

U S PHYSICAL THERAPY INC /NV  
Form DEF 14A  
April 08, 2013

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:

5) Total fee paid:

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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 2013 ANNUAL MEETING OF STOCKHOLDERS

**DATE:** Tuesday, May 14, 2013

**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. Approval of an amendment to the Amended and Restated 2003 Stock Incentive Plan to increase the number of shares of common stock authorized for issuance under such plan from 1,250,000 to 1,750,000 and to amend the definition of change of control .
4. Ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the year ending December 31, 2013.
5. Consideration of any other matters that may properly come before the meeting or any adjournments.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE IN FAVOR OF THE ELECTION OF EACH OF THE TEN NOMINEES FOR DIRECTOR, THE NON-BINDING APPROVAL OF THE NAMED EXECUTIVE OFFICER COMPENSATION, THE AMENDMENT TO THE AMENDED AND RESTATED 2003 STOCK INCENTIVE PLAN AND THE RATIFICATION OF THE APPOINTMENT OF GRANT THORNTON LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2013.**

The Board of Directors has set Monday, April 1, 2013, as the Record Date for the Annual Meeting of Stockholders to be held on May 14, 2013 (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 8, 2013

**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 14, 2013**

**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 14, 2013 at 9:00 a.m. (central time) at the Company's principal executive offices located at 1300 West Sam Houston Parkway, Suite 300, Houston, Texas, 77042.

**Proxy Solicitation**

Your vote and proxy are being solicited by our Board of Directors (Board of Directors or Board) for use at the Annual Meeting. This Proxy Statement and the enclosed proxy card are being mailed on behalf of our Board of Directors on or about April 8, 2013 to all of our stockholders of record as of the close of business on the record date, Monday, April 1, 2013 (the Record Date).

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

**Your Vote is Important**

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

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

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

Election of ten director nominees.

Advisory vote to approve named executive officer compensation.

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Approval of an amendment to the Amended and Restated 2003 Stock Incentive Plan (the Stock Incentive Plan ) to increase the number of shares of common stock authorized for issuance under such plan from 1,250,000 to 1,750,000 and to amend the definition of change of control .

Ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the year ending December 31, 2013.

**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 THE NAMED EXECUTIVE OFFICER COMPENSATION, THE APPROVAL OF THE AMENDMENT TO THE STOCK INCENTIVE PLAN AND THE RATIFICATION OF THE APPOINTMENT OF GRANT THORNTON LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2013.**

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**Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be Held on May 14, 2013:**

We have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a Notice of 2013 Annual Meeting of Stockholders, proxy card and Annual Report for the year ended December 31, 2012, and by notifying you of the availability of our proxy materials on the Internet. **The Notice of 2013 Annual Meeting of Stockholders, this Proxy Statement, proxy card and Annual Report for the year ended December 31, 2012 are available at <http://www.cstproxy.com/USPH/2013>.** The materials on the website are searchable, readable and printable and the website does not have cookies or other tracking devices which identify visitors. To obtain directions to attend the Annual Meeting and vote in person, please contact Richard Binstein, our Secretary, at 800-530-6285 or via email at [investorrelations@usph.com](mailto:investorrelations@usph.com).

**Who Can Vote:**

All holders of record of our common stock at the close of business on April 1, 2013 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, FOR the approval of the amendment to the Stock Incentive Plan and FOR the ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the year ending December 31, 2013.** 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 Monday, April 1, 2013 was fixed by the Board of Directors as the Record Date for determination of stockholders entitled to vote at the Annual Meeting. The number of shares of our common stock outstanding on the Record Date was 12,068,388. 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, 2012 accompanies this Proxy Statement. **We have filed an Annual Report on Form 10-K for the year ended December 31, 2012 (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 re-election at the Annual Meeting to serve until the next annual meeting of stockholders or until their successor is elected and qualified. The Governance and Nominating Committee, which consists solely of directors who are independent under the applicable New York Stock Exchange ( NYSE ) listing standards, recommended the nomination of the 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, Trier, and Dr. Harris are independent under the NYSE listing standards. Messrs. McAfee and Reading, who are both executive officers of the Company, and Mr. Swanson, who is an employee of the Company, were determined not to be independent under the NYSE listing standards. The nominees for director are:

| <b>Nominees:</b>           | <b>Age</b> | <b>Director Since</b> | <b>Position(s) Held</b>   |
|----------------------------|------------|-----------------------|---|
| Jerald L. Pullins          | 71         | 2003                  | Chairman of the Board   |
| Christopher J. Reading     | 49         | 2004                  | President, Chief Executive Officer and Director                 |
| Lawrance W. McAfee         | 58         | 2004                  | Executive Vice President, Chief Financial Officer and Director  |
| Daniel C. Arnold           | 83         | 1992                  | Vice Chairman of the Board                                      |
| Mark J. Brookner           | 68         | 1990                  | Director  |
| Harry S. Chapman           | 68         | 2010                  | Director  |
| Dr. Bernard A. Harris, Jr. | 56         | 2005                  | Director  |
| Marlin W. Johnston         | 81         | 1992                  | Director  |
| Reginald E. Swanson        | 59         | 2007                  | Director and Managing Director of STAR Physical Therapy, LP (*) |
| Clayton K. Trier           | 61         | 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, a position he has held since joining us in 2003. Mr. McAfee's prior experience includes having served as Chief Financial Officer of three public companies and President of two private companies.

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

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

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

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

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

*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. ( DMGI ) and from September 2005 through May 2008, served as its Chairman of the Board. DMGI, listed on the NASDAQ in 2006, acquired the digital rights to master recordings, converted the recordings to digital format and sold the music through online retailers. Since 2008, Mr. Trier has served as a director of St. Luke's Episcopal Health System, which operates several hospitals in the Houston, Texas metropolitan area.

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



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

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS**

**VOTE FOR THE ELECTION OF THE 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 communicated through monthly correspondence and presentations by management at Board meetings and through discussions with appropriate management compliance and audit personnel at the meetings of the Board's Audit Committee and Compliance Committee.

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

**Independent Directors**

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

**Attendance at Board Meetings and Board Committees**

The Board of Directors conducts its business through its meetings and through meetings of certain committees of the Board of Directors. The Board of Directors is comprised of a majority of independent directors as required by the NYSE listing standards and is required to meet at least four times per year.

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. During 2012, the Board of Directors met four times, the Governance and Nominating Committee met one time, the Corporate Compliance Committee met four times, the Compensation Committee met six times and the Audit Committee met seven times. Each of our directors participated in at least 75% of the aggregate meetings of the Board of Directors and the committees on which he served.

These committees are constituted as follows:

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

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

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

*Stockholder Nomination Procedures.* The Governance and Nominating Committee will consider director candidates recommended by the stockholders. Generally, for a stockholder of the Company to make a nomination, he or she must give written notice to our Secretary so that such notice is received at least 120 calendar days prior to the first anniversary of the date the Company's proxy statement is sent to the stockholders in connection with the previous year's annual meeting of stockholders. If no annual meeting of stockholders was held in the previous year (or if the date of the annual meeting of stockholders was changed by more than 30 calendar days from the date of the previous year's annual meeting), the notice must be received by the Company within a reasonable period prior to the time the Company begins to print and send its proxy materials for the applicable annual meeting. The stockholder's notice must set forth as to each nominee: (i) the name, age,

business address and residence address of such nominee, (ii) the principal occupation or employment of such nominee, (iii) the number of shares of our common stock which are beneficially owned by such nominee, and (iv) any other information relating to such nominee that may be required under federal securities laws to be disclosed in solicitations of proxies for the election of directors (including the written consent of the person being recommended as a director candidate to being named in the proxy statement as a nominee and to serve as a director if elected). The stockholder's notice must also set forth as to the stockholder giving notice: (a) the name and address of such stockholder and (b) the number of shares of our common stock which are beneficially owned by such stockholder.

