

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(MARK ONE)

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

**FOR THE QUARTERLY PERIOD ENDED September 30, 2017
OR**

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

FOR THE TRANSITION PERIOD FROM ____ TO ____

COMMISSION FILE NUMBER 1-11151

U.S. PHYSICAL THERAPY, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

**NEVADA
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)**

**76-0364866
(I.R.S. EMPLOYER IDENTIFICATION NO.)**

**1300 WEST SAM HOUSTON PARKWAY SOUTH,
SUITE 300, HOUSTON, TEXAS
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)**

**77042
(ZIP CODE)**

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (713) 297-7000

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|--|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input checked="" type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 7, 2017, the number of shares outstanding (issued less treasury stock) of the registrant's common stock, par value \$.01 per share, was: 12,581,162.

PART I—FINANCIAL INFORMATION - UNAUDITED

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ITEM 1. FINANCIAL STATEMENTS.

U. S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

| | <u>September 30, 2017</u> | <u>December 31, 2016</u> |
|--|---------------------------|--------------------------|
| ASSETS | (unaudited) | |
| Current assets: | | |
| Cash and cash equivalents | \$ 17,418 | \$ 20,047 |
| Patient accounts receivable, less allowance for doubtful accounts of \$2,088 and \$1,792, respectively | 43,561 | 38,840 |
| Accounts receivable - other | 6,992 | 2,649 |
| Other current assets | 5,444 | 4,428 |
| Total current assets | 73,415 | 65,964 |
| Fixed assets: | | |
| Furniture and equipment | 51,822 | 48,426 |
| Leasehold improvements | 28,449 | 26,765 |
| Fixed assets, gross | 80,271 | 75,191 |
| Less accumulated depreciation and amortization | 59,517 | 56,018 |
| Fixed assets, net | 20,754 | 19,173 |
| Goodwill | 268,050 | 226,806 |
| Other identifiable intangible assets, net | 47,568 | 38,060 |
| Other assets | 1,200 | 1,228 |
| Total assets | \$ 410,987 | \$ 351,231 |
| LIABILITIES, REDEEMABLE NON-CONTROLLING INTERESTS, USPH SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS | | |
| Current liabilities: | | |
| Accounts payable - trade | \$ 1,754 | \$ 1,634 |
| Accrued expenses | 31,492 | 21,756 |
| Current portion of notes payable | 2,745 | 1,227 |
| Total current liabilities | 35,991 | 24,617 |
| Notes payable, net of current portion | 3,952 | 4,596 |
| Revolving line of credit | 56,000 | 46,000 |
| Mandatorily redeemable non-controlling interests | 84,311 | 69,190 |
| Deferred taxes | 16,027 | 15,736 |
| Deferred rent | 1,875 | 1,575 |
| Other long-term liabilities | 815 | 829 |
| Total liabilities | 198,971 | 162,543 |
| Redeemable non-controlling interests | 12,079 | - |
| Commitments and contingencies | | |
| U.S. Physical Therapy, Inc. ("USPH") shareholders' equity: | | |
| Preferred stock, \$.01 par value, 500,000 shares authorized, no shares issued and outstanding | - | - |
| Common stock, \$.01 par value, 20,000,000 shares authorized, 14,795,899 and 14,732,699 shares issued, respectively | 147 | 147 |
| Additional paid-in capital | 72,262 | 68,687 |
| Retained earnings | 157,702 | 150,342 |
| Treasury stock at cost, 2,214,737 shares | (31,628) | (31,628) |
| Total USPH shareholders' equity | 198,483 | 187,548 |
| Non-controlling interests | 1,454 | 1,140 |
| Total USPH shareholders' equity and non-controlling interests | 199,937 | 188,688 |
| Total liabilities, redeemable non-controlling interests, USPH shareholders' equity and non-controlling interests | \$ 410,987 | \$ 351,231 |

See notes to consolidated financial statements.

U. S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF NET INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-------------------------------------|--------------------|-------------------------------------|
| | September 30, 2017 | September 30, 2016 (as restated) | September 30, 2017 | September 30, 2016 (as restated) |
| Net patient revenues | \$ 96,273 | \$ 86,411 | \$ 287,584 | \$ 259,893 |
| Other revenues | 6,759 | 1,933 | 17,264 | 5,789 |
| Net revenues | <u>103,032</u> | <u>88,344</u> | <u>304,848</u> | <u>265,682</u> |
| Operating costs: | | | | |
| Salaries and related costs | 60,306 | 49,868 | 174,912 | 146,509 |
| Rent, supplies, contract labor and other | 20,600 | 17,885 | 60,720 | 52,938 |
| Provision for doubtful accounts | 930 | 917 | 2,716 | 2,962 |
| Closure costs | 4 | 9 | 27 | 54 |
| Total operating costs | <u>81,840</u> | <u>68,679</u> | <u>238,375</u> | <u>202,463</u> |
| Gross margin | 21,192 | 19,665 | 66,473 | 63,219 |
| Corporate office costs | 8,304 | 7,610 | 25,707 | 24,640 |
| Operating income | <u>12,888</u> | <u>12,055</u> | <u>40,766</u> | <u>38,579</u> |
| Interest and other income, net | 11 | 21 | 58 | 62 |
| Interest expense: | | | | |
| Mandatorily redeemable non-controlling interests - change in redemption value | (1,247) | (1,934) | (7,839) | (6,056) |
| Mandatorily redeemable non-controlling interests - earnings allocable | (1,285) | (929) | (4,366) | (3,146) |
| Debt and other | (641) | (326) | (1,572) | (954) |
| Total interest expense | <u>(3,173)</u> | <u>(3,189)</u> | <u>(13,777)</u> | <u>(10,156)</u> |
| Income before taxes | 9,726 | 8,887 | 27,047 | 28,485 |
| Provision for income taxes | 3,132 | 2,753 | 8,029 | 8,727 |
| Net income | 6,594 | 6,134 | 19,018 | 19,758 |
| Less: net income attributable to non-controlling interests | <u>(1,444)</u> | <u>(1,330)</u> | <u>(4,111)</u> | <u>(4,454)</u> |
| Net income attributable to USPH shareholders | <u>\$ 5,150</u> | <u>\$ 4,804</u> | <u>\$ 14,907</u> | <u>\$ 15,304</u> |
| Basic and diluted earnings per share attributable to USPH shareholders | <u>\$ 0.41</u> | <u>\$ 0.38</u> | <u>\$ 1.19</u> | <u>\$ 1.22</u> |
| Shares used in computation - basic | <u>12,581</u> | <u>12,520</u> | <u>12,563</u> | <u>12,494</u> |
| Shares used in computation - diluted | <u>12,581</u> | <u>12,520</u> | <u>12,563</u> | <u>12,494</u> |
| Dividends declared per common share | <u>\$ 0.20</u> | <u>\$ 0.17</u> | <u>\$ 0.60</u> | <u>\$ 0.51</u> |

See notes to consolidated financial statements.

