

U S PHYSICAL THERAPY INC /NV

Form DEF 14A

April 14, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Schedule 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
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:
 - 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:
 - 5) Total fee paid:
- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
 - 1) Amount Previously Paid:
 - 2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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U. S. PHYSICAL THERAPY, INC.

NOTICE OF 2009 ANNUAL MEETING OF STOCKHOLDERS

DATE: Tuesday, May 19, 2009

TIME: 9:00 a.m. (CT)

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

MATTERS TO BE ACTED ON:

1. Election of eleven directors to serve until the next annual meeting of stockholders.
2. Ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for 2009.
3. Consideration of any other matters that may properly come before the meeting or any adjournments.

YOUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE IN FAVOR OF THE ELECTION OF EACH OF THE ELEVEN NOMINEES FOR DIRECTOR AND THE RATIFICATION OF THE APPOINTMENT OF GRANT THORNTON LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2009.

Your Board of Directors has set Tuesday, March 31, 2009, as the Record Date for the Annual Meeting to be held on May 19, 2009 (Annual Meeting). Only holders of our common stock of record on that date will be entitled to notice of and to attend and vote at the Annual Meeting or any adjournments. 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,

Lawrance McAfee, Assistant Secretary

April 14, 2009

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

PROXY STATEMENT
ANNUAL MEETING OF STOCKHOLDERS
MAY 19, 2009

Annual Meeting:

Date: Tuesday, May 19, 2009
Time: 9:00 a.m. (CT)
Place: 1300 West Sam Houston Parkway South, Suite 300, Houston, Texas 77042

Agenda:

Election of eleven director nominees.

Ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for 2009.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on May 19, 2009:

Pursuant to new rules promulgated by the Securities and Exchange Commission, we have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a Notice of 2009 Annual Meeting of Stockholders, proxy card and Annual Report for the year ended December 31, 2008, and by notifying you of the availability of our proxy materials on the Internet. **The Notice of 2009 Annual Meeting of Stockholders, Proxy Statement, proxy card and Annual Report for the year ended December 31, 2008 are available at <http://materials.proxyvote.com/90337L>.** In accordance with the new rules, the materials on the website are searchable, readable and printable and the website does not have cookies or other tracking devices which identify visitors.

Who Can Vote:

All holders of record of our common stock at the close of business on March 31, 2009 are entitled to vote at the Annual Meeting. Holders of our common stock are entitled to one vote per share.

Proxies Solicited By:

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 14, 2009 to all of our stockholders (any reference to shareholders and or stockholders shall denote and be referred to as

stockholders) of record as of the close of business on the Record Date, Tuesday, March 31, 2009.

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 Lawrance McAfee, our Assistant Secretary, at our principal executive offices, 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.

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Proxies:

Properly executed but unmarked proxies will be voted FOR the election of our eleven director nominees and FOR the ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for 2009. If you withhold your vote for any of the 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 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. The close of business on Tuesday, March 31, 2009, (Record Date) 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 11,779,718. 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 President and Chief Executive Officer, Christopher J. Reading, or our Chief Financial Officer, Lawrance W. McAfee, at 800-580-6285 or email us at investorrelations@usph.com if you have any questions. A copy of our Annual Report on Form 10-K for the year ended December 31, 2008 accompanies this Proxy Statement. **We have filed an Annual Report on Form 10-K for the year ended December 31, 2008 (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, by writing to U.S. Physical Therapy, Inc., 1300 West Sam Houston Parkway South, Suite 300, Houston, Texas 77042, Attention: Lawrance McAfee, Assistant Secretary or by emailing us at investorrelations@usph.com.**

PLEASE VOTE YOUR VOTE IS IMPORTANT

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The accompanying proxy, unless marked to the contrary, will be voted in favor of the election of Daniel C. Arnold, Christopher J. Reading, Lawrance W. McAfee, Mark J. Brookner, Bruce D. Broussard, Dr. Bernard A. Harris, Jr., Marlin W. Johnston, J. Livingston Kosberg, Jerald L. Pullins, Regg E. Swanson and Clayton K. Trier. The Governance and Nominating Committee, which consists solely of directors that are independent under the applicable NASDAQ Listing Standards, recommended the eleven directors to the Board of Directors. Based on that recommendation, the Board nominated such directors for election at the Annual Meeting.