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

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

#### ***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), Brookner, Chapman, and Dr. Harris, all of whom have been determined to be independent, as defined in the NYSE listing standards. The committee has general oversight of our Company's compliance with the legal and regulatory requirements regarding healthcare operations. The Chairman of the committee is provided with information regarding calls received on the Company's compliance hotline and reports findings to the committee. The committee relies on the expertise and knowledge of management, especially our 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. Chapman (Chairman), Pullins and Trier, all of whom have been determined to be independent, as defined in the NYSE listing standards and SEC regulations. As more fully described in the Compensation Committee Charter, which can be found on our website at [www.usph.com](http://www.usph.com), the committee is responsible for, among other things:

establishing goals and objectives relevant to incentive compensation awards (annual and long-term) for the Chief Executive Officer and other senior executive officers of the Company;

evaluating the Chief Executive Officer's and other senior executive officers' performance and the overall corporate performance in light of these goals and objectives and approve any incentive compensation for such executives;

determining any periodic adjustments to be made in the Chief Executive Officer's and other senior executive officers' base salary level based on the committee's evaluation thereof;

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

approving all executive perquisites and any special benefit plans to be made available to senior executive officers;

advising on compensation of non-employee members of the Board;

administering the Company's equity compensation plans and approving grants to executive officers, employees, directors, and consultants under such plans;

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

#### ***Audit Committee***

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

overseeing our financial reporting processes, including the quarterly reviews and annual audits of our financial statements by the independent auditors;

the appointment, compensation, retention and oversight of the work of the independent auditors;

pre-approving audit and permitted non-audit services, and related fees and terms of engagement, provided by the independent auditors; and

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

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

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

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

Our Board has approved and we have adopted a Code of Business Conduct and Ethics for our officers and all employees, an additional Code of Business Conduct and Ethics which is applicable to our directors, and Corporate Governance Guidelines. The Codes and Corporate Governance Guidelines are available on our website at [www.usph.com](http://www.usph.com). Our Board, or a committee of its independent members, is responsible for reviewing and approving or rejecting any requested waivers to the Codes, as such waivers may apply to our directors and officers. Neither the Board, nor a committee of its independent members received any requests for waivers or amendments to the Codes in 2012, 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 2012, and none were granted. Any waivers from, and amendments to, the Code will be disclosed in a Form 8-K filed with the SEC, which will be available on the SEC's website at [www.sec.gov](http://www.sec.gov). The Code requires the officers to disclose directly to the Audit Committee any conflicts of interest, including any material transaction or relationship involving a potential conflict of interest.

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

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

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

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

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 2012 annual meeting, all directors were in attendance.

#### **Compensation of Directors**

Effective July 1, 2012, each of our non-employee directors received \$10,000 per quarter ( Retainer Fee ) for serving as a member of our Board of Directors. The Retainer Fee was \$7,500 per quarter for the first and second quarters of 2012. In addition, each of our non-employee directors is paid \$1,000 for each committee meeting attended in person or telephonically (hereinafter referred to as Meeting Fees ). The Chairman of the Audit Committee is paid a \$12,500 fee. Each of the Chairmen of the Compensation Committee and Compliance Committee is paid a \$7,500 annual fee and the Chairman of the Board is paid a \$50,000 annual 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 2012, each of the non-employee directors elected at the 2012 annual meeting received a grant of 3,250 shares of restricted stock vesting quarterly through March 31, 2013.

**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, 2012.

| Name                      | Fees<br>Earned<br>or Paid<br>in Cash(1) | Stock<br>Awards(2) | Option<br>Awards | Non-equity<br>compensation | Change in<br>Pension<br>Value and<br>Nonqualified<br>Deferred<br>Compensation<br>Earnings | All Other<br>Compensation | Total      |
|---------------------------|---|--------------------|------------------|----------------------------|---|---------------------------|------------|
| Daniel C. Arnold          | \$ 37,000                               | \$ 81,153          | \$               | \$                         | \$  | \$                        | \$ 118,153 |
| Mark J. Brookner          | \$ 42,000                               | \$ 81,153          | \$               | \$                         | \$  | \$                        | \$ 123,153 |
| Harry S. Chapman          | \$ 45,750                               | \$ 81,153          | \$               | \$                         | \$  | \$                        | \$ 126,903 |
| Dr. Bernard A. Harris, Jr | \$ 43,000                               | \$ 81,153          | \$               | \$                         | \$  | \$                        | \$ 124,153 |
| Marlin W. Johnston        | \$ 49,250                               | \$ 81,153          | \$               | \$                         | \$  | \$                        | \$ 130,403 |
| Jerald L. Pullins         | \$ 96,000                               | \$ 81,153          | \$               | \$                         | \$  | \$                        | \$ 177,153 |
| Reginald E. Swanson(3)    | \$                                      | \$                 | \$               | \$                         | \$  | \$ 181,200                | \$ 181,200 |
| Clayton K. Trier          | \$ 54,750                               | \$ 81,153          | \$               | \$                         | \$  | \$                        | \$ 135,903 |

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

(2) Stock awards were granted as restricted stock under the terms of the Stock Incentive Plan. For each individual, the restrictions lapsed as to 812 on June 30, 2012, 813 shares on September 30, 2012, 812 shares on December 31, 2012 and 813 shares on March 31, 2013. 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, 2012 filed with the SEC on March 12, 2013.

(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 2012, Mr. Swanson did not receive any additional compensation for being a director.

The directors have the following outstanding stock options as December 31, 2012. All stock options are fully vested and exercisable.

| Name                       |        |
|----------------------------|--------|
| Daniel C. Arnold           |        |
| Mark J. Brookner           |        |
| Harry S. Chapman           |        |
| Dr. Bernard A. Harris, Jr. | 30,000 |
| Marlin W. Johnston         |        |
| Jerald L. Pullins          | 27,500 |
| Reginald E. Swanson        |        |
| Clayton K. Trier           | 2,500  |

**STOCK OWNERSHIP****Stock Owned by Directors, Nominees and Executive Officers**

The following table shows the number and percentage of shares of our common stock beneficially owned by our directors, Named Executive Officers and all directors and executive officers as a group as of March 31, 2013. 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<br>Chairman of the Board   | 61,693                           | 27,500                     | 0.5%                           |
| Christopher J. Reading<br>President, Chief Executive Officer and Director            | 124,011(3)                       |                            | 1.0%                           |
| Lawrance W. McAfee<br>Executive Vice President, Chief Financial Officer and Director | 85,852(4)                        |                            | 0.7%                           |
| Daniel C. Arnold<br>Vice Chairman of the Board                                       | 119,654                          |                            | 1.0%                           |
| Mark J. Brookner   | 53,250(5)                        |                            | 0.4%                           |
| Harry S. Chapman   | 21,500                           |                            | 0.2%                           |
| Dr. Bernard A. Harris, Jr.   | 41,550                           | 30,000                     | 0.3%                           |
| Marlin W. Johnston   | 29,240                           |                            | 0.2%                           |
| Reginald E. Swanson  | 8,881(6)                         |                            | 0.1%                           |
| Clayton K. Trier   | 22,250                           | 2,500                      | 0.2%                           |
| <b>Non-Director Executive Officers:</b>  |                                  |                            |                                |
| Glenn D. McDowell<br>Chief Operating Officer   | 44,376(4)                        |                            | 0.4%                           |
| <b>All directors and executive officers as a group (12 persons)</b>                  | <b>612,257</b>                   | <b>60,000</b>              | <b>5.0%</b>                    |

- (1) Includes shares of our common stock subject to outstanding stock options that are currently exercisable or exercisable through May 30, 2013. None of the shares are pledged.
- (2) Number of shares of our common stock (of the total beneficially owned) that can be acquired through stock options exercisable through May 30, 2013.
- (3) Includes 13,125 restricted shares with a quarterly vesting schedule as to the lapse of restrictions thereof with 1,875 shares vesting quarterly with the next vesting date of June 30, 2013 and continuing through December 31, 2014. Includes 15,885 restricted shares with a quarterly vesting schedule as to the lapse of restrictions thereof with 1,443 vesting quarterly with the next vesting date of June 30, 2013 and continuing through September 30, 2015 and the final 1,455 shares on December 31, 2015. Also includes 36,800 restricted shares with a quarterly vesting schedule as to the lapse of restrictions thereof with 2,300 shares vesting quarterly with the next vesting date of April 1, 2013 and continuing through January 1, 2017.
- (4) Includes 8,750 restricted shares with a quarterly vesting schedule as to the lapse of restrictions thereof with 1,250 shares vesting quarterly with the next vesting date of June 30, 2013 and continuing through December 31, 2014. Includes 10,590 restricted shares with a quarterly vesting schedule as to the lapse of restrictions thereof with 962 vesting quarterly with the next vesting date of June 30, 2013 and continuing through September 30, 2015 and the final 970 shares on December 31, 2015. Also includes 18,400 restricted shares with a quarterly vesting schedule as to the lapse of restrictions thereof with 1,150 shares vesting quarterly with the next vesting date of April 1, 2013 and continuing through January 1, 2017.