U. S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(unaudited)

| | Nine Months Ended | |
|---|--------------------|-------------------------------------|
| | September 30, 2017 | September 30, 2016 (as restated) |
| OPERATING ACTIVITIES | | |
| Net income including non-controlling interests | \$ 19,018 | \$ 19,758 |
| Adjustments to reconcile net income including non-controlling interests to net cash provided by operating activities: | | |
| Depreciation and amortization | 7,269 | 6,210 |
| Provision for doubtful accounts | 2,716 | 2,962 |
| Loss on sale of fixed assets | 83 | 31 |
| Equity-based awards compensation expense | 3,410 | 3,748 |
| Deferred income tax | 291 | 3,238 |
| Changes in operating assets and liabilities: | | |
| Increase in patient accounts receivable | (1,914) | (2,548) |
| (Increase) decrease in accounts receivable - other | (4,736) | 116 |
| Increase in other assets | (787) | (4,979) |
| Increase in accounts payable and accrued expenses | 8,126 | 3,582 |
| Increase in mandatorily redeemable non-controlling interests | 7,069 | 5,372 |
| Increase in other liabilities | 286 | 1,506 |
| Net cash provided by operating activities | <u>40,831</u> | <u>38,996</u> |
| INVESTING ACTIVITIES | | |
| Purchase of fixed assets | (5,576) | (5,620) |
| Purchase of businesses, net of cash acquired | (33,740) | (12,958) |
| Acquisitions of non-controlling interests | - | (664) |
| Proceeds on sale of fixed assets, net | 67 | 42 |
| Net cash used in investing activities | <u>(39,249)</u> | <u>(19,200)</u> |
| FINANCING ACTIVITIES | | |
| Distributions to non-controlling interests | (3,698) | (4,441) |
| Cash dividends paid to shareholders | (7,547) | (6,382) |
| Proceeds from revolving line of credit | 63,000 | 128,000 |
| Payments on revolving line of credit | (53,000) | (136,000) |
| Payments to settle mandatorily redeemable non-controlling interests | (2,230) | (1,136) |
| Principal payments on notes payable | (776) | (592) |
| Other | 40 | 1 |
| Net cash used in financing activities | <u>(4,211)</u> | <u>(20,550)</u> |
| Net increase in cash and cash equivalents | (2,629) | (754) |
| Cash and cash equivalents - beginning of period | 20,047 | 15,778 |
| Cash and cash equivalents - end of period | <u>\$ 17,418</u> | <u>\$ 15,024</u> |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid during the period for: | | |
| Income taxes | \$ 8,059 | \$ 10,051 |
| Interest | \$ 1,616 | \$ 770 |
| Non-cash investing and financing transactions during the period: | | |
| Purchase of business - seller financing portion | \$ 1,650 | \$ 500 |
| Acquisition of non-controlling interest - seller financing portion | \$ - | \$ 388 |
| Payment to settle redeemable non-controlling interest - financing portion | \$ - | \$ 126 |
| Sale of non-controlling interests | \$ - | \$ (148) |

See notes to consolidated financial statements.

U. S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(IN THOUSANDS)
(unaudited)

| U.S.Physical Therapy, Inc. | | | | | | | | | |
|--|----------------|---------------|-------------------------------|----------------------|----------------|--------------------|-------------------------------|------------------------------|-------------------|
| | Common Stock | | Additional Paid-In Capital | Retained Earnings | Treasury Stock | | Total Shareholders' Equity | Non-Controlling Interests | Total |
| | Shares | Amount | | | Shares | Amount | | | |
| | (In thousands) | | | | | | | | |
| Balance December 31, 2016 | 14,733 | \$ 147 | \$ 68,687 | \$ 150,342 | (2,215) | \$ (31,628) | \$ 187,548 | \$ 1,140 | \$ 188,688 |
| Issuance of restricted stock | 63 | - | - | - | - | - | - | - | - |
| Compensation expense - equity-based awards | - | - | 3,410 | - | - | - | 3,410 | - | 3,410 |
| Transfer of compensation liability for certain stock issued pursuant to long-term incentive plans | - | - | 165 | - | - | - | 165 | - | 165 |
| Distribution to non-controlling interest partners | - | - | - | - | - | - | - | (3,682) | (3,682) |
| Contributions from non- controlling interest partners | - | - | - | - | - | - | - | 40 | 40 |
| Dividends declared to USPH shareholders | - | - | - | (7,547) | - | - | (7,547) | - | (7,547) |
| Net income | - | - | - | 14,907 | - | - | 14,907 | 3,956 | 18,863 |
| Balance September 30, 2017 | <u>14,796</u> | <u>\$ 147</u> | <u>\$ 72,262</u> | <u>\$ 157,702</u> | <u>(2,215)</u> | <u>\$ (31,628)</u> | <u>\$ 198,483</u> | <u>\$ 1,454</u> | <u>\$ 199,937</u> |

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2017
(unaudited)

I. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of U.S. Physical Therapy, Inc. and its subsidiaries (the “Company”). All significant intercompany transactions and balances have been eliminated. The Company primarily operates through subsidiary clinic partnerships, in which the Company generally owns a 1% general partnership interest in all the Clinic Partnerships. Our limited partnership interests range from 49% to 99% in the Clinic Partnerships. The managing therapist of each clinic owns, directly or indirectly, the remaining limited partnership interest in the majority of the clinics (hereinafter referred to as “Clinic Partnerships”). To a lesser extent, the Company operates some clinics, through wholly-owned subsidiaries, under profit sharing arrangements with therapists (hereinafter referred to as “Wholly-Owned Facilities”).

The Company continues to seek to attract for employment physical therapists who have established relationships with physicians and other referral sources by offering these therapists a competitive salary and incentives based on the profitability of the clinic that they manage. The Company also looks for therapists with whom to establish new, de novo clinics to be owned jointly by the Company and such therapists; in these situations, the therapist is offered the opportunity to co-invest in the new clinic and also receives a competitive salary for managing the clinic. For multi-site clinic practices in which a controlling interest is acquired by the Company, the prior owners typically continue on as employees to manage the clinic operations, retaining a non-controlling ownership interest in the clinics and receiving a competitive salary for managing the clinic operations. In addition, we have developed satellite clinic facilities as part of existing Clinic Partnerships and Wholly-Owned facilities, with the result that a substantial number of Clinic Partnerships and Wholly-Owned facilities operate more than one clinic location. In 2017, we intend to continue to acquire clinic practices and continue to focus on developing new clinics and on opening satellite clinics where appropriate along with increasing our patient volume through marketing and new programs.

