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

FORM 10-Q

(Mark One)
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2002

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

For the transition period from ______________ to

Commission file number 1-11151

U.S. PHYSICAL THERAPY, INC.

(Exact name of registrant as specified in its charter)

Nevada	76-0364866
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3040 Post Oak Blvd., Suite 222, Houston, Texas	77056
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (713) 297-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

As of August 12, 2002, the number of shares outstanding of the registrant’s common stock, par value $.01 per share, was: 11,145,560

PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands)

	June 30, 2002 (unaudited)	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,446	$ 8,121
Patient accounts receivable, less allowance for doubtful accounts of $4,126 and $3,805, respectively	13,510	12,769
Accounts receivable - other	525	878
Other current assets	2,522	1,168
Total current assets	31,003	22,936
Fixed assets:		
Furniture and equipment	15,577	14,214
Leasehold improvements	8,306	7,389
	23,883	21,603
Less accumulated depreciation and amortization	15,191	13,798
	8,692	7,805
Goodwill, net of amortization of $335 and $335, respectively	5,292	4,519
Other assets, net of amortization of $503 and $501, respectively	1,613	1,482
	$ 46,600	$ 36,742

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	June 30, 2002 (unaudited)	December 31, 2001
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade	$ 418	$ 539
Accrued expenses	2,546	2,453
Estimated third-party payor (Medicare) settlements	33	113
Notes payable	4	701
Total current liabilities	3,001	3,806
Notes payable - long-term portion	20	21
Convertible subordinated notes payable	2,333	3,000
Minority interests in subsidiary limited partnerships	3,323	3,249
Commitments and contingencies	-	-
Shareholders' equity:		
Preferred stock, $.01 par value, 500,000 shares authorized, -0- shares outstanding	-	-
Common stock, $.01 par value, 20,000,000 shares authorized, 11,667,260 and 10,688,321 shares issued at June 30, 2002 and December 31, 2001, respectively	117	107
Additional paid-in capital	22,264	15,429
Retained earnings	17,532	13,120
Treasury stock at cost, 149,700 shares held at June 30, 2002 and December 31, 2001	(1,990)	(1,990)
Total shareholders' equity	37,923	26,666
	$ 46,600	$ 36,742

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended June 30,	
	2002	2001
	(unaudited)	
Net patient revenues	$ 23,449	$ 19,256
Management contract revenues	570	577
Other revenues	32	33
Net revenues	24,051	19,866
Clinic operating costs:		
Salaries and related costs	10,408	8,547
Rent, clinic supplies and other	5,022	4,287
Provision for doubtful accounts	511	502
	15,941	13,336
Corporate office costs	2,863	2,200
Operating income before non-operating expenses	5,247	4,330
Interest expense	61	60
Minority interests in subsidiary limited partnerships	1,400	1,370
Income before income taxes	3,786	2,900
Provision for income taxes	1,450	1,113
Net income	$ 2,336	$ 1,787
Basic earnings per common share	$ .21	$ .18
Diluted earnings per common share	$ .18	$ .14

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
	(unaudited)	
Net patient revenues	$ 45,085	$ 37,588
Management contract revenues	1,158	1,142
Other revenues	58	66
Net revenues	46,301	38,796
Clinic operating costs:		
Salaries and related costs	20,338	16,920
Rent, clinic supplies and other	9,763	8,462
Provision for doubtful accounts	942	951
	31,043	26,333
Corporate office costs	5,368	4,319
Operating income before non-operating expenses	9,890	8,144
Interest expense	120	144
Minority interests in subsidiary limited partnerships	2,631	2,634
Income before income taxes	7,139	5,366
Provision for income taxes	2,727	2,067
Net income	$ 4,412	$ 3,299
Basic earnings per common share	$ .40	$ .33
Diluted earnings per common share	$ .34	$ .26

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended June 30, 2002	2001
	(unaudited)	
Operating activities		
Net income	$ 4,412	$ 3,299
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,413	1,280
Minority interests in earnings of subsidiary limited partnerships	2,631	2,634
Provision for doubtful accounts	942	951
Loss on disposal of fixed assets	-	4
Tax benefit from exercise of stock options	3,723	1,491
Deferred taxes	154	-
Changes in operating assets and liabilities:		
Increase in patient accounts receivable	(1,683)	(2,042)
Decrease (increase) in accounts receivable - other	353	(16)
Increase in other assets	(1,641)	(102)
Increase (decrease)in accounts payable and accrued expenses	(28)	421
Decrease in estimated third-party payor (Medicare) settlements	(80)	(72)
Net cash provided by operating activities	10,196	7,848