The Board of Directors has determined that Messrs. Arnold, Brookner, Broussard, Johnston, Kosberg, Pullins, Trier and Dr. Harris are considered independent under the applicable NASDAQ Listing Standards. Messrs. McAfee and Reading, who are officers of the Company, and Mr. Swanson, who is an employee of the Company, are not considered independent under the applicable NASDAQ Listing Standards. The nominees for director are:

Nominees:	Age	Director Since	Position(s) Held
Daniel C. Arnold	79	1992	Chairman of the Board
Christopher J. Reading	45	2004	President, Chief Executive Officer and Director
Lawrance W. McAfee	54	2004	Executive Vice President, Chief Financial Officer and Director
Mark J. Brookner	64	1990	Director
Bruce D. Broussard	46	1999	Director
Dr. Bernard A. Harris, Jr.	52	2005	Director
Marlin W. Johnston	77	1992	Director
J. Livingston Kosberg	72	2004	Director
Jerald L. Pullins	67	2003	Director
Regg E. Swanson	55	2007	Director and Managing Director of STAR Physical Therapy, LP (*)
Clayton K. Trier	57	2005	Director

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

Director Biographies:

Daniel C. Arnold was named our Chairman of the Board on July 6, 2004. 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. He is currently serving only on the Board of U.S. Physical Therapy, Inc.

Christopher J. Reading was promoted to President and Chief Executive Officer and elected to our Board of Directors 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 of Directors effective November 1, 2004. Mr. McAfee also serves as our Chief Financial Officer, a position he has held since joining us in 2003. Mr. McAfee's experience includes having served as Chief Financial Officer of three public companies and President of two private companies. From 2002 to 2003, he served as President and Chief Financial Officer of SAT Corporation, a software company.

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.

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Bruce D. Broussard has served on our Board since 1999. Since February 2008, Mr. Broussard has been Chief Executive Officer and a Director of U.S. Oncology, Inc., a cancer-care services company formerly listed on The Nasdaq Stock Market. Prior to that time, since November 2005, Mr. Broussard was the President of U.S. Oncology, Inc. From August 2000 through October 2005, he was the Chief Financial Officer of U.S. Oncology, Inc. From December 1997 to August 2000, Mr. Broussard was the Chief Executive Officer of HarborDental Properties, a dental development company specializing in free-standing upscale dedicated dental buildings. Mr. Broussard served as the Chief Financial Officer for Regency Health Services, Inc., a national chain of nursing homes and provider of long-term health services formerly listed on the New York Stock Exchange, from 1996 to 1997 and as a Director and Chief Financial Officer for Sun Health Care Group, a health care provider, from 1993 to 1996.

Dr. Bernard A. Harris 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. 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.

J. Livingston Kosberg rejoined our Board of Directors on July 6, 2004 and served as our interim Chief Executive Officer in 2004. Mr. Kosberg previously served as our Chief Executive Officer from 1992 to 1995 and as our Chairman of the Board from 1992 to 2001. Mr. Kosberg has been involved in a variety of industries, including healthcare, finance and construction, and currently serves as an advisor to several investment funds.

Jerald L. Pullins has served on our Board since 2003. 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.

Regg E. Swanson joined our Board on September 6, 2007. Mr. Swanson is 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., which developed the first national network providing same-day delivery service, from 1993 to 1997. Before it was acquired in 1996, U.S. Delivery was listed for two years on the New York Stock Exchange.

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. As required by Nevada law, nominees will be elected by a plurality of the votes cast at the Annual Meeting. Abstentions and broker non-votes will not be treated as a vote for or against any particular nominee and will not affect the outcome of the election of directors. Continental Stock Transfer &

Trust Co. will tabulate the votes cast by proxy or in person at the Annual Meeting.