During the first nine months of 2017 and the year ended 2016, the Company acquired an interest in the following clinic groups:

| | <u>Date</u> | <u>% Interest Acquired</u> | <u>Number of Clinics</u> |
|---------------------------|-------------|----------------------------|--------------------------|
| | <u>2017</u> | | |
| June 2017 Acquisition | June 30 | 60% | 9 |
| May 2017 Acquisition | May 31 | 70% | 4 |
| January 2017 Acquisition | January 1 | 70% | 17 |
| | <u>2016</u> | | |
| February 2016 Acquisition | February 29 | 55% | 8 |
| November 2016 Acquisition | November 30 | 60% | 12 |

In addition to the above clinic groups, in March 2017, the Company acquired a 55% interest in a company which is a leading provider of workforce performance solutions. Services provided include onsite injury prevention and rehabilitation, performance optimization and ergonomic assessments. The majority of these services are contracted with and paid for directly by employers including a number of Fortune 500 companies. Other clients include large insurers and their contractors. Also, during the first nine months of 2017, the Company purchased the assets and business of two physical therapy clinics in separate transactions. One clinic was consolidated with an existing clinic and the other operates as a satellite clinic of one of the existing partnerships.

As of September 30, 2017, the Company operated 569 clinics in 41 states. The Company also manages physical therapy facilities for third parties, primarily physicians, with 30 third-party facilities under management as of September 30, 2017.

The results of operations of the acquired clinics have been included in the Company’s consolidated financial statements since the date of their respective acquisition. The Company intends to continue to pursue additional acquisition opportunities, develop new clinics and open satellite clinics.

The accompanying unaudited consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions for Form 10-Q. However, the statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Management believes this report contains all necessary adjustments (consisting only of normal recurring adjustments) to present fairly, in all material respects, the Company's financial position, results of operations and cash flows for the interim periods presented. For further information regarding the Company's accounting policies, please read the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

The Company believes, and the Chief Executive Officer, Chief Financial Officer and Corporate Controller have certified, that the financial statements included in this report present fairly, in all material respects, the Company's financial position, results of operations and cash flows for the interim periods presented.

Operating results for the nine months ended September 30, 2017 are not necessarily indicative of the results the Company expects for the entire year. Please also review the Risk Factors section included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Clinic Partnerships

For non-acquired Clinic Partnerships, the earnings and liabilities attributable to the non-controlling interests, typically owned by the managing therapist, directly or indirectly, are recorded within the balance sheets and income statements as non-controlling interests. For acquired Clinic Partnerships with mandatorily redeemable non-controlling interests, the earnings and liabilities attributable to the non-controlling interest are recorded within the statements of net income line items: Interest expense – mandatorily redeemable non-controlling interests – earnings allocable and in the balance sheet line item: Mandatorily redeemable non-controlling interests. For acquired Clinic Partnerships with redeemable non-controlling interests, the earnings attributable to the redeemable non-controlling interests are recorded within the statements of net income line item – net income attributable to non-controlling interests and the equity interests are recorded on the balance sheet as redeemable non-controlling interests.

Wholly-Owned Facilities

For Wholly-Owned Facilities with profit sharing arrangements, an appropriate accrual is recorded for the amount of profit sharing due to the profit sharing therapists. The amount is expensed as compensation and included in operating costs – salaries and related costs. The respective liability is included in current liabilities – accrued expenses on the balance sheets.

Restatement of Prior Financial Statements

As disclosed in our Form 8-K filed March 16, 2017, and further described in our Annual Report on Form 10-K for the year ended December 31, 2016 filed on June 7, 2017, prior to issuing the 2016 annual financial statements, the Company determined it had previously incorrectly accounted for the non-controlling interests in the Company's subsidiary clinic partnerships that were mandatorily redeemable. Management and the Company's board of directors concluded this error was material to previously issued annual and quarterly consolidated financial statements. Additional information regarding the restatement is available in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. Financial information in this Form 10-Q related to all periods prior to the quarter ended December 31, 2016 has been amended where necessary to reflect the restatement. Therefore, this Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Significant Accounting Policies

Cash Equivalents

The Company maintains its cash and cash equivalents at financial institutions. The combined account balances at several institutions typically exceed Federal Deposit Insurance Corporation ("FDIC") insurance coverage and, as a result, there is a concentration of credit risk related on deposits in excess of FDIC insurance coverage. Management believes that the risk is not significant.

Long-Lived Assets

Fixed assets are stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Estimated useful lives for furniture and equipment range from three to eight years and for software purchased from three to seven years. Leasehold improvements are amortized over the shorter of the lease term or estimated useful lives of the assets, which is generally three to five years.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

The Company reviews property and equipment and intangible assets with finite lives for impairment upon the occurrence of certain events or circumstances which indicate that the amounts may be impaired. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Goodwill

Goodwill represents the excess of the amount paid and fair value of the non-controlling interests over the fair value of the acquired business assets, which include certain identifiable intangible assets. Historically, goodwill has been derived from acquisitions and, prior to 2009, from the purchase of some or all of a particular local management's equity interest in an existing clinic. Effective January 1, 2009, if the purchase price of a non-controlling interest related to non-acquired Clinic Partnerships by the Company exceeds or is less than the book value at the time of purchase, any excess or shortfall is recognized as an adjustment to additional paid-in capital.

The carrying value of goodwill and other identifiable intangible assets with indefinite lives are tested for impairment annually and upon the occurrence of certain events, and are written down to fair value if considered impaired. The Company evaluates goodwill for impairment on at least an annual basis (in its third quarter) by comparing the fair value of its reporting units to the carrying value of each reporting unit including related goodwill. The Company's business is primarily made up of various clinics within partnerships. The partnerships are components of regions and are aggregated to the operating segment level for the purpose of determining the Company's reporting units when performing its annual goodwill impairment test. In the third quarter of 2017, there were six regions.

An impairment loss generally would be recognized when the carrying amount of the net assets of a reporting unit, inclusive of goodwill and other identifiable intangible assets, exceeds the estimated fair value of the reporting unit. The estimated fair value of a reporting unit is determined using two factors: (i) earnings prior to taxes, depreciation and amortization for the reporting unit multiplied by a price/earnings ratio used in the industry and (ii) a discounted cash flow analysis. A weight is assigned to each factor and the sum of each weight times the factor is considered the estimated fair value. For 2017, the factors (i.e., price/earnings ratio, discount rate and residual capitalization rate) were updated to reflect current market conditions. The evaluation of goodwill in 2017 did not result in any goodwill amounts that were deemed impaired.