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended June 30, 2002	2001
	(unaudited)	
Investing activities		
Purchase of fixed assets	(2,298)	(1,670)
Purchase of intangibles	(773)	-
Proceeds on sale of fixed assets	1	4
Net cash used in investing activities	(3,070)	(1,666)
Financing activities		
Payment of notes payable	(698)	(906)
Purchase of fractional shares on three-for-two stock split	-	(11)
Proceeds from investment of minority investors in subsidiary limited partnerships	-	2
Proceeds from exercise of stock options	2,454	1,258
Distributions to minority investors in subsidiary limited partnerships	(2,557)	(1,984)
Net cash used in financing activities	(801)	(1,641)
Net increase in cash and cash equivalents	6,325	4,541
Cash and cash equivalents - beginning of period	8,121	2,071
Cash and cash equivalents - end of period	$ 14,446	$ 6,612
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Income taxes	$ 556	$ 667
Interest	$ 120	$ 146

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2002
(unaudited)

1. Basis of Presentation and Significant Accounting Policies

The consolidated financial statements include the accounts of U.S. Physical Therapy, Inc. and its subsidiaries (the "Company"). All significant intercompany transactions and balances have been eliminated. As of June 30, 2002, the Company, through its wholly-owned subsidiaries, generally owned a 1% general partnership interest and a limited partnership interest of 64% in the clinics it operates. For the majority of the clinics, the managing therapist of the clinic owns the remaining limited partnership interest in the clinic. In some instances, the Company develops satellite clinic facilities which are extensions of existing clinics, and thus, clinic partnerships may consist of one or more clinic locations. The minority interests in the equity and earnings of the subsidiary clinic limited partnerships are presented separately in the consolidated financial statements.

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

In the opinion of management, the accompanying unaudited financial statements contain all necessary adjustments (consisting only of normal recurring adjustments) to present fairly the Company's financial position, results of operations and cash flows for the interim periods presented. For further information regarding the Company's accounting policies, refer to the audited financial statements included in the Company's Form 10-K for the year ended December 31, 2001.

Operating results for the three and six months ended June 30, 2002 are not necessarily indicative of the results expected for the entire year.

Significant Accounting Policies

Revenue Recognition

The Company bills primarily third-party payors for services at standard rates. Actual payments received from the payors vary based upon the payor's fee schedules, contracts the Company may have signed with the payor or limits on usual and customary charges. Based upon historical payment data, the Company records a contractual allowance to reduce gross revenues to the estimated net realizable amount expected to be ultimately collected from payors. The accuracy of revenue recognition improves with the timeliness of collections.

Allowance for Doubtful Accounts

The Company reviews account agings and experience with particular payors at each clinic in determining an appropriate accrual for doubtful accounts. Historically, clinics that have large numbers of older accounts generally have less favorable collection experience, and thus, require a higher allowance. Accounts that are ultimately determined to be uncollectible are written off against the bad debt allowance.

Reserve for Health Insurance

The Company self-insures for employee health and dental benefits, with reinsurance agreements in place to cover specific claims or claims in the aggregate exceeding predetermined amounts. Based upon recent historical trends, estimates of incurred but unpaid claims are recorded in a reserve account in accrued liabilities in the balance sheets.

Accounting for Income Taxes

As part of the process of preparing the consolidated financial statements, the Company is required to estimate its federal income tax liability and income taxes in the states in which it operates, as well as assessing temporary differences resulting from differing treatment of items, such as bad debt expense and amortization of leasehold improvements, for tax and accounting purposes. The differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheets. Management then must assess the likelihood that deferred tax assets will be recovered from future taxable income, and if not, establish a valuation allowance.

Use of Estimates

Management is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain amounts presented in the accompanying balance sheets for December 31, 2001 have been reclassified to conform with the presentation used for June 30, 2002.

Common Stock

On June 28, 2001, the Company effected a three-for-two common stock split in the form of a 50% stock dividend to stockholders of record as of June 7, 2001.

All share and per share information included in the accompanying consolidated financial statements and related notes have been adjusted to reflect this stock split.

2. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in thousands, except per share data)			
Numerator:				
Net income $2,336	$1,787	$4,412	$3,299	
Numerator for basic earnings per share	$2,336	$1,787	$4,412	$3,299
Effect of dilutive securities:				
Interest on convertible subordinated notes payable	39	40	78	86
Numerator for diluted earnings per share-income available to common stockholders after assumed conversions	$2,375	$1,827	$4,490	$3,385
Denominator:				
Denominator for basic earnings per share--weighted-average shares	11,132	10,006	10,894	9,858
Effect of dilutive securities:				
Stock options	1,307	2,186	1,471	2,131
Convertible subordinated notes payable	878	900	889	969

Dilutive potential common shares	2,185	3,086	2,360	3,100
Denominator for diluted earnings per share--adjusted weighted-average shares and assumed conversions	13,317	13,092	13,254	12,958
Basic earnings per common share	$ .21	$ .18	$ .40	$ .33
Diluted earnings per common share	$ .18	$ .14	$ .34	$ .26

