audit services.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2014 for filing with the SEC.

The Audit Committee is governed by a written charter, adopted by the Board of Directors of the Company, which is included on our website at [www.usph.com](http://www.usph.com).

Respectfully submitted,

*The Audit Committee*  
Clayton K. Trier, Chairman  
Mark J. Brookner  
Dr. Bernard A. Harris  
Marlin W. Johnston  
Jerald L. Pullins



**DEADLINE FOR SUBMISSION OF STOCKHOLDER PROPOSALS TO BE  
PRESENTED AT THE 2016 ANNUAL MEETING OF STOCKHOLDERS**

Any proposal intended to be presented by any stockholder for action at the 2016 Annual Meeting of Stockholders (the “2016 Annual Meeting”) must be received by us on or before January 20, 2016 in order for the proposal to be considered for inclusion in the proxy statement and form of proxy relating to the 2016 Annual Meeting. If the date of the 2016 Annual Meeting is changed by more than 30 days from May 19, 2016, the deadline will be a reasonable time before we print and mail our proxy materials. However, we are not required to include in our proxy statement and form of proxy for the 2016 Annual Meeting any stockholder proposal, including shareholder nominations of persons for election to the Board of Directors, that does not meet all of the requirements for inclusion established by the SEC in effect at the time the proposal is received. In order for any stockholder proposal that is not included in such proxy statement and form of proxy to be brought before the 2016 Annual Meeting, such proposal must be 500 words or less and received by our Secretary at our principal executive offices at 1300 West Sam Houston Parkway South, Suite 300, Houston, Texas 77042 by February 19, 2016. If a timely proposal is received, the Board may exercise any discretionary authority granted by the proxies to be solicited on behalf of the Board in connection with the 2016 Annual Meeting.

**OTHER MATTERS**

As of the date of this Proxy Statement, our Board of Directors does not know of any other matters to be presented for action by stockholders at the Annual Meeting. If, however, any other matters not now known are properly brought before the meeting, the persons named in the accompanying proxy will vote the proxy as directed by a majority of the Board of Directors.

By Order of the Board of Directors,

A handwritten signature in black ink, appearing to read "Richard Binstein", written in a cursive style.

Richard Binstein  
Secretary

Houston, Texas  
April 9, 2015

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