The Company has not identified any triggering events occurring after the testing date that would impact the impairment testing results obtained. Factors which could result in future impairment charges include but are not limited to:

- cost, risks and uncertainties associated with the Company's recent restatement of its prior financial statements due to the correction of its accounting methodology for redeemable noncontrolling partnership interests, and including any pending and future claims or proceedings relating to such matters;
- changes as the result of government enacted national healthcare reform;
- changes in Medicare rules and guidelines and reimbursement or failure of our clinics to maintain their Medicare certification or enrollment status;
- revenue we receive from Medicare and Medicaid being subject to potential retroactive reduction;
- business and regulatory conditions including federal and state regulation;
- governmental and other third party payor inspections, reviews, investigations and audits;
- compliance with federal and state laws and regulations relating to the privacy of individually identifiable patient information and associated fines and penalties for failure to comply;
- legal actions, which could subject us to increased operating costs and uninsured liabilities;
- changes in reimbursement rates or payment methods from third party payors including government agencies and deductibles and co-pays owed by patients;
- revenue and earnings expectations;

- general economic conditions;
- availability and cost of qualified physical and occupational therapists;
- personnel productivity and retaining key personnel;
- competitive, economic or reimbursement conditions in our markets which may require us to reorganize or close certain operations and thereby incur losses and/or closure costs including the possible write-down or write-off of goodwill and other intangible assets;
- acquisitions, purchases of non-controlling interests (minority interests) and the successful integration of the operations of the acquired business;
- maintaining necessary insurance coverage;
- availability, terms, and use of capital; and
- weather and other seasonal factors.

Mandatorily Redeemable Non-Controlling Interests

The non-controlling interests that are reflected as mandatorily redeemable non-controlling interests in the consolidated financial statements consist of those owners who have certain redemption rights, whether currently exercisable or not, and which currently, or in the future, require that the Company purchase the non-controlling interest of those owners at a predetermined formula based on a multiple of trailing twelve months earnings performance as defined in the respective limited partnership agreements. The redemption rights are triggered at such time as both of the following events have occurred: 1) termination of the owner's employment, regardless of the reason for such termination, and 2) the passage of specified number of years after the closing of the transaction, typically three to five years, as defined in the limited partnership agreement.

On the date the Company acquires a controlling interest in a partnership and the limited partnership agreement contains mandatory redemption rights, the fair value of the non-controlling interest is recorded in the long-term liabilities section of the consolidated balance sheet under the caption – *Mandatorily redeemable non-controlling interests*. Then, in each reporting period thereafter until it is purchased by the Company, the redeemable non-controlling interest is adjusted to its then current redemption value, based on the predetermined formula defined in the respective limited partnership agreement. The Company reflects any adjustment in the redemption value and any earnings attributable to the mandatorily redeemable non-controlling interest in its consolidated statements of net income by recording the adjustments and earnings to other income and expense in the captions – *Interest expense – mandatorily redeemable non-controlling interests – change in redemption value and Interest expense – mandatorily redeemable non-controlling interests – earnings allocable*.

Redeemable Non-Controlling Interests

The non-controlling interests that are reflected as redeemable non-controlling interests in the consolidated financial statements consist of those owners who have certain redemption rights, whether currently exercisable or not, and which currently, or in the future, require that the Company purchase the non-controlling interest of those owners, if certain conditions are met and the owners request the purchase. The purchase price is derived at a predetermined formula based on a multiple of trailing twelve months earnings performance as defined in the respective limited partnership agreements. The redemption rights can be triggered by the owner at such time as both of the following events have occurred: 1) termination of the owner's employment, regardless of the reason for such termination, and 2) the passage of specified number of years after the closing of the transaction, typically three to five years, as defined in the limited partnership agreement. The redemption rights are not automatic (even upon death) and require either the owner or the Company to exercise its rights when the conditions triggering the redemption rights have been satisfied.

On the date the Company acquires a controlling interest in a partnership and the limited partnership agreement contains redemption rights not under the control of the Company, the fair value of the non-controlling interest is recorded in the consolidated balance sheet under the caption – *Redeemable non-controlling interests*. Then, in each reporting period thereafter until it is purchased by the Company, the redeemable non-controlling interest is adjusted to the greater of its then current redemption value or initial value, based on the predetermined formula defined in the respective limited partnership agreement. As a result, the value of the non-controlling interest is not adjusted below its initial value. The Company records any adjustment in the redemption value, net of tax, directly to retained earnings and are not reflected in the statements of net income. Although the adjustments are not reflected in the statements of net income, current accounting rules require that the Company reflects the adjustments, net of tax, in the earnings per share calculation. The amount of net income attributable to redeemable non-controlling interest owners is included in consolidated net income on the face of the income statement.

Non-Controlling Interests

The Company recognizes non-controlling interests as equity in the consolidated financial statements separate from the parent entity's equity. Changes in a parent entity's ownership interest in a subsidiary that do not result in deconsolidation are treated as equity transactions if the parent entity retains its controlling financial interest. The Company recognizes a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss is measured using the fair value of the non-controlling interest on the deconsolidation date.

When the purchase price of a non-controlling interest by the Company exceeds or is less than the book value at the time of purchase, any excess or shortfall, as applicable, is recognized as an adjustment to additional paid-in capital. Additionally, operating losses are allocated to non-controlling interests even when such allocation creates a deficit balance for the non-controlling interest partner.

Revenue Recognition

Revenues are recognized in the period in which services are rendered. Net patient revenues (patient revenues less estimated contractual adjustments) are reported at the estimated net realizable amounts from third-party payors, patients and others for services rendered. The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established rates. The allowance for estimated contractual adjustments is based on terms of payor contracts and historical collection and write-off experience.

The Company determines allowances for doubtful accounts based on the specific agings and payor classifications at each clinic. The provision for doubtful accounts is included in operating costs in the statement of net income. Net accounts receivable, which are stated at the historical carrying amount net of contractual allowances, write-offs and allowance for doubtful accounts, includes only those amounts the Company estimates to be collectible.

Medicare Reimbursement

The Medicare program reimburses outpatient rehabilitation providers based on the Medicare Physician Fee Schedule ("MPFS"). The MPFS rates have historically been subject to an automatic annual update based on a formula, called the sustainable growth rate ("SGR") formula. The use of the SGR formula would have resulted in calculated automatic reductions in rates in every year since 2002; however, for each year through September 30, 2015, Centers for Medicare & Medicaid Services ("CMS") or Congress has taken action to prevent the implementation of SGR formula reductions. On April 16, 2015, the Medicare Access and CHIP Reauthorization Act of 2015 ("MACRA") was signed into law, eliminating the SGR formula and the associated annual automatic rate reductions. The MACRA promotes the development of new payment models that focus on quality and outcomes. As a result of MACRA and CMS' adjustment to the applicable conversion factor, the net fee schedule payment rates were increased for 2017 by 0.24%. For 2018 and 2019, a 0.5% increase will be applied each year to the fee schedule payment rates, unless further adjusted by CMS. On November 2, 2017, CMS published the final rule updating the MPFS rates for 2018. CMS has estimated that the overall impact of the revised fee schedule on providers of physical and occupational therapy will be approximately a reduction of 2.0%. However, the actual impact on the Company will depend on the composition of the CPT codes billed by the Company, which the Company is in the process of evaluating.