3. Income Taxes

Significant components of the provision for income taxes were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in thousands)			
Current:				
Federal	$1,328	$ 939	$2,486	$1,734
State	209	174	395	333
Total current	1,537	1,113	2,881	2,067
Deferred:				
Federal	(87)	-	(154)	-
State	-	-	-	-
Total deferred	(87)	-	(154)	-
Total income tax provision	$1,450	$1,113	$2,727	$2,067

4. Bank Loan Agreement

In July 2000, the Company entered into a Loan Agreement with a bank providing for borrowings up to $2,500,000 on a line of credit, convertible to a term loan on December 31, 2000. The loan bore interest at a rate per annum of prime plus one-half percentage point and was repayable in quarterly installments of $250,000 beginning March 2001. The Company borrowed $2,115,000 under the convertible line of credit in August 2000. In November 2000, the Company repaid $1,215,000 of the $2,115,000 borrowed under the convertible line of credit. In March 2001, the Company repaid the remaining principal balance of $900,000.

The Company also had a revolving line of credit with a bank which provided for borrowings up to $500,000, as needed, at a rate of prime. The Company did not borrow under this line of credit, which expired on July 1, 2001.

5. Convertible Subordinated Debt

In a June 1993 private placement, the Company issued $3,050,000 of 8% Convertible Subordinated Notes due June 30, 2003 (the "Initial Series Notes"). In a May 1994 private placement, the Company issued $2,000,000 of 8% Convertible Subordinated Notes, Series B due June 30, 2004 (the "Series B Notes") and $3,000,000 of 8% Convertible Subordinated Notes, Series C due June 30, 2004 (the "Series C Notes" and collectively, the Initial Series Notes, the Series B Notes and the Series C Notes are hereinafter referred to as the "Convertible Subordinated Notes").

The Convertible Subordinated Notes were convertible at the option of the holders thereof into the number of whole shares of Company common stock determined by dividing the principal amount of the Notes so converted by $3.33 in the case of the Initial Series Notes
and the Series C Notes or $4.00 in the case of the Series B Notes.
Only $2,333,000 and $3,000,000 of the Series C Notes were outstanding at June 30, 2002 and December 31, 2001, respectively.

During 2000, $100,000 of the Initial Series Notes and $750,000 of the Series B Notes were converted by the note holders into 30,000 and 187,497 shares of common stock, respectively. This resulted in a balance of $2,950,000, $1,250,000 and $3,000,000 for the Initial Series Notes, the Series B Notes and the Series C Notes, respectively, at December 31, 2000. In January 2001, an additional $650,000 of the Initial Series Notes were converted by a note holder into 195,000 shares of common stock. In addition, the Company exercised its right to require conversion of the remaining balance of $2,300,000 of the Initial Series Notes and $1,250,000 of the Series B Notes into 690,000 and 312,500 shares of common stock, respectively.

In June 2002, $667,000 of the Series C Notes were converted by a note holder into 200,100 shares of common stock.

6. Goodwill-Adoption of Statement 142

In January 2002, the Company adopted Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets," ("SFAS 142"), which requires that goodwill and other intangible assets with indefinite lives no longer be amortized.

SFAS 142 further requires that the fair value of goodwill and other intangible assets with indefinite lives be tested for impairment upon adoption of this statement, annually and upon the occurrence of certain events and be written down to fair value if considered impaired. The Company completed its initial impairment review upon adoption and determined that there was no impairment. The Company plans to perform its annual impairment review during the fourth quarter of each year, commencing in the fourth quarter of 2002. At June 30, 2002, the Company had $5,292,000 of unamortized goodwill.

Net income excluding goodwill amortization expense is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in thousands)			
Net income as reported	$2,336	$1,787	$4,412	$3,299
Add back:				
Goodwill amortization, net of tax	-	9	-	19
Adjusted net income	$2,336	$1,796	$4,412	$3,318

The exclusion of goodwill amortization had no material effect on basic or diluted earnings per common share.

7. Acquisition of Minority Interests

On December 31, 2001, the Company purchased the 35% minority interest in a limited partnership which owns four clinics in Michigan for consideration aggregating $1,511,000. At closing the Company delivered 67,100 shares of restricted stock and a note payable for $435,000 which was paid in January 2002.

Additional consideration may be paid in the future based upon clinic performance. Additionally, as part of the purchase, the Company agreed to pay the minority partner $261,000 of undistributed earnings which was paid in January 2002.

On January 31, 2002, the Company purchased the 10% minority interest in a limited partnership which owns four clinics in Michigan for $447,000. Additionally, as part of the purchase, the Company agreed to pay the minority partner $65,000 of undistributed earnings.

On June 1, 2002, the Company purchased the 35% minority interest in a limited partnership for $220,000. Additional consideration may be paid in the future based upon clinic performance. Additionally, as part of the purchase, the Company agreed to pay the minority partner $73,000 of undistributed earnings.

Also on June 1, 2002, the Company purchased the 5% minority interest in a limited partnership for $95,000. Additionally, as part of the purchase, the Company agreed to pay the minority partner $8,000 in undistributed earnings.

