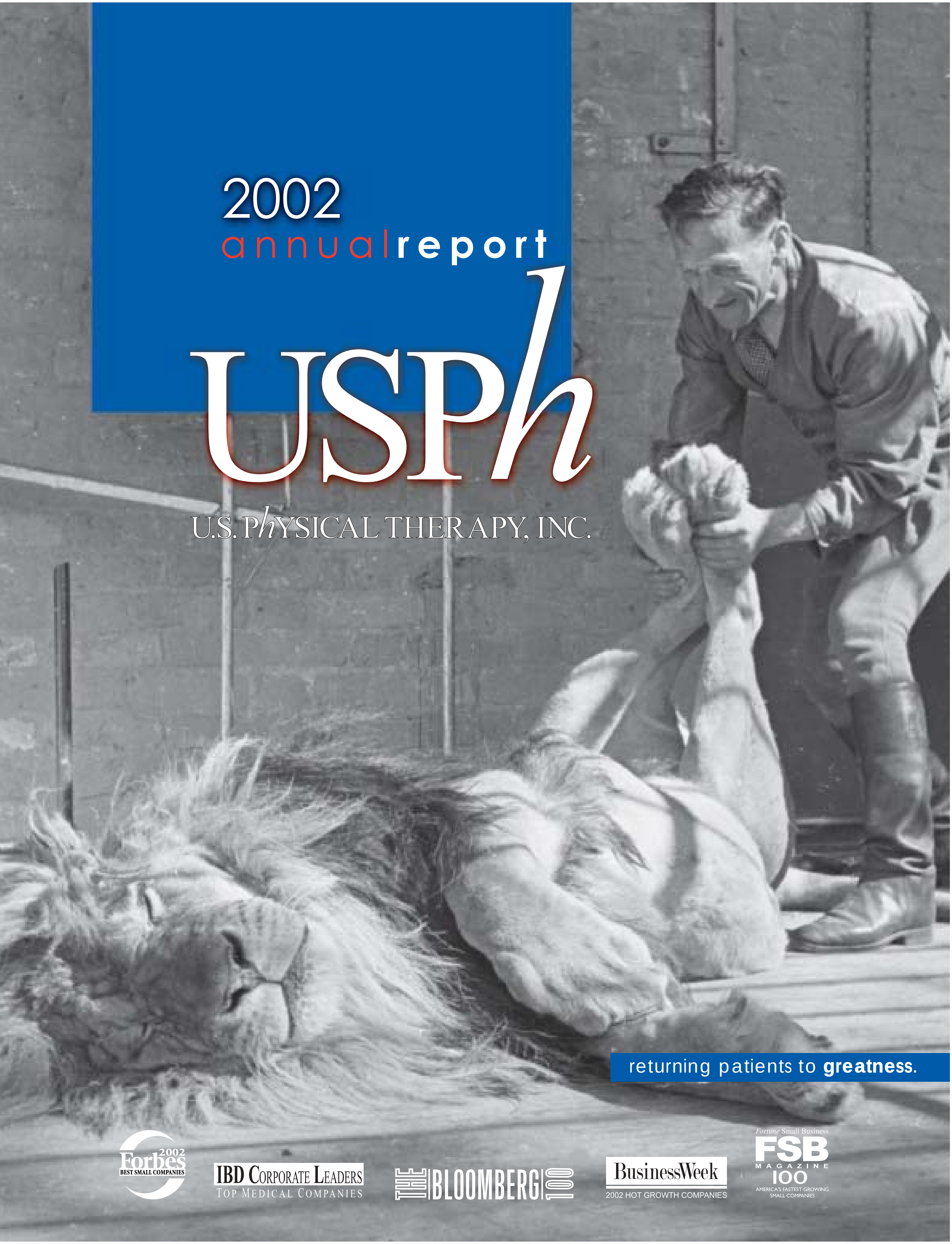
2002 annualreport

USPh

U.S. PHYSICAL THERAPY, INC.



returning patients to **greatness**.