The Budget Control Act of 2011 increased the federal debt ceiling in connection with deficit reductions over the next ten years, and requires automatic reductions in federal spending by approximately \$1.2 trillion. Payments to Medicare providers are subject to these automatic spending reductions, subject to a 2% cap. On April 1, 2013, a 2% reduction to Medicare payments was implemented. The Bipartisan Budget Act of 2015, enacted on November 2, 2015, extends the 2% reductions to Medicare payments through fiscal year 2025.

As a result of the Balanced Budget Act of 1997, the formula for determining the total amount paid by Medicare in any one year for outpatient physical therapy, occupational therapy, and/or speech/language pathology services provided to any Medicare beneficiary (i.e., the "Therapy Cap" or "Limit") was established. Based on the statutory definitions which constrained how the Therapy Cap would be applied, there is one Limit for Physical Therapy and Speech Language Pathology Services combined, and one Limit for Occupational Therapy. For 2017, the annual Limit on outpatient therapy services is \$1,980 for Physical and Speech Language Pathology Services combined and \$1,980 for Occupational Therapy Services. Historically, these Therapy Caps applied to outpatient therapy services provided in all settings, except for services provided in departments of hospitals. However, the Protecting Access to Medicare Act of 2014, and prior legislation, extended the Therapy Caps to services furnished in hospital outpatient department settings. The application of these annual limits to hospital outpatient department settings will sunset on December 31, 2017 unless Congress extends it.

In the Deficit Reduction Act of 2005, Congress implemented an exceptions process to the annual Limit for therapy expenses for therapy services above the annual Limit. Therapy services above the annual Limit that are medically necessary satisfy an exception to the annual Limit and such claims are payable by the Medicare program. The MACRA extended the exceptions process for outpatient therapy caps through December 31, 2017. Unless Congress extends the exceptions process further, the exceptions no longer will be available in those outpatient therapy setting where the annual Limits are applicable. For any claim above the annual Limit, the claim must contain a modifier indicating that the services are medically necessary and justified by appropriate documentation in the medical record.

Furthermore, under the Middle Class Tax Relief and Job Creation Act of 2012 (“MCTRA”), since October 1, 2012, patients who met or exceeded \$3,700 in therapy expenditures during a calendar year have been subject to a manual medical review to determine whether applicable payment criteria are satisfied. The \$3,700 threshold is applied to Physical Therapy and Speech Language Pathology Services; a separate \$3,700 threshold is applied to the Occupational Therapy. The MACRA directed CMS to modify the manual medical review process such that those reviews will no longer apply to all claims exceeding the \$3,700 threshold and instead will be determined on a targeted basis based on a variety of factors that CMS considers appropriate.

CMS adopted a multiple procedure payment reduction (“MPPR”) for therapy services in the final update to the MPFS for calendar year 2011. The MPPR applied to all outpatient therapy services paid under Medicare Part B — occupational therapy, physical therapy and speech-language pathology. Under the policy, the Medicare program pays 100% of the practice expense component of the Relative Value Unit (“RVU”) for the therapy procedure with the highest practice expense RVU, then reduces the payment for the practice expense component for the second and subsequent therapy procedures or units of service furnished during the same day for the same patient, regardless of whether those therapy services are furnished in separate sessions. Since 2013, the practice expense component for the second and subsequent therapy service furnished during the same day for the same patient was reduced by 50%. In addition, the MCTRA directed CMS to implement a claims-based data collection program to gather additional data on patient function during the course of therapy in order to better understand patient conditions and outcomes. All practice settings that provide outpatient therapy services are required to include this data on the claim form. Since 2013, therapists have been required to report new codes and modifiers on the claim form that reflect a patient’s functional limitations and goals at initial evaluation, periodically throughout care, and at discharge, CMS has rejected claims if the required data is not included in the claim.

The Physician Quality Reporting System, or “PQRS,” is a CMS reporting program that uses a combination of incentive payments and payment reductions to promote reporting of quality information by “eligible professionals.” Although physical therapists, occupational therapists and qualified speech-language therapists were generally able to participate in the PQRS program, therapy professionals for whose services we bill through our certified rehabilitation agencies cannot participate because the Medicare claims processing systems currently cannot accommodate institutional providers such as certified rehabilitation agencies. Eligible professionals, such as those of our therapy professionals for whose services we bill using their individual Medicare provider numbers, who do not satisfactorily report data on quality measures are subject to a 2% reduction in their Medicare payment in 2017. As required under the MACRA, the PQRS program has been replaced with the Merit-Based Incentive Payment System (MIPS) on January 1, 2017. Physical therapists and occupational therapists are not required to participate in the MIPS program until January 1, 2019 or later, as determined by CMS.

Statutes, regulations, and payment rules governing the delivery of therapy services to Medicare beneficiaries are complex and subject to interpretation. The Company believes that it is in compliance in all material respects with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the Company’s financial statements as of September 30, 2017. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare program. For the nine months ended September 30, 2017, net revenue from Medicare accounts for approximately \$68.5 million.

Management Contract Revenues

Management contract revenues are derived from contractual arrangements whereby the Company manages a clinic for third party owners. The Company does not have any ownership interest in these clinics. Typically, revenues are determined based on the number of visits conducted at the clinic and recognized when services are performed. Costs, typically salaries for the Company’s employees, are recorded when incurred. Management contract revenues are included in “other revenues” in the accompanying Consolidated Statements of Net Income.