8. Subsequent Event

In July 2002, the Company purchased 400,000 shares of its common stock on the open market at an aggregate cost of $5,750,000. To date, the Company has purchased a total of 535,000 shares of the 1,000,000 shares originally authorized for purchase by the Board of Directors in September 2001.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

The Company operates outpatient physical and/or occupational therapy clinics which provide post-operative care and treatment for a variety of orthopedic-related disorders and sports-related injuries. At June 30, 2002, the Company operated 176 outpatient physical and occupational therapy clinics in 31 states. The average age of the 176 clinics in operation at June 30, 2002 was 4.22 years.

In addition to the facilities in which the Company has ownership, it also manages physical therapy facilities for third parties, including physicians, with six such third-party facilities under management as of June 30, 2002.

Selected Operating and Financial Data

The following table presents certain operating and financial data:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Working days	64	64	127	128
Average visits per day per clinic	23.5	22.8	22.8	22.3
Total patient visits	256,000	214,000	493,000	419,000
Per visit:				
Net revenues	$ 93.95	$ 92.83	$ 93.92	$ 92.59
Salaries and related costs	(40.66)	(39.94)	(41.25)	(40.38)
Rent, clinic supplies and other	(19.62)	(20.03)	(19.80)	(20.20)
Provision for doubtful accounts	(2.00)	(2.35)	(1.91)	(2.27)
Contribution from clinics	31.67	30.51	30.96	29.74
Corporate office costs	(11.18)	(10.28)	(10.89)	(10.31)
Operating income	$20.49	$ 20.23	$ 20.07	$ 19.43

Because many expenses are not affected by the number of working days, expenses on a per visit basis generally decline as the number of working days in a period increases.

Results of Operations

Three Months Ended June 30, 2002 Compared to the Three Months Ended June 30, 2001

Net Patient Revenues

Net patient revenues increased to $23,449,000 for the three months ended June 30, 2002 (“2002 Second Quarter”) from $19,256,000 for the three months ended June 30, 2001 (“2001 Second Quarter”), an increase of $4,193,000, or 22%. Total patient visits increased 42,000, or 20%, to 256,000 for the 2002 Second Quarter from 214,000 for the 2001 Second Quarter. Net patient revenues from the 30 clinics developed since the 2001 Second Quarter (the “New Clinics”) accounted for approximately 38% of the increase, or $1,584,000. The remaining increase of

$2,609,000 in net patient revenues was from the 146 clinics opened before the 2001 Second Quarter (the “Mature Clinics”). Of the $2,609,000 increase in net patient revenues from the Mature Clinics, $2,246,000 was due to a 12% increase in the number of patient visits, while $363,000 was due to a 2% increase in the average net revenue per visit.

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

Clinic Operating Costs
Clinic operating costs as a percent of combined net patient revenues and management contract revenues decreased to 66% for the 2002 Second Quarter from 67% for the 2001 Second Quarter.

Clinic Operating Costs - Salaries and Related Costs
Salaries and related costs increased to $10,408,000 for the 2002 Second Quarter from $8,547,000 for the 2001 Second Quarter, an increase of $1,861,000, or 22%. Approximately 42% of the increase, or $787,000, was due to the New Clinics. The remaining 58% increase, or $1,074,000, was due principally to increased staffing to meet the increase in patient visits for the Mature Clinics, coupled with an increase in bonuses earned by the clinic directors at the Mature Clinics. Such bonuses are based on the net revenues or operating profit generated by the individual clinics. Salaries and related costs as a percent of combined net patient revenues and management contract revenues remained unchanged at 43% for the 2002 and 2001 Second Quarters.

Clinic Operating Costs - Rent, Clinic Supplies and Other
Rent, clinic supplies and other increased to $5,022,000 for the 2002 Second Quarter from $4,287,000 for the 2001 Second Quarter, an
increase of $735,000, or 17%. Approximately 79% of the increase, or $578,000, was due to the New Clinics, while 21%, or $157,000, of the increase was due to the Mature Clinics. Rent, clinic supplies and other as a percent of combined net patient revenues and management contract revenues decreased to 21% for the 2002 Second Quarter from 22% for the 2001 Second Quarter.

Clinic Operating Costs - Provision for Doubtful Accounts

The provision for doubtful accounts increased to $511,000 for the 2002 Second Quarter from $502,000 for the 2001 Second Quarter, an increase of $9,000, or 2%. This increase was due to a $34,000 increase related to the New Clinics, offset by a $25,000 decrease related to the Mature Clinics. The provision for doubtful accounts as a percent of net patient revenues decreased slightly to 2.2% for the 2002 Second Quarter from 2.6% for the 2001 Second Quarter.