- (5) Includes 45,750 shares of our common stock owned directly by Mr. Brookner and 7,500 shares of common stock held in a trust of which Mr. Brookner is the trustee.



- (6) These shares of our common stock are held by the Regg E. Swanson Revocable Trust of which Mr. Swanson is the trustee and beneficiary.  
**Stock Owned by Certain Beneficial Holders**

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

| Name and Address of Beneficial Owner                              | Amount and Nature of Beneficial Ownership | Percent of Common Stock Outstanding |
|---|---|-------------------------------------|
| Royce & Associates, LLC<br>745 Fifth Avenue<br>New York, NY 10151 | 1,401,697(1)                              | 11.6%                               |
| The Vanguard Group<br>100 Vanguard Blvd.<br>Malvern, PA 19355     | 694,977(2)                                | 5.8%                                |
| BlackRock, Inc.<br>40 East 52nd Street<br>New York, NY 10022      | 692,675(3)                                | 5.7%                                |
| FMR LLC<br>82 Devonshire Street<br>Boston, MA 02109               | 640,948(4)                                | 5.3%                                |

- (1) Royce & Associates, LLC has sole voting and dispositive power over all of the shares as disclosed in a Schedule 13G/A filed on January 24, 2013. Various accounts managed by Royce & Associates, LLC have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of shares of the common stock of the company. The interest of one account, Royce Pennsylvania Mutual Fund, an investment company registered under the Investment Company Act of 1940 and managed by Royce & Associates, LLC, amounted to 656,893 shares or 5.4% of the total shares of common stock of the Company outstanding.
- (2) The Vanguard Group has sole voting power over 19,286 shares, sole dispositive power over 675,691 shares and shared dispositive power over 19,286 shares as disclosed in a Schedule 13G filed on February 12, 2013. Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of The Vanguard Group, Inc., is the beneficial owner of 19,286 shares or less than 1% of the common stock outstanding of the Company as a result of its serving as investment manager of collective trust accounts.
- (3) BlackRock, Inc. has sole voting and dispositive power over all of the shares as disclosed in a Schedule 13G/A files on February, 11, 2013. Various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the Company. No one person's interest in the common stock of the Company is more than five percent of the total outstanding common shares.
- (4) FFR LLC has sole voting power over 135,948 and sole dispositive power over 640,948 shares as disclosed in a Schedule 13G filed on February 14, 2013. Various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sales of, the Common Stock of the Company. No one person's interest in the Common Stock of the Company if more than five percent of the total outstanding Common Stock.

**EXECUTIVE OFFICERS**

The current executive officers of the Company are as follows:

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

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

*Glenn D. McDowell, 56, was promoted to Chief Operating Officer effective January 24, 2005. Mr. McDowell served as our Vice President of Operations overseeing the west region since joining us in October 2003 until January 2005. From 1996 to 2003, Mr. McDowell was employed by HealthSouth Corporation, a provider of outpatient surgery, diagnostic imaging and rehabilitative healthcare services. His most recent position with HealthSouth Corporation was Vice President of Operations West Ambulatory Division where he oversaw the operations of more than 165 outpatient rehabilitation and other facilities.*

**COMPENSATION DISCUSSION AND ANALYSIS**

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

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

**Compensation Support**

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

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

**Peer Group Compensation**

In evaluating appropriate levels of total compensation for the Named Executive Officers, the committee gathers and analyzes data from a variety of sources. While there is not a comparable peer group of publicly-traded companies serving the outpatient rehab sector, the committee monitors public information on executive

compensation for a number of companies providing various healthcare services which are similar in revenue volume and market capitalization to the Company. We believe this helps the committee to evaluate the competitiveness of our executive compensation program.

#### **Limitation on Certain Trades of Company Securities**

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

#### **Compensation Philosophy and Objectives**

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

The committee's policy is to compensate and reward executive officers and other key employees based on the combination of some or all of the following factors, depending on the person's responsibilities: corporate performance, business unit performance and individual performance. The committee evaluates corporate performance and business unit performance by reviewing the extent to which the Company has accomplished strategic business objectives, such as improved profitability, cash flow and management of working capital. The committee evaluates individual performance by comparing actual accomplishments to the objectives established for the individual under the Company's management development program. The committee determines increases in base salary and annual cash incentive awards based on actual accomplishments during the performance period and determines long-term incentive awards based on LTIP (as defined below) criteria.

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

#### **Base Salaries**

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

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

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

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

For the 2012, the Company's Chief Executive Officer, Chief Financial Officer and Chief Operating Officer (the Executive Participants) were eligible to receive cash bonus awards under the Company's Objective Cash Bonus Plan and Discretionary Cash Bonus Plan that amounted to a maximum of 125% of their respective base salaries. For a detailed description of these plans, see the Company's Current Report on Form 8-K filed with the SEC on March 28, 2012. Under the Objective Cash Bonus Plan, the Executive Participants were eligible to earn a cash bonus award from 15% to 75% of their respective base salaries dependent upon the Company achieving diluted earnings per share in the range of \$1.41 to \$1.62 or more. Based on the adjusted diluted earnings per share of \$1.51 for 2012, the Executive Participants received an Objective Cash Bonus award equal to 42% of their respective base salaries. Under the Discretionary Cash Bonus Plan, the Executive Participants were awarded a cash bonus award of 42% of their respective base salaries. In aggregate, this award represented 84% of their respective base salaries under this discretionary plan. The discretionary cash award was based upon a subjective determination of the committee utilizing certain performance criteria as detailed in the plan. However, the committee did not consider it practicable to, nor did it attempt to, quantify, rank or otherwise assign relative weights to the specific performance criteria it considered in reaching its decision. In considering these performance criteria, the individual members of the committee may have given different weights to different performance criteria. The discretionary performance criteria were not intended to be rigid or formulaic but rather served as a framework under which the committee reviews the total compensation and performance of the Executive Participants to determine what incentive amount is appropriate for any specific year. The total cash bonus for the 2012 year, inclusive of the Objective Cash Bonus Plan and Discretionary Cash Bonus Plan, paid to Messrs. Reading, McAfee and McDowell was \$445,200, \$336,000, and \$277,600, respectively. A portion of these cash bonus amounts were paid in December 2012 and the remainder in March 2013.

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

For the 2012 year, the Executive Participants were eligible to receive awards consisting of shares of restricted common stock under the Company's Objective Long-Term Incentive Plan and Discretionary Long-Term Incentive Plan. For a detailed description of these plans, see the Company's Current Report Form 8-K filed with the SEC on March 28, 2012. Under the Objective Long-Term Incentive Plan, Messrs. Reading, McAfee and McDowell were eligible to earn up to 20,000, 10,000 and 10,000 shares of restricted common stock, respectively, dependent upon the Company achieving diluted earnings per share in the range of \$1.41 to \$1.54 or more. Based on the adjusted reported diluted earnings per share of \$1.51 for 2012, Messrs. Reading, McAfee and McDowell were awarded 16,800, 8,400 and 8,400 shares of restricted common stock, respectively. Under the Discretionary Long-Term Incentive Plan, the Company's Chief Executive Officer, Chief Financial Officer and Chief Operating Officer were eligible to earn up to 20,000, 10,000 and 10,000 shares of restricted common stock, respectively, based upon a subjective determination of the committee. The committee utilized certain performance criteria as detailed in the plan but generally did not consider it practicable to, nor did it attempt to, quantify, rank or otherwise assign relative weights to the specific performance criteria it considers in reaching its decision. In considering these performance criteria, the individual members of the committee may have given different weights to different performance criteria. The discretionary performance criteria were not intended to be rigid or

formulaic but rather served as a framework under which the committee reviews the total compensation and performance of the Executive Participants to determine what incentive amount is appropriate for any specific year. For 2012, Messrs. Reading, McAfee and McDowell were awarded 20,000, 10,000 and 10,000 shares of restricted common stock, respectively, under the Discretionary Long-Term Incentive Plan. On March 8, 2013, for the 2012 year, Messrs. Reading, McAfee and McDowell were granted an aggregate of 36,800, 18,400 and 18,400 shares of restricted common stock, respectively, representing the total shares awarded under the Objective Long-Term Incentive Plan and Discretionary Long-Term Incentive Plan. The restricted shares vest evenly over 16 quarters with the first vesting occurring on April 1, 2013.