Contractual Allowances

Contractual allowances result from the differences between the rates charged for services performed and expected reimbursements by both insurance companies and government sponsored healthcare programs for such services. Medicare regulations and the various third party payors and managed care contracts are often complex and may include multiple reimbursement mechanisms payable for the services provided in Company clinics. The Company estimates contractual allowances based on its interpretation of the applicable regulations, payor contracts and historical calculations. Each month the Company estimates its contractual allowance for each clinic based on payor contracts and the historical collection experience of the clinic and applies an appropriate contractual allowance reserve percentage to the gross accounts receivable balances for each payor of the clinic. Based on the Company's historical experience, calculating the contractual allowance reserve percentage at the payor level is sufficient to allow the Company to provide the necessary detail and accuracy with its collectability estimates. However, the services authorized and provided and related reimbursement are subject to interpretation that could result in payments that differ from the Company's estimates. Payor terms are periodically revised necessitating continual review and assessment of the estimates made by management. The Company's billing system does not capture the exact change in its contractual allowance reserve estimate from period to period in order to assess the accuracy of its revenues and hence its contractual allowance reserves. Management regularly compares its cash collections to corresponding net revenues measured both in the aggregate and on a clinic-by-clinic basis. In the aggregate, the historical difference between net revenues and corresponding cash collections has generally reflected a difference within approximately 1% of net revenues. Additionally, analysis of subsequent period's contractual write-offs on a payor basis reflects a difference within approximately 1% between the actual aggregate contractual reserve percentage as compared to the estimated contractual allowance reserve percentage associated with the same period end balance. As a result, the Company believes that a change in the contractual allowance reserve estimate would not likely be more than 1% at September 30, 2017.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount to be recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

The Company did not have any accrued interest or penalties associated with any unrecognized tax benefits nor was any interest expense recognized during the nine months ended September 30, 2017. The Company will book any interest or penalties, if required, in interest and/or other income/expense as appropriate.

Fair Value of Financial Instruments

The carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable, accounts payable and notes payable approximate their fair values due to the short-term maturity of these financial instruments. The carrying amount under the Amended Credit Agreement approximates its fair value. The interest rate on the Amended Credit Agreement, which is tied to the Eurodollar Rate, is set at various short-term intervals, as detailed in the Amended Credit Agreement.

Segment Reporting

Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by chief operating decision makers in deciding how to allocate resources and in assessing performance. The Company identifies operating segments based on management responsibility and believes it meets the criteria for aggregating its operating segments into a single reporting segment.

Use of Estimates

In preparing the Company's consolidated financial statements, management makes certain estimates and assumptions, especially in relation to, but not limited to, purchase accounting, goodwill impairment, allowance for receivables, tax provision and contractual allowances, that affect the amounts reported in the consolidated financial statements and related disclosures. Actual results may differ from these estimates.

Self-Insurance Program

The Company utilizes a self-insurance plan for its employee group health insurance coverage administered by a third party. Predetermined loss limits have been arranged with the insurance company to minimize the Company's maximum liability and cash outlay. Accrued expenses include the estimated incurred but unreported costs to settle unpaid claims and estimated future claims. Management believes that the current accrued amounts are sufficient to pay claims arising from self-insurance claims incurred through September 30, 2017.

Restricted Stock

Restricted stock issued to employees and directors is subject to continued employment or continued service on the board, respectively. Generally, restrictions on the stock granted to employees, other than officers, lapse in equal annual installments on the following four anniversaries of the date of grant. For those shares granted to directors, the restrictions will lapse in equal quarterly installments during the first year after the date of grant. For those granted to officers, the restriction will lapse in equal quarterly installments during the four years following the date of grant. Compensation expense for grants of restricted stock is recognized based on the fair value per share on the date of grant amortized over the vesting period. The restricted stock issued is included in basic and diluted shares for the earnings per share computation.

Recently Adopted Accounting Guidance

In March 2016, the FASB issued guidance to simplify some provisions in stock compensation accounting. The guidance amends how excess tax benefits and a company's payments to cover tax bills for the recipients' shares should be classified. Prior to this guidance, excess tax benefits were recorded in additional paid-in capital, but will now become a component of the income tax provision/benefit in the period in which they occur. This guidance allows companies to estimate the number of stock awards expected to vest and revises the withholding requirements for classifying stock awards as equity. For public business entities, this guidance is effective for fiscal years starting after December 15, 2016, including interim periods within those fiscal years but early adoption is allowed. The Company adopted this accounting treatment in the fourth quarter of 2016 and retrospectively adjusted each quarter period in 2016. The adoption increased earnings, by decreasing the tax provision, by \$0.2 million for the three months ended September 30, 2017 and 2016 and by \$1.1 million in the first nine months of 2017 and \$0.8 million in the first nine months of 2016. The election to record forfeitures in the period they occur is consistent with the Company's past approach, due to the immateriality of past forfeitures, and the Company believes the effect to be immaterial on the consolidated financial statements.

Recently Issued Accounting Guidance

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment (Topic 350)*, which eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment change. ASU 2017-04 is effective prospectively for fiscal years, and the interim periods within those years, beginning after December 15, 2019. The Company is currently evaluating the impact of adopting this ASU on our consolidated financial statements and do not expect adoption to have a material impact.

In February 2016, the FASB issued amended accounting guidance (ASU 2016-02 - *Leases*) which replaced most existing lease accounting guidance under U. S. generally accepted accounting principles. Among other changes, the amended guidance requires that a right-to-use asset, which is an asset that represents the lessee's right to use, and a lease liability, which is a lessee's obligation to make lease payments arising for a lease measured on a discounted basis, be recognized on the balance sheet by lessees for those leases with a term of greater than 12 months. The amended guidance is effective for reporting periods beginning after December 15, 2018; however, early adoption is permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements.

Since the Company leases all but one of its clinic facilities, upon adoption, the Company will recognize significant assets and liabilities on the consolidated balance sheets as a result of the operating lease obligations of the Company. Operating lease expense will still be recognized as rent expense on a straight-line basis over the respective lease terms in the consolidated statements of operations.

The Company will implement the new standard beginning January 1, 2019. The Company's implementation efforts are focused on populating the data in a lease accounting software package and developing internal controls in order to account for its leases under the new standard.

In May 2014, March 2016, April 2016, and December 2016, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, ASU 2016-08, *Revenue from Contracts with Customers, Principal versus Agent Considerations*, ASU 2016-10, *Revenue from Contracts with Customers, Identifying Performance Obligations and Licensing*, ASU 2016-12, *Revenue from Contracts with Customers, Narrow Scope Improvements and Practical Expedients*, and ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customer* (collectively "the standards"), respectively, which supersede most of the current revenue recognition requirements. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. New disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers are also required. The original standards were effective for fiscal years beginning after December 15, 2016; however, in July 2015, the FASB approved a one-year deferral of these standards, with a new effective date for fiscal years beginning after December 15, 2017. The standards require the selection of a retrospective or cumulative effect transition method.

The Company will implement the new standard beginning January 1, 2018 using a modified retrospective transition method. Adoption of the new standard will not result in material changes to the presentation of net operating revenues and bad debt expense in the consolidated statements of operations and the presentation of the amount of income from operations and net income will be unchanged upon adoption of the new standards. The principal change relates to how the new standard requires healthcare providers to estimate the amount of variable consideration to be included in the transaction price up to an amount which is probable that a significant reversal will not occur. The most common form of variable consideration the Company experiences are amounts for services provided that are ultimately not realizable from a customer. Under the current standards, the Company's estimate for unrealizable amounts is recorded as a reduction of revenue. Under the new standards, the Company's estimate for unrealizable amounts will continue to be recognized as a reduction to revenue and to be reflected as an allowance. The bad debt expense historically reported will not materially change. The Company does not anticipate a material adjustment upon adoption of these standards.