Forbes 2002 BEST SMALL COMPANIES

IBD CORPORATE LEADERS
TOP MEDICAL COMPANIES

THE BLOOMBERG 100

BusinessWeek
2002 HOT GROWTH COMPANIES

Fortune Small Business
FSB MAGAZINE 100
AMERICA'S FASTEST GROWING SMALL COMPANIES

success requires the support of our **partnership**.

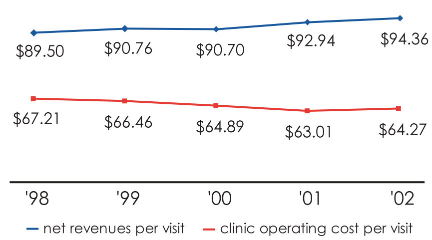
:: financial**highlights**

for years ended december 31

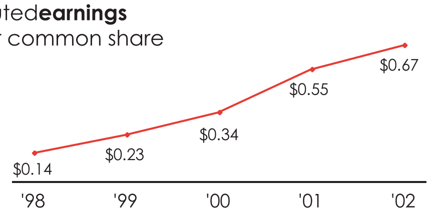
	2002	2001	2000	1999	1998
statement of operations data	(in thousands, except per share data)				
net revenues	$94,739	$80,948	$63,222	$51,368	$44,837
income before income taxes	$13,724	$11,503	$6,138	$3,962	$2,704
net income	$8,488	$7,071	$3,735	$2,394	$1,596
earnings per commonshare:					
basic (1)	$0.77	$0.70	$0.40	$0.23	$0.15
diluted (1)	$0.67	$0.55	$0.34	$0.23	$0.14
balance sheet data					
total assets (2)	$41,033	$36,742	$22,970	$23,346	$24,362
long-term debt, less current portion	$2,350	$3,021	$7,226	$8,087	$8,126
working capital	$20,234	$19,130	$10,420	$12,493	$12,832
financial ratios					
current ratio (2)	8.10	6.03	4.14	6.79	5.45
total long-term debt to total capitalization	0.07	0.12	0.46	0.43	0.41

1. All per share information has been adjusted to reflect a two-for-one stock split on January 5, 2001, and a three-for-two stock split on June 28, 2001.
2. A reclassification has been made in 2001 to conform to the presentation used for 2002. The reclassification had no effect on net income.

:: net**revenues** & clinic operating**cost** per visit



:: diluted**earnings** per common share



NOTE: per share information has been adjusted to reflect a two-for-one stock split on January 5, 2001, and a three-for-two stock split on June 28, 2001.

USPH™ NASDAQ LISTED

Russell 2000® Index 3000® Index

working on the job has risks. our business includes treating the **injured worker**.

:: chairman's**message**

Dear Shareholders,

Roy W. Spradlin, chairman, president & CEO

In 2002, the national economy and continuing challenges in our industry certainly tested the mettle of our ability to forecast, maneuver and execute strategy in a "battlefield environment". Our singular commitment to the outpatient clinic business and continuing emphasis on de novo clinic development (rather than acquisition) has resulted in a balance sheet that has substantial working capital and is almost debt free. Despite a year that was difficult because of both the economy and bad winter weather, we achieved double-digit growth of 22% in our earnings per share and opened a record 40 new clinics during the year, bringing total clinics at year-end to 202. We have made the decision to continue to develop new clinics at a rapid pace, with a target of 40 to 45 new clinics in 2003.

applause.

With all the corporate governance issues that have tarnished some corporations, our shareholders should know that five of the seven members of our Board of Directors are completely independent of the company. Our Audit, Compensation and Compliance Committees each consist of three independent board members. Our Board members take their responsibilities to the shareholders very seriously and are a great source of support and guidance for me.

Our theme for this report was to take a whimsical look at the physical challenges people face both at work and at play that often cause injury requiring our services. The vintage nature of the photographs further suggests that the need for care has always been present through the years and will continue to grow as people push their abilities to the maximum. The cover was an even rarer find, carrying a message that our clinical goal is to return our patients to maximum ability, or "tongue and cheek" returning every lion to greatness.