Corporate Office Costs

Corporate office costs, consisting primarily of salaries and benefits of corporate office personnel, rent, insurance costs, depreciation and amortization, travel, legal, professional, marketing and recruiting fees, increased to $2,863,000 for the 2002 Second Quarter from $2,200,000 for the 2001 Second Quarter, an increase of $663,000, or 30%. Corporate office costs increased primarily as a result of increased salaries and benefits related to additional personnel hired to support an increasing number of clinics. Corporate office costs as a percent of combined net patient revenues and management contract revenues increased to 12% for the 2002 Second Quarter from 11% for the 2001 Second Quarter.

Minority Interests in Earnings of Subsidiary Limited Partnerships

Minority interests in earnings of subsidiary limited partnerships increased $30,000, or 2%, to $1,400,000 for the 2002 Second Quarter from $1,370,000 for the 2001 Second Quarter due to the increase in aggregate profitability of those clinics in which partners have achieved positive retained earnings and are accruing partnership income. As a percentage of operating income, minority interest declined to 27% from 32% primarily as a result of the purchase of limited partnership interests from minority partners.

Provision for Income Taxes

The provision for income taxes increased to $1,450,000 for the 2002 Second Quarter from $1,113,000 for the 2001 Second Quarter, an increase of $337,000, or 30%. During the 2002 and 2001 Second Quarters, the Company accrued income taxes at an effective tax rate of 38%. This rate exceeded the U.S. statutory tax rate of 35% due primarily to state income taxes.

Six Months Ended June 30, 2002 Compared to the Six Months Ended June 30, 2001

Net Patient Revenues

Net patient revenues increased to $45,085,000 for the six months ended June 30, 2002 ("2002 Six Months") from $37,588,000 for the six months ended June 30, 2001 ("2001 Six Months"), an increase of $7,497,000, or 20%. Total patient visits increased 74,000, or 18%, to 493,000 for the 2002 Six Months from 419,000 for the 2001 Six Months. The Company believes that the growth in visits was negatively impacted by the very mild winter in the north and northeast where the Company has many clinics, as there were fewer winter sports and weather related injuries in such areas than occur when there is more snow and ice. Net patient revenues from the 30 clinics developed since the 2001 Six Months (the "New Clinics") accounted for approximately 36% of the increase, or $2,691,000. The remaining increase of $4,806,000 in net patient revenues comes from those 146 clinics opened before the 2001 Six Months (the "Mature Clinics"). Of the $4,806,000 increase in net patient revenues from the Mature Clinics, $3,973,000 was due to an 11% increase in the number of patient visits, while $833,000 was due to a 2% increase in the average net revenue per visit.

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

Clinic Operating Costs

Clinic operating costs as a percent of combined net patient revenues and management contract revenues decreased to 67% for the 2002 Six Months from 68% for the 2001 Six Months.

Clinic Operating Costs - Salaries and Related Costs

Salaries and related costs increased to $20,338,000 for the 2002 Six Months from $16,920,000 for the 2001 Six Months, an increase of $3,418,000, or 20%. Approximately 39% of the increase, or $1,340,000, was due to the New Clinics. The remaining 61% increase, or $2,078,000, was due principally to increased staffing to meet the increase in patient visits for the Mature Clinics, coupled with an increase in bonuses earned by the clinic directors at the Mature Clinics. Such bonuses are based on the net revenues or operating profit generated by the individual clinics. Salaries and related costs as a percent of combined net patient revenues and

management contract revenues remained unchanged at 44% for the 2002 and 2001 Six Months.

Clinic Operating Costs - Rent, Clinic Supplies and Other

Rent, clinic supplies and other increased to $9,763,000 for the 2002 Six Months from $8,462,000 for the 2001 Six Months, an increase of $1,301,000, or 15%. Approximately 75% of the increase,
or $979,000, was due to the New Clinics, while 25%, or $322,000, of the increase was due to the Mature Clinics. The increase in rent, clinic supplies and other for the Mature Clinics related primarily to an increase in rent expense during the 2002 Six Months. Rent, clinic supplies and other as a percent of combined net patient revenues and management contract revenues decreased to 21% for the 2002 Six Months from 22% for the 2001 Six Months.

Clinic Operating Costs - Provision for Doubtful Accounts

The provision for doubtful accounts decreased to $942,000 for the 2002 Six Months from $951,000 for the 2001 Six Months, a decrease of $9,000, or 1%. This decrease was due to a $67,000 decrease in the Mature Clinics, offset by an increase of $58,000 related to the New Clinics. The provision for doubtful accounts as a percent of net patient revenues decreased slightly to 2.1% for the 2002 Six Months from 2.5% for the 2001 Six Months.

Corporate Office Costs

Corporate office costs, consisting primarily of salaries and benefits of corporate office personnel, rent, insurance costs, depreciation and amortization, travel, legal, professional, marketing and recruiting fees, increased to $5,368,000 for the 2002 Six Months from $4,319,000 for the 2001 Six Months, an increase of $1,049,000, or 24%. Corporate office costs increased primarily as a result of increased salaries and benefits related to additional personnel hired to support an increasing number of clinics. Corporate office costs as a percent of combined net patient revenues and management contract revenues increased to 12% for the 2002 Six Months from 11% for the 2001 Six Months.