Subsequent Event

The Company has evaluated events occurring after the balance sheet date for possible disclosure as a subsequent event through the date that these consolidated financial statements were issued. No disclosure was required.

2. ACQUISITIONS OF BUSINESSES

On January 1, 2017, the Company acquired a 70% interest in a seventeen-clinic physical therapy practice. The purchase price for the 70% interest was \$10.7 million in cash and \$0.5 million in a seller note that is payable in two principal installments totaling \$250,000 each, plus accrued interest, in January 2018 and 2019.

On March 23, 2017, (effective March 1, 2017 for accounting purposes) the Company acquired a 55% interest in a company which is a leading provider of workforce performance solutions. Services provided include onsite injury prevention and rehabilitation, performance optimization and ergonomic assessments. The majority of these services are contracted with and paid for directly by employers including a number of Fortune 500 companies. Other clients include large insurers and their contractors. The purchase price for the 55% interest was \$6.2 million in cash and \$0.4 million in a seller note that is payable, principal plus accrued interest, in September 2018.

On May 31, 2017 the Company acquired a 70% interest in a four-clinic physical therapy practice. The purchase price for the 70% interest was \$2.3 million in cash and \$250,000 in a seller note that is payable in two principal installments totaling \$125,000 each, plus accrued interest, in May 2018 and 2019.

On June 30, 2017, the Company acquired a 60% interest in a nine-clinic physical therapy practice. The purchase price for the 60% interest was \$15.8 million in cash and \$0.5 million in a seller note that is payable in two principal installments totaling \$250,000 each, plus accrued interest, in June 2018 and 2019.

Also, during the first nine months of 2017, the Company purchased the assets and business of two physical therapy clinics, in separate transactions, for an aggregate purchase price of \$175,000. One clinic was consolidated with an existing clinic and the other operates as a satellite clinic of one of the existing partnerships.

The purchase price for the 2017 acquisitions has been preliminarily allocated as follows (in thousands):

| | | |
|---|----|-----------------|
| Cash paid, net of cash acquired | \$ | 33,740 |
| Seller notes | | 1,650 |
| Total consideration | \$ | <u>35,390</u> |
| Estimated fair value of net tangible assets acquired: | | |
| Total current assets | \$ | 5,681 |
| Total non-current assets | | 1,790 |
| Total liabilities | | <u>(1,844)</u> |
| Net tangible assets acquired | \$ | 5,627 |
| Referral relationships | | 4,693 |
| Non-compete | | 1,790 |
| Tradename | | 5,118 |
| Goodwill | | 40,384 |
| Fair value of non-controlling interest (classified as redeemable non-controlling interests) | | (11,940) |
| Fair value of non-controlling interest (classified as mandatorily redeemable non-controlling interests) | | <u>(10,282)</u> |
| | \$ | <u>35,390</u> |

On November 30, 2016, the Company acquired a 60% interest in a 12 clinic physical therapy practice. The purchase price for the 60% interest was \$11.0 million in cash and \$0.5 million in a seller note that is payable in two principal installments of \$250,000 each, plus accrued interest, in November 2017 and 2018. On February 29, 2016, the Company acquired a 55% interest in an eight-clinic physical therapy practice. The purchase price for the 55% interest was \$13.2 million in cash and \$0.5 million in a seller note that is payable in two principal installments of \$250,000 each, plus accrued interest, one of which was paid in February 2017 and one of which is due in February 2018. During 2016, two subsidiaries of the Company each acquired a single clinic therapy practice for an aggregate purchase price of \$75,000.

The purchase prices for the 2016 acquisitions have been preliminarily allocated as follows (in thousands):

| | | |
|---|----|-----------------|
| Cash paid, net of cash acquired | \$ | 23,623 |
| Seller notes | | 1,000 |
| Total consideration | \$ | <u>24,623</u> |
| Estimated fair value of net tangible assets acquired: | | |
| Total current assets | \$ | 1,764 |
| Total non-current assets | | 839 |
| Total liabilities | | <u>(947)</u> |
| Net tangible assets acquired | \$ | 1,656 |
| Referral relationships | | 4,919 |
| Non-compete | | 847 |
| Tradename | | 3,802 |
| Goodwill | | 32,278 |
| Fair value of non-controlling interest (classified as mandatorily redeemable non-controlling interests) | | <u>(18,879)</u> |
| | \$ | <u>24,623</u> |

For the acquisition that occurred in the first quarter of 2016, the purchase price plus the fair value of the non-controlling interests was allocated to the fair value of certain assets acquired (patient accounts receivable, equipment, prepaid expenses and deposits, tradename, non-compete agreements and referral relationships) and liabilities assumed (accounts payable and accrued employee salary and benefits) based on the fair values at the acquisition date, with the amount exceeding the fair values being recorded as goodwill. For acquisitions that occurred after September 30, 2016, the purchase price plus the fair value of the non-controlling interests was allocated to the fair value of certain assets acquired (patient accounts receivable, equipment, prepaid expenses and deposits, tradename, non-compete agreements and referral relationships) and liabilities assumed (accounts payable and accrued employee salary and benefits) based on the preliminary estimates of the fair values at the acquisition date, with the amount exceeding the estimated fair values being recorded as goodwill. The Company is in the process of completing its formal valuation analysis. Thus, the final allocation of the purchase price will differ from the preliminary estimates used based on additional information obtained. Changes in the estimated valuation of the tangible and intangible assets acquired and the completion by the Company of the identification of any unrecorded pre-acquisition contingencies, where the liability is probable and the amount can be reasonably estimated, will likely result in adjustments to goodwill.

For the above acquisitions, total current assets primarily represent patient accounts receivable. Total non-current assets are fixed assets, primarily equipment, used in the practices. The estimated values assigned to the referral relationships and non-compete agreements are being amortized to expense equally over the respective estimated lives. For referral relationships, the range of the estimated lives was 12 to 13 years, and for non-compete agreements the estimated lives was six years. The values assigned to tradenames and goodwill is tested annually for impairment.

The consideration for each transaction was agreed upon through arm's length negotiations. Funding for the cash portion of the purchase price for the 2017 and 2016 acquisitions was derived from proceeds under the Amended Credit Agreement.

The results of operations of these acquisitions have been included in the Company's consolidated financial statements since acquired. Unaudited proforma consolidated financial information for acquisitions occurring in 2017 and 2016 have not been included as the results were not material to current operations.