The company has grown to over 1200 employees. Attracting the right people is always a challenge but one that we have continued to meet successfully. To be a part of our team, we seek out rare attributes:

:: Respect for the physicians and patients that place their belief in us.

:: Commitment to measuring success by financial return.

:: Morals and ethics that are deeply rooted.

:: Support, commitment and respect for fellow workers.

I’m also proud of the awards bestowed on us this year:

:: Forbes Magazine 200 Best Small Companies

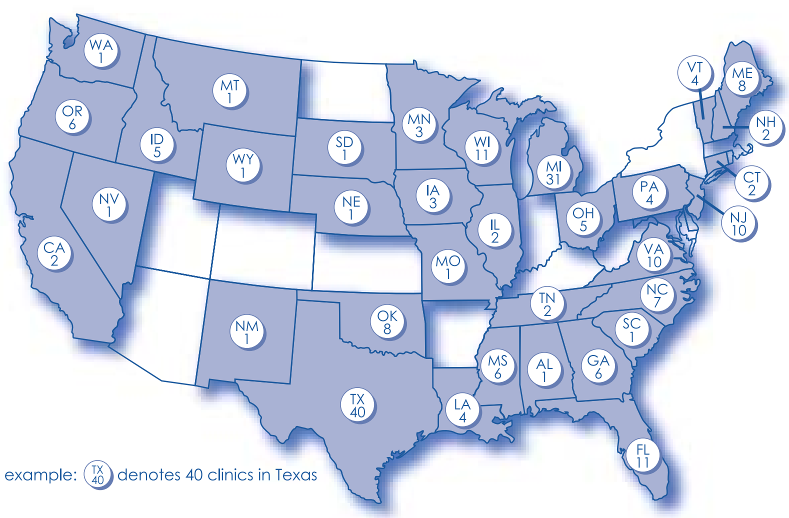
:: Fortune FSB Magazine America’s 100 Fastest Growing Small Companies

:: Business Week Magazine 2002 Hot Growth Companies

:: Bloomberg Personal Finance Magazine 100 Hot Stocks Annual Rating

:: Investor’s Business Daily Corporate Leaders/Top Medical Companies

202 clinics in 34 states as of December 31, 2002



Internally, we have continued to refine the infrastructure that allows us to continue seamlessly to add and support new clinics. Some of the principal components of our corporate support team are the following:

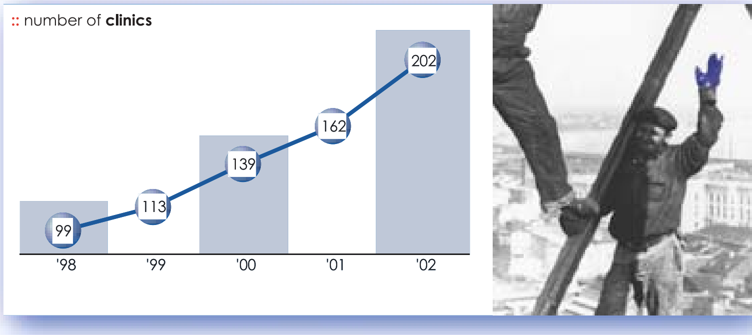
:: Four operating regions based on geography headed up by seasoned Operations Vice Presidents and regional support staff. This operational division of the company allows us to quickly focus on clinic issues.

:: A talented Information Systems group that has brought us to the cutting edge of reports that flow a daily set of information critical to navigating the sea of continuous change. Utilization of web-based applications in particular allows us to make great strides in creating a seamless connection between our home offices and our field operations.

:: A Compliance\Internal Audit Group to ensure that we are on the straight and narrow track. Each clinic is audited at least once a year by our own auditors, and we have recently outsourced the corporate internal audit function to a public accounting firm independent of our current auditors. Our investment in this area should help to assure investors of the integrity of our operations, both from a healthcare regulatory perspective and from an auditing and SEC standpoint.