Interest Expense

Interest expense decreased $24,000, or 17%, to $120,000 for the 2002 Six Months from $144,000 for the 2001 Six Months. This decrease in interest was primarily due to the conversion of $5,050,000 of convertible subordinated debt into shares of

Company common stock. See “Factors Affecting Future Results - Convertible Subordinated Debt.”

Minority Interests in Earnings of Subsidiary Limited Partnerships
As a percentage of operating income, minority interest declined to 27% from 32% primarily as a result of the purchase of limited

partnership interests from minority partners.

Provision for Income Taxes
The provision for income taxes increased to $2,727,000 for the 2002 Six Months from $2,067,000 for the 2001 Six Months, an increase of $660,000, or 32%. During the 2002 and 2001 Six Months, the Company accrued income taxes at effective tax rates of 38% and 39%, respectively. These rates exceeded the U.S. statutory tax rate of 35% due primarily to state income taxes.

Liquidity and Capital Resources
At June 30, 2002, the Company had $14,446,000 in cash and cash equivalents available to fund the working capital needs of its operating subsidiaries, future clinic developments, acquisitions and investments. Included in cash and cash equivalents at June 30, 2002 was $9,364,000 in money market funds invested in short-term debt instruments issued by an agency of the U.S. Government.

The increase in cash of $6,325,000 from December 31, 2001 to June 30, 2002 was due primarily to cash provided by operating activities of $10,196,000 and proceeds from the exercise of stock options of $2,454,000, offset, in part, by the Company’s use of cash to pay notes payable of $698,000, fund capital expenditures for physical therapy equipment and leasehold improvements in the amount of $2,298,000, distribute $2,557,000 to minority investors in subsidiary limited partnerships, buyout a 10% minority investor in four Michigan clinics for $447,000, a 35% minority investor in a Pennsylvania clinic for $220,000 and a 5% minority investor in a Texas clinic for $95,000.

The Company’s current ratio increased to 10.33 to 1.00 at June 30, 2002 from 6.03 to 1.00 at December 31, 2001. The increase in the current ratio was due primarily to the increase in cash and cash equivalents, an increase in patient accounts receivable, an increase in other current assets, a decrease in estimated third-party payor (Medicare) settlements and notes payable.

At June 30, 2002, the Company had a debt-to-equity ratio of 0.06 to 1.00 compared to 0.14 to 1.00 at December 31, 2001. The decrease in the debt-to-equity ratio from December 31, 2001 to June 30, 2002 resulted from net income of $4,412,000, the proceeds and tax benefit from the exercise of stock options of $2,454,000 and $3,723,000, respectively, the conversion of $667,000 subordinated notes payable into common stock and the decrease in notes payable of $698,000.

In conjunction with the repurchase of common stock in 2000, the Company entered into a loan agreement with a bank to borrow up to

$2,500,000 on a line of credit, convertible to a term loan on December 31, 2000. The loan bore interest at a rate per annum of prime plus one-half percentage point and was repayable in quarterly installments of $250,000 beginning March 2001. In November 2000, the Company repaid $1,215,000 of the $2,115,000 borrowed under the convertible line of credit. In March 2001, the Company repaid the remaining balance of $900,000 on the bank loan.

In September 2001, the Board of Directors authorized the purchase, in the open market or in privately negotiated transactions, up to 1,000,000 shares of the Company’s common stock. Any shares purchased will be held as treasury shares and may be used for such valid corporate purposes or retired as the Board of Directors, in its discretion, may deem advisable. As of December 31, 2001, the Company had purchased 135,000 shares of its common stock on the open market for a total of $1,943,000. No shares were purchased during the six months ended June 30, 2002. In July 2002, the Company purchased a total of 400,000 shares of its common stock on the open market for $5,750,000.

The Company does not have credit lines or other arrangements for funding with banks or other institutions. Historically, the Company has generated cash from operations sufficient to fund its development activities and cover operational needs. The Company does not generally acquire new clinics through acquisitions of existing clinics, but develops clinics in a de novo fashion, which management believes generally requires substantially less capital. The Company currently plans to continue adding new clinics on a de novo basis, although this strategy may change from time to time as appropriate opportunities become available. The Company has from time to time purchased minority interests of limited

partners in clinic partnerships, including the minority interests purchased in
the Michigan, Pennsylvania and Texas clinics referred to previously. In selective cases, the Company may purchase additional minority interests in the future. Generally, any material purchases of minority interests are expected to be accomplished using a combination of common stock and cash.

Management believes that existing funds, supplemented by cash flows from existing operations, will be sufficient to meet its current operating needs, development plans and any purchases of minority interests through at least 2002.