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

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

CORPORATE GOVERNANCE AND BOARD MATTERS

Independent Directors

The Board currently consists of eleven directors, eight of whom the Board has affirmatively determined 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 applicable NASDAQ Listing Standards. Specifically, the Board determined that the eight members of the Board are independent as defined in Rule 4200 of the NASDAQ Marketplace Rules, and the directors comprising the Company's Audit Committee are independent as defined in Rule 10A-3(b)(1) under 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. All committees act for the Company. The Board of Directors is comprised of a majority of independent directors as required by the applicable NASDAQ Listing Standards.

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 2008, the Board of Directors met eight times, the Governance and Nominating Committee met once, the Corporate Compliance Committee met four times, the Compensation Committee met four times and the Audit Committee met seven times. Each of our directors attended at least 75% of the aggregate meetings of the Board of Directors and the committees on which he served. These committees are constituted as follows:

Governance and Nominating Committee

The Governance and Nominating Committee currently consists of Messrs. Arnold (Chairman), Broussard and Trier, all of whom are independent, as defined in the applicable NASDAQ Listing Standards. 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 twice a year and operates under a written charter, a copy of which is available on our website at 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; diversity; 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

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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 applicable NASDAQ Listing Standards. In the case of new director candidates, the questions of independence and financial expertise are important to determine which roles can be performed by the candidate, and the committee preliminarily determines whether the candidate meets the independence standards set forth in the SEC rules and regulations and the applicable NASDAQ Listing Standards, and the level of the candidate's financial expertise. Candidates are first screened by the committee, and if approved by the committee, then they are screened by other members of the Board. The full Board approves the final nomination(s) based on recommendations from the committee. The Chairman of the Board, acting on behalf of the full Board, will extend the formal invitation to become a nominee of the Board of Directors. Qualified candidates for membership on the Board will be considered without regard to race, color, religion, sex, ancestry, national origin or disability.

Stockholder Nomination Procedures. The Governance and Nominating Committee will consider director candidates recommended by the stockholders. Generally, for a stockholder of the Company to make a nomination, he or she must give written notice to our 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 shall not be 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 three independent directors. The current members of the committee are Messrs. Johnston (Chairman) and Pullins, and Dr. Harris, all of whom are independent, as defined in the applicable NASDAQ listing standards. The committee has general oversight of our Company's compliance with the legal and regulatory requirements regarding healthcare operations. The Chairman of the committee is provided with information regarding calls received on the Company's compliance hotline and reports findings to the committee. The committee relies on the expertise and knowledge of management, especially our Compliance Officer (CO) and other compliance, management, operations and/or legal personnel. The CO is in ongoing contact with the Chairman of the committee. 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), Broussard, Kosberg and Trier all of whom are independent , as defined in the applicable NASDAQ Listing Standards. Mr. Kosberg was

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appointed to the committee in March 2009. As more fully described in the Compensation Committee Charter, which can be found on our website at 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 and key employees 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 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 Securities and Exchange Commission 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 chief executive officer is 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. Johnston (Chairman), Harris, Pullins and Trier. Our Board of Directors has determined that Mr. Trier and Mr. 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, 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.

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The Audit Committee Charter requires that the committee consist of at least three independent members of our Board. Each member of the Audit Committee is independent, as defined in the applicable NASDAQ Listing Standards and the rules of the SEC.

Codes of Conduct and Procedures Regarding Related Party Transactions

Codes of Conduct

Our Board has approved and we have adopted a Code of Business Conduct and Ethics for our officers and all employees, 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. 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. 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. 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. 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, 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. 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. The Audit Committee did not consider any insider or affiliated party transaction in 2008. The Board is considering the adoption of a standalone Policy Statement regarding related 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 Lawrence McAfee, our Assistant 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 Assistant 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 Assistant 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 2008 annual meeting, all eleven directors were in attendance.