The Objective Cash Bonus Plan, Discretionary Cash Bonus Plan, Objective Long-Term Incentive Plan, and Discretionary Long-Term Incentive Plan collectively are hereinafter referred to as the 2012 Executive Incentive Plan.

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

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

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

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

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

***Defined Contribution Plan.*** The Company maintains a qualified retirement plan pursuant to Internal Revenue Code Section 401(k) (the 401(k) Plan) covering substantially all employees subject to certain minimum service requirements. The 401(k) Plan allows employees to make voluntary contributions and provides for discretionary matching contributions by the Company. The assets of the 401(k) Plan are held in trust for grantees and are distributed upon the retirement, disability, death or other termination of employment of the grantee. The Board, in its discretion, determines the amount of any Company contributions. We did not make any contributions to the 401(k) Plan during 2012.

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

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

### **Employment and Consulting Agreements**

The Company has entered into employment agreements with each of Messrs. Reading and McAfee. These agreements, which presently expire on December 31, 2014, provide for automatic one-year renewals if not terminated on at least 12 months prior notice. Both Messrs. Reading and McAfee are entitled to a special benefit payment equal to \$500,000 (payable in equal amounts over the remaining term of the agreement) as defined by their respective employment agreements in the event of a change in control and if Mr. Reading does not continue as the President and Chief Executive Officer of the Company after the change in control, or Mr. McAfee does not continue as the Executive Vice President and Chief Financial Officer of the Company after the change in control. In addition, if either executive is terminated without cause or resigns for good reason (as defined under their respective agreement), he is entitled to his base salary through the remaining term of the contract, an amount equal to his last year's bonus or the average over the last three years, whichever is greater, and accrued but unpaid vacation. The employment agreements also provide for certain non-competition and non-solicitation covenants that extend up to two years after termination of employment. Effective January 1, 2013, the annual base salaries under the agreements were increased to \$560,000 for Mr. Reading and \$410,000 for Mr. McAfee.

The Company has also entered into an employment agreement with Mr. Glenn D. McDowell. This agreement, which presently expires on December 31, 2014, provides for automatic one-year renewals if not terminated on at least 12 months prior notice. If a change in control occurs and Mr. McDowell does not continue as our Chief Operating Officer after the change of control, Mr. McDowell will be entitled to a change of control benefit payment of \$283,333 (payable in equal amounts over the remaining term of the agreement). If the employment of Mr. McDowell is terminated by the Company without cause or by Mr. McDowell for good reason, he would be entitled to receive the compensation then in effect for the remainder of the term of the contract, an amount equal to his last year's bonus or the average over the last three years, whichever is greater, and accrued but unpaid vacation. The employment agreement also provides for certain non-competition and non-solicitation covenants that extend up to two years after termination of employment. Effective January 1, 2013, Mr. McDowell's annual base salary was increased to \$365,000 per year.

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

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

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

Mr. Reading joined our Company in November 2003 as Chief Operating Officer and, effective November 1, 2004, was promoted to President and Chief Executive Officer. Under his employment agreement with us (see *Employment and Consulting Agreements* above), Mr. Reading's annual base salary is subject to adjustment by the Compensation Committee. For the last three years, his annual base salary was \$393,000 (during 2010), \$430,000 (during 2011), \$530,000 (during 2012) and further increased to \$560,000 effective as of January 1, 2013. During each of 2010, 2011 and 2012, Mr. Reading participated in an executive incentive plan specific to

such year that was approved by the Compensation Committee and filed with the SEC on Form 8-K. In accordance with such executive incentive plans, Mr. Reading (i) was granted 30,000 shares of restricted stock and was paid a cash bonus of \$393,000 for 2010, and (ii) was granted 23,100 shares of restricted stock and was paid a cash bonus of \$331,100 for 2011. As previously disclosed, for 2012, Mr. Reading was paid a cash bonus of \$445,200 (\$339,200 of which was paid in December 2012 and \$106,000 of which was paid in March 2013) and was granted 36,800 shares of restricted stock on March 8, 2013.

Mr. McAfee joined our Company in September 2003 as Chief Financial Officer and, effective November 1, 2004, was promoted to Executive Vice President. Under his employment agreement with us (see Employment and Consulting Agreements above), Mr. McAfee's annual base salary is subject to adjustment by the Compensation Committee. For the last three years, his annual base salary was \$370,000 (during 2010), \$385,000 (during 2011), \$400,000 (during 2012) and further increased to \$410,000 effective as of January 1, 2013. During each of 2010, 2011 and 2012, Mr. McAfee participated in an executive incentive plan specific to such year that was approved by the Compensation Committee and filed with the SEC on Form 8-K. In accordance with such executive incentive plans, Mr. McAfee (i) was granted 20,000 shares of restricted stock and was paid a cash bonus of \$370,000 for 2010, and (ii) was granted 15,400 shares of restricted stock and was paid a cash bonus of \$296,450 for 2011. As previously disclosed, for 2012, Mr. McAfee was paid a cash bonus of \$336,000 (\$256,000 of which was paid in December 2012 and \$80,000 of which was paid in March 2013) and was granted 18,400 shares of restricted stock on March 8, 2013.

Mr. McDowell joined our Company in October 2003 as Vice President of Operations overseeing the west region and, effective January 24, 2005, was promoted to Chief Operating Officer. Mr. McDowell's employment agreement with us was entered into on May 24, 2007 (see Employment and Consulting Agreements above). For the last three years, his annual base salary was \$255,000 (during 2010), \$290,000 (during 2011), \$340,000 (during 2012) and further increased to \$365,000 effective as of January 1, 2013. During each of 2010, 2011 and 2012, Mr. McDowell participated in an executive incentive plan specific to such year that was approved by the Compensation Committee and filed with the SEC on Form 8-K. In accordance with such executive incentive plans, Mr. McDowell (i) was granted 20,000 shares of restricted stock and was paid a cash bonus of \$255,000 for 2010, and (ii) was granted 15,400 shares of restricted stock and was paid a cash bonus of \$223,300 for 2011. In addition, for 2012, Mr. McDowell was paid a cash bonus of \$277,600 (\$217,600 of which was paid in December 2012 and \$60,000 of which was paid in March 2013) and was granted 18,400 shares of restricted stock on March 8, 2013.

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

#### **Compensation Deductibility Policy**

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

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

**Executive Compensation****Summary Compensation Table**

The following table sets forth the compensation paid or accrued for services rendered in all capacities on behalf of the Company during 2012, 2011 and 2010 to Messrs. Reading, McAfee and McDowell.