Recently Promulgated Accounting Standards

In July 2001, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 141 (“SFAS 141”), “Business Combinations.” SFAS 141 eliminates the pooling of interests method of accounting and requires that all business

combinations initiated after June 30, 2001 be accounted for under the purchase method. The adoption of SFAS 141 did not have a material impact on the Company’s business because it had no planned or pending acquisitions that would have met the requirements for use of the pooling of interests method.

Also in July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 “Goodwill and Other Intangible Assets,” (“SFAS 142") which is effective for the Company beginning
in 2002 except for certain provisions that were effective July 1, 2001. SFAS 142 requires goodwill and other intangible assets with indefinite lives no longer be amortized. SFAS 142 further requires the fair value of goodwill and other intangible assets with indefinite lives be tested for impairment upon adoption of this statement, annually and upon the occurrence of certain events and be written down to fair value if considered impaired. At June 30, 2002, the Company had approximately $5,292,000 of unamortized goodwill. The adoption of SFAS 142 did not have a material impact on the Company’s financial condition or results of operation because the Company determined that there was no impairment of goodwill upon adoption of the statement.

In June 2001, the FASB issued SFAS No. 143, “Accounting for Asset Retirement Obligations,” (“SFAS 143") which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the

associated asset retirement costs. This statement applies to all entities that have legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development
or normal use of the asset. SFAS 143 is effective for fiscal years beginning after June 15, 2002. We do not expect the adoption of
SFAS 143 to have a significant impact on the Company’s financial condition or results of operations.

In October 2001, the FASB issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” (“SFAS 144") which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS 144 supersedes SFAS Statement No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of,” it retains many of the fundamental provisions of that statement. SFAS 144
also supersedes the accounting and reporting provisions of APB Opinion No. 30, “Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,” for the disposal of a segment of a business. SFAS 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The adoption of SFAS 144 did not have

a material impact on the Company’s financial condition or results of operations.

In April 2002, the FASB issued SFAS No. 145, “Recission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statements No. 13 and Technical Corrections,” (“SFAS 145") which provides guidance for income statement classification of gains and losses on extinguishments of debt and accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS 145 is effective for the Company beginning in 2003. The Company does not expect the adoption of SFAS 145 to have a material impact on its financial condition or results of operations.

In June 2002, the FASB issued SFAS No. 146, “Accounting for Exit or Disposal Activities,” (“SFAS 146") which addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance set forth in

EITF Issue No. 94-3, "Liability Recognition of Certain Employee Termination Benefits and Other Costs to Exit an Activity." SFAS 146 is effective for the Company beginning in 2003. The Company does not expect the adoption of SFAS 146 to have a material impact on its financial condition or results of operations.

Factors Affecting Future Results

Clinic Development

As of June 30, 2002, the Company had 176 clinics in operation, eight of which opened in the 2002 Second Quarter. The Company's goal for 2002 is to open between 35 and 40 clinics. The opening of these clinics is subject to the Company's ability to identify suitable geographic locations and physical and occupational therapists to manage the clinics. The Company's operating results will be impacted by initial operating losses from the new clinics. During the initial period of operation, operating margins for newly opened clinics tend to be lower than more seasoned clinics due to the start-up costs of newly opened clinics (including, without limitation, salaries and related costs of the physical and/or occupational therapist and other clinic personnel, rent and equipment and other supplies required to open the clinic) and the fact that patient visits and revenues tend to be lower in the first year of a new clinic's operation and increase significantly over the subsequent two to three years. Based on historical performance of the Company's new clinics, the clinics opened since the 2001 Second Quarter are expected to favorably impact the Company's results of operations for 2002 and beyond.

Convertible Subordinated Debt

In a June 1993 private placement, the Company issued $3,050,000 of 8% Convertible Subordinated Notes due June 30, 2003 (the "Initial Series Notes"). In a May 1994 private placement, the Company issued $2,000,000 of 8% Convertible Subordinated Notes, Series B due June 30, 2004 (the "Series B Notes") and $3,000,000 of 8% Convertible Subordinated Notes, Series C due June 30, 2004 (the "Series C Notes" and collectively, the Initial Series Notes, the Series B Notes and the Series C Notes are hereinafter referred to as the "Convertible Subordinated Notes").

The Convertible Subordinated Notes were convertible at the option of the holders thereof into the number of whole shares of Company common stock determined by dividing the principal amount of the Notes so converted by $3.33 in the case of the Initial

Series Notes and the Series C Notes or $4.00 in the case of the Series B Notes. Only $2,333,000 and $3,000,000 of the Series C Notes were outstanding at June 30, 2002 and December 31, 2001, respectively.

