

U S PHYSICAL THERAPY INC /NV  
Form DEF 14A  
April 11, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES

EXCHANGE ACT OF 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**U.S. Physical Therapy, Inc.**

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

## U. S. PHYSICAL THERAPY, INC.

### NOTICE OF 2012 ANNUAL MEETING OF STOCKHOLDERS

**DATE:** Tuesday, May 15, 2012

**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 ten directors to serve until the next annual meeting of stockholders.
2. Advisory vote to approve named executive officer compensation.
3. Ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the year ending December 31, 2012.
4. 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 TEN NOMINEES FOR DIRECTOR, THE NON-BINDING APPROVAL OF NAMED EXECUTIVE OFFICER COMPENSATION AND THE RATIFICATION OF THE APPOINTMENT OF GRANT THORNTON LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2012.**

The Board of Directors has set Friday, March 30, 2012, as the Record Date for the Annual Meeting of Stockholders to be held on May 15, 2012 (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 11, 2012

**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 15, 2012**

**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. ( USPT or the Company ) to be held on Tuesday, May 15, 2012 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 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 11, 2012 to all of our stockholders of record as of the close of business on the record date, Friday, March 30, 2012 (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 three proposals are scheduled to be voted on at the Annual Meeting:

Election of ten director nominees.

Advisory vote to approve named executive officer compensation.

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Ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the year ending December 31, 2012.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE IN FAVOR OF: THE ELECTION OF EACH OF THE TEN NOMINEES FOR DIRECTOR, THE NON-BINDING APPROVAL OF NAMED EXECUTIVE OFFICER COMPENSATION AND THE RATIFICATION OF THE APPOINTMENT OF GRANT THORNTON LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2012.**

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**Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be Held on May 15, 2012:**

We have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a Notice of 2012 Annual Meeting of Stockholders, proxy card and Annual Report for the year ended December 31, 2011, and by notifying you of the availability of our proxy materials on the Internet. **The Notice of 2012 Annual Meeting of Stockholders, this Proxy Statement, proxy card and Annual Report for the year ended December 31, 2011 are available at <http://www.cstproxy.com/USPH/2012>.** 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 March 30, 2012 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 ten director nominees, FOR the non-binding approval of named executive officer compensation and FOR the ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the year ending December 31, 2012.** 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 the Record Date of Friday, March 30, 2012 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 11,765,840. 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, 2011 accompanies this Proxy Statement. **We have filed an Annual Report on Form 10-K for the year ended December 31, 2011 (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**

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**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, Reginald E. Swanson and Clayton K. Trier. These ten nominees are current directors standing for reelection 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 NASDAQ Marketplace Rules, recommended the nomination of the ten 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 and Trier, and Dr. Harris are independent under the NASDAQ Marketplace Rules. 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 NASDAQ Marketplace Rules. The nominees for director are:

Nominees:	Director		Position(s) Held
	Age	Since	
Jerald L. Pullins	70	2003	Chairman of the Board
Christopher J. Reading	48	2004	President, Chief Executive Officer and Director
Lawrance W. McAfee	57	2004	Executive Vice President, Chief Financial Officer and Director
Daniel C. Arnold	82	1992	Vice Chairman of the Board
Mark J. Brookner	67	1990	Director
Harry S. Chapman	67	2010	Director
Dr. Bernard A. Harris, Jr.	55	2005	Director
Marlin W. Johnston	80	1992	Director
Reginald E. Swanson	58	2007	Director and Managing Director of STAR Physical Therapy, LP (*)
Clayton K. Trier	60	2005	Director

\* 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. From 2007 to present, he has also 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 and Executive Vice President, positions 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. 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. From 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. From 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.

*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 licensed 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. 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 Episcopal Health System, which operates several teaching 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



electd 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 TEN 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 five other independent directors. Mr. Reading, our Chief Executive Officer, Mr. McAfee, our Executive Vice President and Chief Financial Officer, and Mr. Swanson, the managing director 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 seven of the ten 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, especially our Chairman and Vice Chairman.

**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 primarily communicated through 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, Johnston, Pullins, Trier, and Dr. Harris 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 NASDAQ Marketplace Rules. Specifically, the Board determined that the foregoing seven nominees are independent as defined in Rule 5605 of the NASDAQ Marketplace Rules, 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 NASDAQ Marketplace Rules.

The Board has the following standing committees: (i) Governance and Nominating, (ii) Corporate Compliance (sub-committee of the Audit Committee), (iii) Compensation, and (iv) Audit Committees. During 2011, the Board of Directors met four times, the Governance and Nominating Committee met two times, the Corporate Compliance Committee met four times, the Compensation Committee met four 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. All members of the various committees participated in at least 75% of the meetings for the committees on which they served.

These committees are constituted as follows:

#### ***Governance and Nominating Committee***

The Governance and Nominating Committee currently consists of Messrs. Pullins (Chairman), Arnold and Trier, all of whom have been determined to be independent, as defined in the NASDAQ Marketplace Rules. 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, 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 NASDAQ Marketplace Rules. 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 NASDAQ Marketplace Rules, 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 Corporate 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: (i) the name and address of such stockholder and (ii) 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.