**Summary Compensation Table For the Fiscal Years Ended December 31, 2012, 2011 and 2010**

| Name and Principal Position                       | Year | Salary<br>(\$) | Bonus<br>(\$) | Stock<br>Awards(1)<br>(\$) | Option<br>Awards<br>(\$) | Incentive<br>Plan<br>Compensation<br>(\$) | Change in                                 |  | All Other<br>Compensation(3)<br>(\$) | Total<br>(\$) |
|---|------|----------------|---------------|----------------------------|--------------------------|---|---|--|--------------------------------------|---------------|
|   |      |                |               |                            |                          |   | Non-<br>Equity<br>Compensation(2)<br>(\$) | Pension<br>Value<br>and<br>Non-Qualified<br>Deferred<br>Earnings(\$) |                                      |               |
| Christopher J. Reading<br>Chief Executive Officer | 2012 | 526,154        |               | 853,768                    |                          | 445,200                                   |   |  | 810                                  | 1,825,932     |
|   | 2011 | 428,577        |               | 471,654                    |                          | 331,100                                   |   |  | 810                                  | 1,232,141     |
|   | 2010 | 392,596        |               | 561,900                    |                          | 393,000                                   |   |  | 810                                  | 1,348,306     |
| Lawrance W. McAfee<br>Chief Financial Officer     | 2012 | 399,423        |               | 426,884                    |                          | 336,000                                   |   |  | 2,322                                | 1,164,629     |
|   | 2011 | 384,423        |               | 314,436                    |                          | 296,450                                   |   |  | 2,322                                | 997,631       |
|   | 2010 | 369,892        |               | 374,600                    |                          | 370,000                                   |   |  | 1,212                                | 1,115,704     |
| Glenn D. McDowell<br>Chief Operating Officer      | 2012 | 338,076        |               | 426,884                    |                          | 277,600                                   |   |  | 2,322                                | 1,044,882     |
|   | 2011 | 288,654        |               | 314,436                    |                          | 223,300                                   |   |  | 1,242                                | 827,632       |
|   | 2010 | 254,039        |               | 374,600                    |                          | 255,000                                   |   |  | 1,225                                | 884,864       |

- For 2012, stock awards were granted in accordance with the 2012 Executive Incentive Plan as restricted stock under the terms of the Stock Incentive Plan as follows: Mr. Reading was awarded 36,800 shares and Messrs. McAfee and McDowell were awarded 18,400 shares each. For 2011, stock awards were granted in accordance with the Company's executive incentive plan for such calendar year as restricted stock under the terms of the Stock Incentive Plan as follows: Mr. Reading was awarded 23,100 shares and Messrs. McAfee and McDowell were awarded 15,400 shares each. For 2010, stock awards were granted in accordance with the Company's executive incentive plan for such calendar year as restricted stock under the terms of the Stock Incentive Plan as follows: Mr. Reading was awarded 30,000 shares and Messrs. McAfee and McDowell were awarded 20,000 shares each. Amounts shown are the grant date fair value of the awards computed in accordance with FASB ASC Topic 718 which amounted to a weighted average of \$23.20 per share for 2012, \$20.42 per share for 2011 and \$18.73 per share for 2010. Assumptions used in the calculation of these amounts are included in Note 9 Equity Based Plans of the Notes to the Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on March 12, 2013.
- For 2012, the amounts represent the cash bonuses earned under the Company's 2012 Executive Incentive Plan of which a portion was paid in December 2012 and a portion in March 2013. For 2011, the amounts represent the cash bonuses earned under the Company's executive incentive plan for such calendar year and paid in March 2012. For 2010, the amounts represent the cash bonuses earned under the Company's executive incentive plan for such calendar year and paid in March 2011. See Compensation Discussion and Analysis Annual Cash Incentive Compensation for further details.
- Represents the value of life insurance premiums for life insurance coverage provided to the Named Executive Officers.



**Grants of Plan-Based Awards**

The following table sets forth the grants of plan-based awards during 2012 to the Named Executive Officers:

## Grant of Plan-Based Awards

| Name                   | Grant Date | Estimated Possible Payouts<br>Under Non-Equity<br>Incentive Plan Awards(1) : |                |                 | Estimated Possible Payouts<br>Under Equity<br>Incentive Plan Awards(1) : |               |                | Grant Date<br>Fair Value<br>of Stock<br>Awards(2) |
|------------------------|------------|--|----------------|-----------------|--|---------------|----------------|---|
|                        |            | Threshold<br>(\$)  | Target<br>(\$) | Maximum<br>(\$) | Threshold<br>(#)   | Target<br>(#) | Maximum<br>(#) |   |
| Christopher J. Reading | 3/27/2012  | \$   | \$ 662,500     | \$ 662,500      | 40,000   | 40,000        | \$ 927,400     |   |
| Lawrance W. McAfee     | 3/27/2012  | \$   | \$ 500,000     | \$ 500,000      | 20,000   | 20,000        | \$ 463,700     |   |
| Glenn D. McDowell      | 3/27/2012  | \$   | \$ 425,000     | \$ 425,000      | 20,000   | 20,000        | \$ 463,700     |   |

1. Possible payments and equity grants under the 2012 Executive Incentive Plan. See the Summary Compensation Table above for actual amounts earned for 2012. A portion of the cash earned was paid in December 2012 and the remainder in March 2013 and the shares of restricted common stock were granted on March 8, 2013.

2. Amounts shown are the grant date fair value of the awards computed in accordance with FASB ASC Topic 718 which amounted to a weighted average of \$23.19 per share. See Note 9 Equity Based Plans in Item 8. of our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on March 12, 2013 for a description of the valuations and a description of the equity plans.

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

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

**Outstanding Equity Awards at Fiscal Year-End**

The following table shows outstanding awards of shares of restricted common stock that have not vested as of December 31, 2012 for each Named Executive Officer. There are no outstanding stock option awards for the Named Executive Officer as of December 31, 2012.

**Outstanding Equity Awards at Fiscal Year-End December 31, 2012**

| Name                   | Number<br>of Shares<br>or Units<br>of Stock<br>That Have<br>Not<br>Vested<br>(#) | Market<br>Value of<br>Shares or<br>Units of<br>Stock That<br>Have<br>Not Vested<br>(\$)(1) | Stock Awards  |  | Equity Incentive<br>Plan Awards<br>Market or<br>Payout<br>Value of<br>Unearned Shares,<br>Units or<br>Other<br>Rights That<br>Have<br>Not Vested<br>(\$) |
|------------------------|--|--|---|--|--|
|                        |  |  | Equity<br>incentive<br>plan awards:<br>Number of<br>Units or<br>Other<br>Rights That<br>Have Not<br>Vested<br>(#) | Equity Incentive<br>Plan Awards<br>Market or<br>Payout<br>Value of<br>Unearned Shares,<br>Units or<br>Other<br>Rights That<br>Have<br>Not Vested<br>(\$) |  |
| Christopher J. Reading | 32,325 (2)   | \$ 890,231   |   | \$   |  |
| Lawrance W. McAfee     | 21,550 (3)   | \$ 593,487   |   | \$   |  |
| Glenn D. McDowell      | 21,550 (3)   | \$ 593,487   |   | \$   |  |

1. Calculated based on the closing market price of our common stock on December 31, 2012 of \$27.54 per share.

2. The transfer restrictions on 15,000 of these shares of restricted stock will lapse in even quarterly amounts of 1,875 shares on March 31, June 30, September 30 and December 31 of each year until December 31, 2014. The transfer restrictions on 17,328 of these shares of restricted stock will lapse in even quarterly amounts of 1,443 shares, vesting quarterly, with the next vesting date of March 31, 2013 and continuing through September 30, 2015, and the final 1,455 shares will vest on December 31, 2015.

3. The transfer restrictions on 10,000 of these shares of restricted stock will lapse in even quarterly amounts of 1,250 shares on March 31, June 30 and September 30 and December 31 of each year until December 31, 2014. The transfer restrictions on 11,552 of these shares of restricted stock will lapse in even quarterly amounts of 962 shares, vesting quarterly, with the next vesting date of March 31, 2013 and continuing through September 30, 2015, and the final 970 shares will vest on December 31, 2015.

### Option Exercises and Stock Vested Table

The following table shows the number of shares of our common stock acquired by the Named Executive Officers during 2012 upon the exercise of options and the vesting of restricted stock.

#### Option Exercises and Stock Vested

| Name                   | Option Awards                             |                                 | Stock Awards                             |                           |
|------------------------|---|---------------------------------|--|---------------------------|
|                        | Number of shares acquired on exercise (#) | Value realized on exercise (\$) | Number of shares acquired on vesting (#) | Value realized on Vesting |
| Christopher J. Reading | 150,000*                                  | \$ 2,014,000                    | 13,272                                   | \$ 343,911                |
| Lawrance W. McAfee     |   | \$                              | 8,848                                    | \$ 229,274                |
| Glenn D. McDowell      |   | \$                              | 8,848                                    | \$ 229,274                |

\* Mr. Reading exercised 150,000 shares of common stock and tendered 76,019 shares of common stock in payment of the exercise price. The net shares of common stock received by Mr. Reading from the foregoing transactions were 73,981 shares.