Compensation of Directors

For 2008, each of our non-employee directors received \$7,500 per quarter (Retainer Fee) for serving as a member of our Board of Directors and are paid \$500 for each committee meeting attended in person or

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telephonically (hereinafter referred to as Meeting Fees). Each of the Chairman of the Audit Committee and Compliance Committee is paid a \$5,000 annual fee and the Chairman of the Board is paid a \$20,000 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 or consultants are not compensated separately for serving on our Board. In addition, in May 2008, Mr. Arnold was granted 3,500 shares of restricted stock, each of the non-employee directors received 3,000 shares of restricted stock and Mr. Swanson received 3,000 shares of restricted stock.

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, 2008.

Name	Fees Earned or Paid in Cash(1)	Stock Awards(2)	Option Award	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred	All Other Compensation	Total
					Earnings		
Daniel C. Arnold	\$ 52,000	\$ 55,440	\$	\$	\$	\$	\$ 107,440
Mark J. Brookner	\$ 30,000	\$ 49,121	\$	\$	\$	\$	\$ 79,121
Bruce D. Broussard	\$ 32,000	\$ 49,121	\$	\$	\$	\$	\$ 81,121
Dr. Bernard A. Harris, Jr.	\$ 35,000	\$ 49,121	\$	\$	\$	\$	\$ 84,121
Marlin W. Johnston	\$ 40,000	\$ 49,121	\$	\$	\$	\$	\$ 89,121
J. Livingston Kosberg	\$ 30,000	\$ 49,121	\$	\$	\$	\$	\$ 79,121
Jerald L. Pullins	\$ 34,500	\$ 49,121	\$	\$	\$	\$	\$ 83,621
Regg E. Swanson(3)	\$	\$ 37,913	\$	\$	\$ 1,961	\$ 203,846	\$ 243,720
Clayton K. Trier	\$ 35,500	\$ 49,121	\$	\$	\$	\$	\$ 84,621

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

(2) The amount shown represents the compensation expense related to restricted stock awards included in the Company's financial statements for fiscal year 2008 per FAS 123 (R) adjusted to reflect actual rather than estimated forfeitures for awards with service-based conditions. Actual forfeitures were insignificant. Compensation expense for the grants of restricted stock awards is recognized based on the fair value per share on the date of grant. For the above directors, except for Mr. Swanson, includes 834 shares at a value of \$13.44 per share. For the above directors, except for Mr. Arnold, includes 2,250 shares at a value of \$16.85 per share. For Mr. Arnold, includes 2,500 shares at a value of \$16.85 per share. At December 31, 2008, each of the directors, except for Mr. Arnold, had stock awards with 750 shares of restricted stock in which the restriction lapses on March 31, 2009. At December 31, 2008, Mr. Arnold had 875 shares in which the restriction lapses on March 31, 2009. For further details on equity compensation expense, see footnote 10 of the Notes to Consolidated Financial

Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2008. The non-employee directors have the following outstanding stock options at December 31, 2008. All stock options are fully vested and exercisable.

Name	Number of Shares
Arnold	50,002
Brookner	25,000
Broussard	40,002
Harris	30,000
Johnston	37,500
Kosberg	30,000
Pullins	57,500
Trier	32,500

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- (3) Other compensation represents salary received by Mr. Swanson in his role as Managing Director of STAR Physical Therapy, LP, a subsidiary of the Company. Mr. Swanson does 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 and all directors and executive officers as a group as of March 31, 2009. Each person has sole voting and investment power for the shares shown below unless otherwise indicated.

Name of Beneficial Owner	Number of Shares Owned(1)	Right to Acquire(2)	Percent of Common Stock
Directors:			
Daniel C. Arnold Chairman of the Board	130,002	50,002	1.1%
Christopher J. Reading President, Chief Executive Officer and Director	255,000(3)	220,000	2.1%
Lawrance W. McAfee Executive Vice President, Chief Financial Officer and Director	230,000(4)	195,000	1.9%
Mark J. Brookner	112,500(5)	25,000	*
Bruce D. Broussard	53,002		