During 2000, $100,000 of the Initial Series Notes and $750,000 of the Series B Notes were converted by the note holders into 30,000 and 187,497 shares of common stock, respectively. This resulted in
a balance of $2,950,000, $1,250,000 and $3,000,000 for the Initial Series Notes, the Series B Notes and the Series C Notes, respectively, at December 31, 2000. In January 2001, an additional $650,000 of the Initial Series Notes was converted by a note holder into 195,000 shares of common stock. In addition, the Company exercised its right to require conversion of the remaining balance of $2,300,000 of the Initial Series Notes and $1,250,000 of the Series B Notes into 690,000 and 312,500 shares of common stock, respectively. The fair value of the debt converted in 2001 and 2000 was approximately $11,161,000 and $1,380,000, respectively, based upon the closing price of the Company's common stock on the day before conversion as reported by the National Market of Nasdaq.

In June 2002, $667,000 of the Series C Notes were converted by a note holder into 200,100 shares of common stock.

The debt conversions increased the Company's shareholders' equity by the carrying amount of the debt converted less unamortized deferred financing costs, thus improving the Company's debt to equity ratio and favorably impacted results of operations and cash flow due to the interest savings in 2001 before income taxes of approximately $400,000.

Medicare Regulations

Reimbursement for outpatient therapy services provided to Medicare beneficiaries is pursuant to a fee schedule published by the

Department of Health and Human Services ("HHS"), and the total amount that may be paid by Medicare in any one year for outpatient physical (including speech-language pathology) or occupational therapy to any one patient is limited to $1,500, except for services provided in hospitals. On November 29, 1999, President Clinton signed into law the Medicare, Medicaid and SCHIP Balanced Budget Refinement Act of 1999 ("BBRA") which, among other provisions, placed a two-year moratorium on the $1,500 reimbursement limit for Medicare therapy services provided in 2000 and 2001. On December 21, 2000, the President signed into law the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 ("BIPA") which, among other provisions, extended the moratorium for one year through December 31, 2002. The Company does not generally treat long-term complicated rehabilitation cases, therefore, should the $1,500 reimbursement limit become effective in 2003, the Company does not anticipate a material impact on revenues in 2003.

Forward-Looking Statements

We make statements in this report that are considered to be forward-looking statements within the meaning of the Securities and
Exchange Act of 1934. Such statements involve risks and uncertainties that could cause actual results to differ materially from those we project. When used in this report, the words "anticipates", "believes", "estimates", "intends", "expects", "plans", "should" and "goal" and similar expressions are intended to identify such forward-looking statements. The forward-looking statements are based on the Company's current views and assumptions and involve risks and uncertainties that include, among other things, general economic, business, and regulatory conditions, competition, federal and state regulations, availability, terms, and use of capital and weather. Some or all of these factors are beyond the Company's control.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. Please see the other sections of this report and our other periodic reports filed with the Securities and Exchange Commission (the "SEC") for more information on these factors. These forward-looking statements represent our estimates and assumptions only as of the date of this report. The Company undertakes no obligation to update any forward-looking statement, whether as the result of actual results, changes in assumptions, new information, future events, or otherwise.

Item 3. Quantitative and Qualitative Disclosure About Market Risk.

As of June 30, 2002, the Company had outstanding $2,333,000 of

8% Convertible Subordinated Notes, Series C, due June 30, 2004 (the “Series C Notes”). The Series C Notes, which were issued in private placement transactions, bear interest at 8% per annum, payable quarterly, and are convertible at the option of the holders thereof into common stock of the Company at any time during the term of the Series C Notes. The conversion price is $3.33 per share, subject to adjustment as provided in the Notes. Based upon the closing price of the Company’s common stock on August 7, 2002
of $14.84, as reported by the National Market of Nasdaq, the fair value of the Series C Notes was $10,387,000.

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

(1) The Company held its 2002 annual meeting of shareholders ("Annual Meeting") on May 21, 2002. At the Annual Meeting, seven directors were elected for one-year terms.

(2) The names of the seven directors elected at the Annual Meeting are as follows: Roy W. Spradlin, Mark J. Brookner, Daniel C. Arnold, Bruce D. Broussard, James B. Hoover, Marlin W. Johnston and Albert L. Rosen.

(3) The following votes were cast in the election of directors:

Nominees	For	Withhold Authority
Roy W. Spradlin	8,795,822	254,496
Mark J. Brookner	8,645,196	405,122
Daniel C. Arnold	9,017,576	32,742
Bruce D. Broussard	9,015,743	34,575
James B. Hoover	9,020,193	30,125
Marlin W. Johnston	9,018,343	31,975
Albert L. Rosen	9,017,526	32,792

There were a total of 9,050,318 shares represented by person or by proxy at the Annual Meeting.

(4) Not applicable.

Item 6. Exhibits and Reports on Form 8-K.

(b) Reports on Form 8-K

Simultaneously with filing this Form 10-Q, the Company has filed a Form 8-K related to the certification requirements pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).

SIGNATURE

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

U.S. PHYSICAL THERAPY, INC.

Date: August 14, 2002

By: /s/ J. MICHAEL MULLIN
J. Michael Mullin
Chief Financial Officer
(duly authorized officer and principal financial officer)