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

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

The employment agreements of Messrs. Reading, McAfee and McDowell may be terminated by us prior to the expiration of its term in the event their respective employment is terminated for cause (as defined in each agreement). If a change in control (as defined in each agreement) occurs and Mr. Reading does not continue as the President and Chief Executive Officer of the Company after the change of control, or Mr. McAfee does not continue as Executive Vice President and Chief Financial Officer of the Company after the change of control, each of Messrs. Reading and McAfee, as applicable, will be entitled to a change of control benefit of (A) \$500,000 (payable in equal amounts over the remaining term of the agreement), (B) the compensation then in effect for the remainder of the term of their respective agreement, (C) the greater of: (i) the bonus paid or payable to Mr. Reading or Mr. McAfee, as applicable, with respect to the last fiscal year completed prior to the termination, or (ii) the average of the bonuses paid to Mr. Reading or Mr. McAfee, as applicable, over the last three fiscal years of employment ending with the last fiscal year prior to termination, and (D) the acceleration of their outstanding equity incentive awards. If the employment of Mr. Reading or Mr. McAfee is terminated by us without cause or by the executive for good reason, they would be entitled to receive the compensation then in effect for the remainder of the term of their respective agreement and the greater of: (i) the bonus paid or payable to Mr. Reading or Mr. McAfee, as applicable, with respect to the last fiscal year completed prior to the termination, or (ii) the average of the bonuses paid to Mr. Reading or Mr. McAfee, as applicable, over the last three fiscal years of employment ending with the last fiscal year prior to termination. If a change in control (as defined in his agreement) occurs and Mr. McDowell does not continue as our Chief Operating Officer after the

change of control, Mr. McDowell will be entitled to a change of control benefit of (A) \$283,333 (payable in equal amounts over the remaining term of his agreement), (B) the compensation then in effect for the remainder of the term of his agreement, (C) the greater of: (i) the bonus paid or payable to Mr. McDowell with respect to the last fiscal year completed prior to the termination, or (ii) the average of the bonuses paid to Mr. McDowell over the last three fiscal years of employment ending with the last fiscal year prior to termination, and (D) the acceleration of his outstanding equity incentive awards. If the employment of Mr. McDowell is terminated by the Company without cause or by Mr. McDowell for good reason, he would be entitled to receive the compensation then in effect for the remainder of the term of his agreement and the greater of: (i) the bonus paid or payable to Mr. McDowell with respect to the last fiscal year completed prior to the termination, or (ii) the average of the bonuses paid to Mr. McDowell over the last three fiscal years of employment ending with the last fiscal year prior to termination.

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

**Christopher Reading**

**President and Chief Executive Officer**

| Executive Benefits and Payments                  | Voluntary Termination |               | Executive Resigns For Good Reason | Change In Control |
|--|-----------------------|---------------|-----------------------------------|-------------------|
|  | or For Cause          | Without Cause |                                   |                   |
| <b>Upon Termination(1)<br/>Compensation</b>      |                       |               |                                   |                   |
| Severance(2)                                     | \$                    | \$ 1,120,000  | \$ 1,120,000                      | \$ 560,000        |
| Annual Cash Incentive(3)                         |                       | 445,200       | 445,200                           | 445,200           |
| Change of Control Benefit(4)                     |                       |               |                                   | 500,000           |
| Restricted Stock (Unvested and (Accelerated))(5) |                       |               |                                   | 890,231           |
| <b>Benefits and Perquisites</b>                  |                       |               |                                   |                   |
| Health and Dental Coverage(6)                    |                       | 19,522        | 19,522                            | 9,761             |
| Total  | \$                    | \$ 1,584,722  | \$ 1,584,722                      | \$ 2,405,192      |

**Lawrance McAfee**

**Executive Vice President and Chief Financial Officer**

| Executive Benefits and Payments                  | Voluntary Termination |               | Executive Resigns For Good Reason | Change In Control |
|--|-----------------------|---------------|-----------------------------------|-------------------|
|  | or For Cause          | Without Cause |                                   |                   |
| <b>Upon Termination(1)<br/>Compensation</b>      |                       |               |                                   |                   |
| Severance(2)                                     | \$                    | \$ 820,000    | \$ 820,000                        | \$ 410,000        |
| Annual Cash Incentive(3)                         |                       | 336,000       | 336,000                           | 336,000           |
| Change of Control Benefit(4)                     |                       |               |                                   | 500,000           |
| Restricted Stock (Unvested and (Accelerated))(5) |                       |               |                                   | 593,487           |
| <b>Benefits and Perquisites</b>                  |                       |               |                                   |                   |
| Health and Dental Coverage(6)                    |                       | 19,522        | 19,522                            | 9,761             |
| Total  | \$                    | \$ 1,175,522  | \$ 1,175,522                      | \$ 1,849,248      |

**Glenn McDowell**

**Chief Operating Officer**

| <b>Executive Benefits and Payments</b>          | <b>Voluntary Termination or For Cause</b> | <b>Without Cause</b> | <b>Executive Resigns For Good Reason</b> | <b>Change In Control</b> |
|---|---|----------------------|--|--------------------------|
| <b>Upon Termination(1)</b>                      |   |                      |  |                          |
| <b>Compensation</b>                             |   |                      |  |                          |
| Severance(2)                                    | \$  | \$ 730,000           | \$ 730,000                               | \$ 365,000               |
| Annual Cash Incentive(3)                        |   | 277,600              | 277,600                                  | 277,600                  |
| Change of Control Benefit(4)                    |   |                      |  | 283,333                  |
| Restricted Stock (Unvested and (Accelerated)(5) |   |                      |  | 593,487                  |
| <b>Benefits and Perquisites</b>                 |   |                      |  |                          |
| Health and Dental Coverage(6)                   |   | 19,522               | 19,522                                   | 9,761                    |
| <b>Total</b>                                    | <b>\$</b>                                 | <b>\$ 1,027,122</b>  | <b>\$ 1,027,122</b>                      | <b>\$ 1,529,181</b>      |

- For purposes of this analysis, we assumed the effective date of termination is December 31, 2012, the current term of the employment agreements was automatically renewed through December 31, 2014, the price per share of our common stock on the date of termination is \$27.54 and that the executive's base salary is as follows: Mr. Reading \$560,000; Mr. McAfee \$410,000; and Mr. McDowell \$365,000
- Under Without Cause and Executive Resigns for Good Reason, severance is calculated as base salary from January 1, 2013 through the remaining term of the employment agreement which expires on December 31, 2014.
- Annual cash incentive is based on the greater of (i) the bonus paid or payable to the executive with respect to last fiscal year of the Company completed prior to termination or (ii) the average of the bonuses paid to the executive over the three fiscal years of the Company ending with the last fiscal year completed prior to the termination.
- Based on amounts stipulated in the respective employment agreements.
- Pursuant to the Restricted Stock Agreement for each executive, all restrictions and conditions on shares of restricted stock will be deemed satisfied and shares will be fully vested upon a Change in Control.
- Calculated for the remaining term of the agreement which expires on December 31, 2014. In the event of a Change in Control, the remaining term of the agreements is one year from such event.

#### **COMPENSATION COMMITTEE REPORT**

The Compensation Committee was composed of four independent directors through May 2012, and three independent directors for the remainder of 2012. Mr. Arnold served on the Compensation Committee until May 2012. It acts under a written charter adopted by the Board. The primary function of the Compensation Committee is to determine the compensation for our executive officers, administer incentive stock plans and recommend to the Board the compensation to be paid to our non-employee directors. The committee has reviewed and discussed with management the Compensation Discussion and Analysis set forth herein. Based on its review, the related discussions and such other matters deemed relevant and appropriate by the committee, the committee has recommended to the Board that the Compensation Discussion and Analysis be included in the Company's Proxy Statement relating to the 2013 Annual Meeting of Stockholders.