#### ***Corporate Compliance Committee***

The Corporate Compliance Committee is a sub-committee of the Audit Committee, and consists of four independent directors. The current members of the committee are Messrs. Johnston (Chairman) and Brookner, Chapman, and Dr. Harris, all of whom have been determined to be independent, as defined in the NASDAQ Marketplace Rules. 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 Compliance Officer (CO), who regularly communicates with the Chairman of the committee, and other compliance, management, operations and/or legal personnel. The committee meets at least two 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. Arnold (Chairman), Chapman, Pullins and Trier all of whom have been determined to be independent, as defined in the NASDAQ Marketplace Rules and SEC regulations. Mr. Chapman was appointed to the committee on December 12, 2011. 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;

for officers of the Company other than the senior executives, reviewing the proposed salary levels and annual adjustments thereto and the incentive compensation plans formulated by senior management and the annual bonus payments to be made thereunder, and providing input and advice to senior 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;

reviewing the Compensation Discussion and Analysis to be included in the Company's annual proxy statement as required by the rules of the SEC and recommending to the Board of Directors whether such Compensation Discussion and Analysis should be included in the annual proxy statement; and

annually reviewing the committee's performance of its responsibilities and duties and reviewing and reassessing the adequacy of the Compensation Committee Charter and recommending to the Board of Directors any necessary revisions/improvements to the Charter that the committee considers appropriate.

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 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, [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. Each member of the Audit Committee has been determined to be independent, as defined in the NASDAQ Marketplace Rules and the rules of the SEC.

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

##### ***Codes of Conduct***

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Our Board has approved and we have adopted a Code of Business Conduct and Ethics for our officers and all employees, and an additional Code of Business Conduct and Ethics which is applicable to our directors. The Codes 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 code in 2011, 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 2011, 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 Corporate 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 Corporate 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 Corporate Secretary has the authority to discard the communication or take appropriate legal action regarding the communication.

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 2011 annual meeting, all directors were in attendance.

#### **Compensation of Directors**

For 2011, each of our non-employee directors received \$7,500 per quarter ( Retainer Fee ) for serving as a member of our Board of Directors and were paid \$1,000 for each Audit and Compensation Committee meeting and \$500 for each Governance and Nominating and Compliance Committee meeting attended in person or telephonically (hereinafter referred to as Meeting Fees ). Each of the Chairmen of the Audit Committee and Compliance Committee is paid a \$5,000 annual fee and the Chairman of the Board is paid a \$50,000 annual chairman fee (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 2011, each of the non-employee directors elected at the 2011 annual meeting received a grant of 3,250 shares of restricted stock vesting quarterly through March 2012.

**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, 2011.

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	\$ 46,000	\$ 79,463	\$	\$	\$	\$	\$ 125,463
Mark J. Brookner	\$ 38,500	\$ 79,463	\$	\$	\$	\$	\$ 117,963
Harry S. Chapman	\$ 31,500	\$ 79,463	\$	\$	\$	\$	\$ 110,963
Dr. Bernard A. Harris, Jr.	\$ 39,500	\$ 79,463	\$	\$	\$	\$	\$ 118,963
Marlin W. Johnston	\$ 45,000	\$ 79,463	\$	\$	\$	\$	\$ 124,463
Jerald L. Pullins	\$ 69,000	\$ 79,463	\$	\$	\$	\$	\$ 148,463
Reginald E. Swanson(3)	\$	\$	\$	\$	\$	\$ 207,200	\$ 207,200
Clayton K. Trier	\$ 49,000	\$ 79,463	\$	\$	\$	\$	\$ 128,463

(1) Includes Retainer Fees, Chairman Fees and Meeting Fees.

(2) Stock awards were granted as restricted stock under the terms of the Company's Amended and Restated 2003 Stock Incentive Plan. For each individual, the restrictions lapsed as to 812 shares on June 30, 2011, 813 shares on September 30, 2011, 812 shares on December 31, 2011 and 813 shares on March 31, 2012. Amounts shown are the grant date fair value of the awards computed in accordance with FASB ASC Topic 718 which amounted to \$24.45 per share. Assumptions used in the calculation of these amounts are included in Note 9 Equity Based Plans to our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on March 9, 2012. The directors have the following outstanding stock options as December 31, 2011. All stock options are fully vested and exercisable.

Name	
Daniel C. Arnold	35,000
Mark J. Brookner	
Harry S. Chapman	
Dr. Bernard A. Harris, Jr.	30,000
Marlin W. Johnston	32,500
Jerald L. Pullins	57,500
Reginald E. Swanson	
Clayton K. Trier	17,500

(3) Other compensation represents salary and car allowance received by Mr. Swanson in his role as Managing Director of STAR Physical Therapy, LP, a subsidiary of the Company. During 2011, 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, executive officers named in the Summary Compensation Table below and all directors and executive officers as a group as of March 30, 2012. Each person has sole voting and investment power for the shares shown below unless otherwise indicated.

<b>Name of Beneficial Owner</b>	<b>Number of Shares Owned(1)</b>	<b>Right to Acquire(2)</b>	<b>Percent of Common Stock</b>
<b>Directors:</b>			
Jerald L. Pullins Chairman of the Board	77,500	57,500	*
Christopher J. Reading President, Chief Executive Officer and Director	213,323(3)	150,000	1.8%
Lawrance W. McAfee Executive Vice President, Chief Financial Officer and Director	90,452(4)		*
Daniel C. Arnold Vice Chairman of the Board	136,185	35,000	1.2%
Mark J. Brookner	57,000(5)		*
Harry S. Chapman	17,050		
Dr. Bernard A. Harris, Jr.	38,300	30,000	*
Marlin W. Johnston			