:: A Business Development Group that has replaced the standard marketing efforts with a mandate of guiding our field personnel with market share strategies, identification of potential locations for satellite growth and patient cancellation reduction plans.

In our third quarter guidance, we estimated earnings per share for the year of 64 to 68 cents and achieved the higher end of that guidance at 67 cents per share, earning 17 cents per share in the fourth quarter.



We were able to achieve the high-end of the 35 to 40 new clinic openings projected at the beginning of 2002 by opening 40 new clinics. In 2003, we are planning to open 40 to 45 facilities, which meets our goal of 20 percent annual growth in total clinics. We intend to open new clinics in 2003 more evenly throughout the year than in 2002, providing us an earlier revenue build-up from the new clinics.. During the first quarter of 2003, 13 new clinics were completed, of which 11 were actively treating patients at quarter-end.

This brings me to the topic of our guidance for 2003 of 17 to 22 percent growth in earnings per share. Our Board has adopted a policy of no longer giving quarterly earnings guidance. The dynamics of our business are such that short-term predictability is difficult for us to forecast. We review longer-term trends and reiterate our 17 to 22 percent growth in earnings per share for 2003.

We feel that the Medicare annual payment limitation of $1,590 per patient for outpatient physical and occupational therapy patients that becomes effective July 1, to be in effect for six months in 2003, will have a negative impact on our revenues and profits , but we cannot precisely determine the magnitude of the impact at this time. The effect of this limitation may be reduced by secondary insurance, payments from patients and development of more attractive payer sources. The impact for 2004 will be more substantial and could result in as much as a reduction in earnings equal to 10% if our efforts to reduce the impact are unsuccessful.

As to last year, net income was $8,488,000 for the 2002, an increase 20 percent over last year. Earnings per share increased 22 percent to 67 cents.

Total patient revenues for the year rose 18 percent from last year on a 15 percent increase in patient visits to 1,004,000. For all of 2002, average patient revenues per visit

people often get injured at play. our business includes treating **recreational injury**.

were up two percent.. Same store sales for the year increased 14 percent on an 11.7 percent increase in same store visits to 972,000.

The 32,000 visits contributed by the clinics opened in 2002 was 10,000 fewer visits than the new 2001 clinics contributed in 2001 due primarily to the number of 2002 clinics that were opened later in the year. Thus, the clinics that we opened in 2002 generated a pre-tax loss of $400,000 as compared to $600,000 in pre-tax income produced in 2001 by the new 2001 clinics.

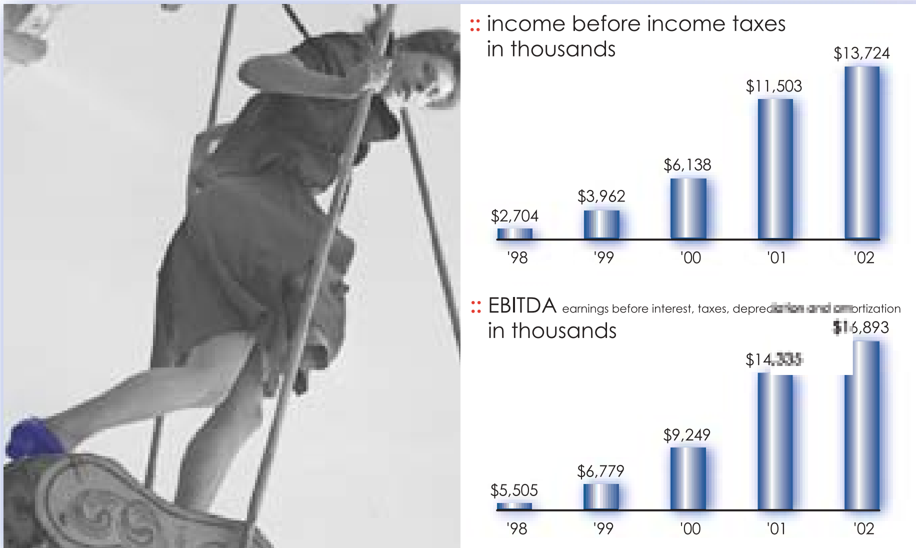
In the fourth quarter we made a change in the way we classify profit distributions to clinic-limited partners for clinic partnerships formed after 2000 (twenty-six clinic partnerships). This accounting treatment is the result of new accounting rules and alters the manner in which payments to partners are reported as an interest in profits. Those payments will now be classified as compensation expense, rather than minority interest. This change was only a reclassification and did not affect income.