Respectfully submitted,

*The Compensation Committee*

Harry S. Chapman, Chairman

Jerald L. Pullins

Clayton K. Trier

### Compensation Committee Interlocks and Insider Participation

The current members of the Compensation Committee are Messrs. Chapman (Chairman), Pullins and Trier. None of the members of the Compensation Committee is or has been an officer or employee of the Company or any of its subsidiaries and none of our executive officers has served on the board of directors or compensation committee of any other entity that has or has had an executive officer who served as a member of our Board of Directors or Compensation Committee during 2012.

### Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information about our common stock that may be issued upon the exercise of options and rights under all of our existing equity compensation plans as of December 31, 2012:

| Plan Category   | Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights | Weighted Average Exercise Price of Outstanding Options and Rights | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans Excluding Securities Reflected in 1st Column |
|---|---|---|---|
| Equity Compensation Plans Approved by Stockholders(1) | 75,840  | \$ 16.83  | 317,609   |

- The Stock Incentive Plan permits us to grant stock-based compensation to employees, consultants and outside directors of the Company. The 1999 Stock Option Plan permits us to grant stock-based compensation to employees and non-employee directors. For further descriptions of the Stock Incentive Plan and the 1999 Stock Option Plan, see Note 9 Equity Based Plans of the Notes to the Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on March 12, 2013.

All current Equity Compensation Plans have been approved by stockholders.

### Certain Relationships and Related Transactions

The charter of the Audit Committee requires that the Audit Committee review and approve all insider and affiliated party transactions. There were no such transactions during 2012.

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

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

To our knowledge, based solely on a review of the copies of those forms furnished to the Company and written representations from the executive officers and directors, we believe that during 2012 all other Section 16(a) filing requirements applicable to our directors and officers were complied with on a timely basis.

### PROPOSAL 2. ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION

Regulation 14A of the Exchange Act requires that we include in our annual Proxy Statement at least once every three years a non-binding stockholder vote on our executive compensation as described in this Proxy Statement (commonly referred to as Say-on-Pay ).

We encourage stockholders to review the Compensation Discussion and Analysis on pages 13 to 23 to this Proxy Statement.





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

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

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

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

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

**PROPOSAL 3. APPROVAL OF THE AMENDMENT TO THE STOCK INCENTIVE PLAN**

**Background**

The Company has two equity based plans the 1999 Stock Option Plan and the Stock Incentive Plan:

The 1999 Stock Option Plan permits the Company to grant to non-employee directors and employees of the Company up to 600,000 non-qualified options to purchase shares of common stock and restricted stock (subject to proportionate adjustments in the event of stock dividends, splits, and similar corporate transactions). The exercise prices of options granted under the 1999 Stock Option Plan are determined by the Compensation Committee. The period within which each option will be exercisable is determined by the Compensation Committee. The 1999 Stock Option Plan was approved by the stockholders of the Company at the 2008 Stockholders Meeting on May 20, 2008.

In addition to the 1999 Stock Option Plan, the Company has the Stock Incentive Plan, which as amended is described below.

The purposes of our incentive stock plans are to provide an incentive for eligible individuals to remain in the employ or service of the Company or its affiliates, to extend to them the opportunity to acquire a proprietary interest in the Company so that they will apply their best efforts for the benefit of the Company and to aid the Company in attracting able persons to serve the Company and its affiliates.

The following table includes a cumulative summary of stock options and restricted stock as of March 31, 2013:

| Equity Plans      | Authorized | Restricted Stock Issued | Outstanding Stock Options | Stock Options Exercised | Stock Options Exercisable | Shares Available for Grant |
|-------------------|------------|-------------------------|---------------------------|-------------------------|---------------------------|----------------------------|
| Amended 1999 Plan | 600,000    | 360,900                 | 15,840                    | 123,951                 | 15,840                    | 99,309                     |
| Amended 2003 Plan | 1,250,000  | 405,588                 | 60,000                    | 718,300                 | 60,000                    | 66,112                     |
|                   | 1,850,000  | 766,488                 | 75,840                    | 842,251                 | 75,840                    | 165,421                    |

### **Proposed Amendment to the Stock Incentive Plan**

The Stock Incentive Plan provides for awards of stock options and restricted stock and was approved by stockholders on May 25, 2004, and then again on May 15, 2012 when the Stock Incentive Plan was amended and approved. If approved, the Stock Incentive Plan will be amended to increase the number of shares authorized for issuance from 1,250,000 to 1,750,000.

On March 8, 2013, the Compensation Committee granted a total of 152,188 shares of restricted stock with restrictions lapsing over four years. These grants included the previously mentioned grants to Mr. Reading (36,800 shares), Mr. McAfee (18,400 shares) and Mr. McDowell (18,400 shares). The remaining 78,588 shares were granted as restricted stock to various employees. After these grants, there are 165,421 shares available for grant under the 1999 Stock Option Plan and the Stock Incentive Plan combined.

In conjunction with the proposal to increase the number of shares available under the Stock Incentive Plan, the Board of Directors requested that we be advised by Institutional Shareholders Services (ISS). Upon its review, ISS recommended that we amend the definition of Change of Control in the Stock Incentive Plan to remove the ability of a majority of the Board, in its sole discretion, to determine whether an event constitutes a Change of Control. Based on this recommendation of ISS, we are proposing to so amend the Plan.

A copy of the amendment is attached to this proxy as [Appendix A](#). The amendment to the Stock Incentive Plan is being submitted for your approval pursuant to the rules and regulations of the SEC and the NYSE.

The proposed share increase will ensure that a sufficient reserved common stock is available under the Stock Incentive Plan to be able to attract, retain and motivate the best available talent essential to our long term growth and success.

The grant of incentive awards under the Stock Incentive Plan to employees, including the Named Executive Officers, consultants and non-employee directors is subject to the discretion of the committee. As of the date of this Proxy Statement, there has been no determination by the committee with respect to future awards under the Stock Incentive Plan. Accordingly, future awards to employees, including the Named Executive Officers, consultants and non-employee directors are not determinable.

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

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

**Eligibility and Types of Awards.** The Stock Incentive Plan provides for the grant of options that are intended to qualify as Non-qualified Options as well as incentive stock options ( Incentive Options and together with Non-Qualified Options ( Options )) under Section 422 of the Internal Revenue Code of 1986, as amended (the Code ), Purchased Stock, Bonus Stock, Stock Appreciation Rights, Phantom Shares, Restricted Stock, Other Stock-Based Awards and Other Performance-Based Awards (payable in stock or cash). The Stock Incentive Plan is administered by the Compensation Committee, which is appointed by the Board of Directors. The compensation committee, with input from executive management, selects the employees, consultants and non-employee directors ( Participants ) of the Company and its affiliates to whom options are granted. The current members of the Compensation Committee are Messrs. Chapman (Chairman), Mr. Pullins and Mr. Trier.

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

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

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

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

**Description of Awards.**

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

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

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

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

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

*Phantom Stock.* The Compensation Committee is authorized to grant Phantom Stock Awards to Participants, which are rights to receive cash equal to the fair market value of a specified number of shares of Common Stock at the end of a specified deferral period. Satisfaction of a Phantom Stock Award occurs upon expiration of the deferral period specified for such Phantom Stock Award Agreement by the Compensation

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

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

*Performance Award.* The Compensation Committee may grant Performance Awards based on performance criteria measured over a period of not less than one year and not more than five years as determined by the Compensation Committee in its sole discretion. Each grant of a Performance Award shall be evidenced by an Agreement in such amount and terms as determined by the Compensation Committee. The Compensation Committee may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions, and may exercise its discretion to increase the amounts payable under any Award subject to performance conditions except as limited by the Stock Incentive Plan in the case of a Performance Award granted to an executive officer. The Compensation Committee shall designate whether a Performance Award is intended to be performance-based compensation under Code Section 162(m). The business criteria that may be used for Performance Awards that are designated by the Compensation Committee to be performance-based compensation under Code Section 162(m) are: (i) earnings per share; (ii) increase in revenues; (iii) increase in cash flow; (iv) increase in cash flow return; (v) return on net assets; (vi) return on assets; (vii) return on investment; (viii) return on equity; (ix) economic value added; (x) gross margin; (xi) net income; (xii) pretax earnings; (xiii) pretax earnings before interest, depreciation and amortization; (xiv) pretax operating earnings after interest expense and before incentives, service fees, and extraordinary or special items; (xv) operating income; (xvi) total stockholder return; (xvii) debt reduction; (xviii) the price of a share of Common Stock; and (xix) any of the above goals determined on the absolute or relative basis or as compared to the performance of a published or special index deemed applicable by the Committee including, but not limited to, the Standard & Poor's 500 Stock Index or a group of comparable companies.

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **REQUIRED VOTE**

The approval by the affirmative vote of a majority of the shares present, in person or by proxy, and entitled to vote at the Annual Meeting is required to approve the amendment to the Stock Incentive Plan. As a result, abstentions will have the same effect as votes against this proposal. Because brokers do not have discretionary authority to vote on the adoption of our amendments to stock incentive plans, broker non votes will not affect the outcome of the vote on this proposal.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS**

**VOTE FOR THE APPROVAL OF THE AMENDMENT TO THE**

**STOCK INCENTIVE PLAN.**

**PROPOSAL 4 *RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED***

***PUBLIC ACCOUNTING FIRM***

Our Audit Committee has appointed and recommends the ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm to conduct the audit of our financial statements for the year ending December 31, 2013. Grant Thornton LLP has acted as our independent registered public accounting

firm since 2004. Representatives of Grant Thornton LLP are expected to attend our Annual Meeting, are expected to be available to respond to questions by stockholders and will have an opportunity to make a statement if they desire to do so, although it is not expected that a statement will be made.

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

**Properly executed but unmarked proxies will be voted FOR approval of the ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the year ending December 31, 2013.** The Board of Directors believes that ratifying the appointment of Grant Thornton LLP is in the best interest of the Company. The approval of the ratification of Grant Thornton LLP will require the affirmative vote of holders of a majority of votes cast on this matter in person or by proxy. Accordingly, abstentions applicable to shares present at the meeting will not be included in the tabulation of votes cast on this matter.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS**

**VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF**

**GRANT THORNTON LLP AS OUR INDEPENDENT REGISTERED**

**PUBLIC ACCOUNTING FIRM**

**FOR THE YEAR ENDING DECEMBER 31, 2013**

**Audit and Audit-Related Fees**

The following table sets forth the fees billed for services performed by Grant Thornton LLP for fiscal years 2012 and 2011:

|                    | <b>2012</b>       | <b>2011</b>       |
|--------------------|-------------------|-------------------|
| Audit Fees         | \$ 399,953        | \$ 393,815        |
| Audit-Related Fees | 10,500            |                   |
| Tax Fees           |                   |                   |
| All Other Fees     |                   |                   |
|                    | <b>\$ 410,453</b> | <b>\$ 393,815</b> |

Audit Fees include fees for professional services rendered in connection with the audit of our financial statements and internal controls over financial reporting for the fiscal year as well as reviews of our interim financial statements included in our quarterly reports on Form 10-Q.

Audit-Related Fees include fees for professional services rendered in connection with the issuance of a consent in connection with the filing of a registration statement on Form S-8.

The Audit Committee is authorized to delegate to one or more of its members the authority to pre-approve any defined audit and permitted non-audit services to be provided by the independent auditors, and related fees and other terms of engagement on these matters, provided that each pre-approval decision is presented to the full Audit Committee at its next scheduled meeting. In 2012 and 2011, 100% of the audit-related services were pre-approved under authority within certain limits granted by the committee to its chairman pursuant to these pre-approval procedures. Grant Thornton LLP has not provided any tax or other non-audit services to the Company.



### Report of the Audit Committee

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

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

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

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

The Audit Committee has a Corporate Compliance sub-committee which provides general oversight of our Company's compliance with legal and regulatory requirements regarding healthcare operations ( Compliance Committee ). The Compliance Committee also monitors the Company's telephone hotline by which it can directly receive, on an anonymous and confidential basis, complaints regarding any subject, including accounting, internal accounting controls, questionable accounting, auditing or other matters that the Company's employees, and non-employees, may have. Members of the Compliance Committee are Messrs. Johnston (Chairman), Brookner and Chapman, and Dr. Harris.

The Audit Committee is authorized to engage independent counsel and other advisors it determines necessary to carry out its duties. The committee did not deem it necessary to engage independent counsel for any matters during 2012.

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

In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed the audited financial statements included in the Company's Annual Report on Form 10-K with management, including a discussion of

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

Prior to commencement of audit work, the Audit Committee reviewed and discussed with representatives of Grant Thornton LLP, the Company's independent auditors for fiscal 2012, the overall scope and plans for their audit of the Company's financial statements for fiscal 2012. The committee also reviewed and discussed with representatives of Grant Thornton LLP, who are responsible for expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States of America, their judgments as to the quality, not just the acceptability, of the Company's financial statements, any changes in accounting policies, sensitive accounting estimates, accounting principles and such other matters as are required to be discussed with the Audit Committee under auditing standards generally accepted in the United States of America, including the matters required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. The Audit Committee met with Grant Thornton LLP, with and without Company management present, to discuss whether any significant matters regarding internal control over financial reporting had come to the auditors' attention during the conduct of the audit, and the overall quality of the Company's financial reporting.

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

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2012 for filing with the SEC.

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

Respectfully submitted,

*The Audit Committee*

Clayton K. Trier, Chairman

Mark J. Brookner

Dr. Bernard A. Harris

Marlin W. Johnston

Jerald L. Pullins

**DEADLINE FOR SUBMISSION OF STOCKHOLDER PROPOSALS TO BE  
PRESENTED AT THE 2014 ANNUAL MEETING OF STOCKHOLDERS**

Any proposal intended to be presented by any stockholder for action at the 2014 Annual Meeting of Stockholders (the 2014 Annual Meeting ) must be received by us on or before December 5, 2013 in order for the proposal to be considered for inclusion in the proxy statement and form of proxy relating to the 2014 Annual Meeting. If the date of the 2014 Annual Meeting is changed by more than 30 days from May 14, 2014, the deadline will be a reasonable time before we print and mail our proxy materials. However, we are not required to include in our proxy statement and form of proxy for the 2014 Annual Meeting any stockholder proposal that does not meet all of the requirements for inclusion established by the SEC in effect at the time the proposal is received. In order for any stockholder proposal that is not included in such proxy statement and form of proxy to be brought before the 2014 Annual Meeting, such proposal must be 500 words or less and received by our Secretary at our principal executive offices at 1300 West Sam Houston Parkway South, Suite 300, Houston, Texas 77042 by February 18, 2014. If a timely proposal is received, the Board may exercise any discretionary authority granted by the proxies to be solicited on behalf of the Board in connection with the 2014 Annual Meeting.

**OTHER MATTERS**

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

By Order of the Board of Directors,

Richard Binstein

Secretary

Houston, Texas

April 8, 2013

**FIRST AMENDMENT TO THE  
AMENDED & RESTATED 2003 STOCK INCENTIVE PLAN**

WHEREAS, U.S. Physical Therapy, Inc. (the Company) previously adopted the Amended & Restated 2003 Incentive Plan, effective March 26, 2010 (the Plan); and

WHEREAS, the board of directors of the Company (the Board) has authorized amendments to the Plan to (a) increase the number of shares authorized for Awards (as defined in the Plan) thereunder from 1,250,000 shares to 1,750,000 shares and (b) to delete subsection (v) from the definition of Change of Control in Section 1.8 of the Plan.

NOW, THEREFORE, effective as of April 1, 2013, subject to approval by the Company's stockholders within twelve (12) months of the effective date of this Amendment:

(a) Section 1.2 of the Plan is amended to replace the references to 1,250,000 with 1,750,000 .

(b) The definition of Change of Control in Section 1.8 of the Plan is amended to remove subsection (v) from such definition.  
IN WITNESS WHEREOF, the Company has caused this Amendment to the Plan to be duly executed in its name and on its behalf by its duly authorized officer.

U.S. PHYSICAL THERAPY, INC.

By: /s/ Christopher Reading  
Name: Christopher Reading  
Title: President and Chief Executive Officer