Another result of this accounting rule is that buyouts of limited partner interests in post-2000 clinics will be viewed as compensation in the future and expensed, rather than being capitalized as in past acquisitions of minority interests. This accounting treatment would negatively impact our decision to buy out partnership interests in the future. We may make changes in the partnership structure for future clinics to accommodate this accounting change.

We repurchased 795,600 shares of common stock during the year of which 245,600 were purchased during the fourth quarter. As of year-end we still had 69,400 shares available for repurchase under the September 2001 Board authorization. And we just received at a recent Board meeting authorization to purchase another 250,000 shares.

Cash flow continues to be strong with EBITDA increasing to $16.9 million for the year, an 18 percent increase over the previous year. Days in accounts receivable declined to 71 from 81 last year as cash collections increased to $91.1 million from $76.8 million last year.

The company continues to fund all of its operational needs from cash flow with an almost debt free balance sheet and is well positioned for 2003. In trying economic times like these, some companies would quit expanding and wait for better times. We believe that some of the best opportunities occur in tough economic environments, and we do not intend to slow our clinic growth. Given appropriate opportunities, we may even accelerate our clinic growth. We believe that when the economy turns around, we should be well-positioned for further profit growth.



In closing, you can see that the concept that we initiated in 1990 has continued to deliver in a good or bad economy. We're able to adjust with the times because of the "rare breed" of entrepreneurial partners we have in the field who are motivated and responsive to our mentoring and guidance. They emerge from being good at what they do before they joined us to becoming seasoned operators who can take the rewards home for themselves and their families. It's a new experience for many who were unable to go beyond the limitations of their former employment.

To our shareholders and employees, I thank you for your confidence.

Sincerely,

Roy Spradlin

Roy Spradlin
Chairman, President & CEO

:: directors

Roy W. Spradlin
chairman of the board
president and chief executive officer

Mark J. Brookner
vice chairman of the board

Daniel C. Arnold
private investor

Bruce D. Broussard
chief financial officer - US Oncology

James B. Hoover
founding managing partner - Dauphin Capital Partners

Marlin W. Johnston
health & human services consultant - Tonn & Associates

Albert L. Rosen
former general manager - San Fancisco Giants
private investor
Rancho Mirage, California

:: management

Roy W. Spradlin
chairman of the board
president and chief executive officer

J. Michael Mullin
chief financial officer

Stephen Rosenbloom
senior vice president

:: shareholder's**information**

Information Request
investors, analysts and others seeking financial information should contact:
J. Michael Mullin, chief financial officer
713.297.7000

Form 10-Q
copies of the company's form 10-Q and quarterly press release are available by writing the company
attention: J. Michael Mullin, chief financial officer
or via the company's website at
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Shareholder Services
shareholders desiring to change name, address or ownership of stock, to report lost certificates or to consolidate accounts, should contact U.S. Physical Therapy's transfer agent:

Continental Stock Transfer & Trust Company
2 Broadway
New York, New York 10004

:: CONCEPT AND DESIGN
U.S. Physical Therapy, Inc. :: marketing department

:: PHOTOGRAPHY
Getty Images, Inc. :: Hulton Archive
20th century historic photographs

:: PRINTER
Bowne :: a financial and commercial printer

This Annual Report is dedicated to the private and fund investors, analysts and even the internet message boards "quarterbacks" who have followed our company and recognized our value and potential.

USPh
U.S. PhYSICAL THERAPY, INC.

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