3. MANDATORILY REDEEMABLE NON-CONTROLLING INTERESTS

Prior to the second quarter of 2017, when the Company acquired a majority interest (the "Acquisition") in a physical therapy clinic business (referred to as "Therapy Practice"), these Acquisitions occurred in a series of steps which are described below.

1. Prior to the Acquisition, the Therapy Practice exists as a separate legal entity (the "Seller Entity"). The Seller Entity is owned by one or more individuals (the "Selling Shareholders") most of whom are physical therapists that work in the Therapy Practice and provide physical therapy services to patients.
2. In conjunction with the Acquisition, the Seller Entity contributes the Therapy Practice into a newly-formed limited partnership ("NewCo"), in exchange for one hundred percent (100%) of the limited and general partnership interests in NewCo. Therefore, in this step, NewCo becomes a wholly-owned subsidiary of the Seller Entity.
3. The Company enters into an agreement (the "Purchase Agreement") to acquire from the Seller Entity a majority (ranges from 50% to 90%) of the limited partnership interest and, in all cases, 100% of the general partnership interest in NewCo. The Company does not purchase 100% of the limited partnership interest because the Selling Shareholders, through the Seller Entity, want to maintain an ownership percentage. The consideration for the Acquisition is primarily payable in the form of cash at closing and a small two-year note in lieu of an escrow (the "Purchase Price"). The Purchase Agreement does not contain any future earn-out or other contingent consideration that is payable to the Seller Entity or the Selling Shareholders.
4. The Company and the Seller Entity also execute a partnership agreement (the "Partnership Agreement") for NewCo that sets forth the rights and obligations of the limited and general partners of NewCo. After the Acquisition, the Company is the general partner of NewCo.
5. As noted above, the Company does not purchase 100% of the limited partnership interests in NewCo and the Seller Entity retains a portion of the limited partnership interest in NewCo ("Seller Entity Interest").
6. In most cases, some or all of the Selling Shareholders enter into an employment agreement (the "Employment Agreement") with NewCo with an initial term that ranges from three to five years (the "Employment Term"), with automatic one-year renewals, unless employment is terminated prior to the end of the Employment Term. As a result, a Selling Shareholder becomes an employee ("Employed Selling Shareholder") of NewCo. The employment of an Employed Selling Shareholder can be terminated by the Employed Selling Shareholder or NewCo, with or without cause, at any time. In a few situations, a Selling Shareholder does not become employed by NewCo and is not involved with NewCo following the closing; in those situations, such Selling Shareholders sell their entire ownership interest in the Seller Entity as of the closing of the Acquisition.
7. The compensation of each Employed Selling Shareholder is specified in the Employment Agreement and is customary and commensurate with his or her responsibilities based on other employees in similar capacities within NewCo, the Company and the industry.

8. The Company and the Selling Shareholder (including both Employed Selling Shareholders and Selling Shareholders not employed by NewCo) execute a non-compete agreement (the “Non- Compete Agreement”) which restricts the Selling Shareholder from engaging in competing business activities for a specified period of time (the “Non-Compete Term”). A Non-Compete Agreement is executed with the Selling Shareholders in all cases. That is, even if the Selling Shareholder does not become an Employed Selling Shareholder, the Selling Shareholder is restricted from engaging in a competing business during the Non-Compete Term.
9. The Non-Compete Term commences as of the date of the Acquisition and expires on the later of:
 - a. Two years after the date an Employed Selling Shareholders’ employment is terminated (if the Selling Shareholder becomes an Employed Selling Shareholder) or
 - b. Five to six years from the date of the Acquisition, as defined in the Non-Compete Agreement, regardless of whether the Selling Shareholder is employed by NewCo.
10. The Non-Compete Agreement applies to a restricted region which is defined as a 15-mile radius from the Therapy Practice. That is, an Employed Selling Shareholder is permitted to engage in competing businesses or activities outside the 15-mile radius (after such Employed Selling Shareholder no longer is employed by NewCo) and a Selling Shareholder who is not employed by NewCo immediately is permitted to engage in the competing business or activities outside the 15-mile radius.
11. The Partnership Agreement contains provisions for the redemption of the Seller Entity Interest, either at the option of the Company (the “Call Option”) or on a required basis (the “Required Redemption”):
 - a. Required Redemption
 - i. Once the Required Redemption is triggered, the Company is obligated to purchase from the Seller Entity and the Seller Entity is obligated to sell to the Company, the allocable portion of the Seller Entity Interest based on the terminated Selling Shareholder’s pro rata ownership interest in the Seller Entity (the “Allocable Portion”). Required Redemption is triggered when both of the following events have occurred:
 1. Termination of an Employed Selling Shareholder’s employment with NewCo, regardless of the reason for such termination, and
 2. The expiration of an agreed upon period of time, typically three to five years, as set forth in the relevant Partnership Agreement (the “Holding Period”).
 - ii. In the event an Employed Selling Shareholder’s employment terminates prior to the expiration of the Holding Period, the Required Redemption would occur only upon expiration of the Holding Period.
 - b. Call Option
 - i. In the event that an Employed Selling Shareholder’s employment terminates prior to expiration of the Holding Period, the Company has the contractual right, but not the obligation, to acquire the Employed Selling Shareholder’s Allocable Portion of the Seller Entity Interest from the Seller Entity through exercise of the Call Option.
 - c. For the Required Redemption and the Call Option, the purchase price is derived from a formula based on a specified multiple of NewCo’s trailing twelve months of earnings before interest, taxes, depreciation, amortization, and the Company’s internal management fee, plus an Allocable Portion of any undistributed earnings of NewCo (the “Redemption Amount”). NewCo’s earnings are distributed monthly based on available cash within NewCo; therefore, the undistributed earnings amount is small, if any.
 - d. The Purchase Price for the initial equity interest purchased by the Company is also based on the same specified multiple of the trailing twelve-month earnings that is used in the Required Redemption noted above.
 - e. Although, the Required Redemption and the Call Option do not have an expiration date, the Seller Entity Interest eventually will be purchased by the Company.
 - f. The Required Redemption and the Call Option never apply to Selling Shareholders who do not become employed by NewCo, since the Company requires that such Selling Shareholders sell their entire ownership interest in the Seller Entity at the closing of the Acquisition.
12. An Employed Selling Shareholder’s ownership of his or her equity interest in the Seller Entity predates the Acquisition and the Company’s purchase of its partnership interest in NewCo. The Employment Agreement and the Non-Compete Agreement do not contain any provision to escrow or “claw back” the equity interest in the Seller Entity held by such Employed Selling Shareholder, nor the Seller Entity Interest in NewCo, in the event of a breach of the employment or non-compete terms. More specifically, even if the Employed Selling Shareholder is terminated for “cause” by NewCo, such Employed Selling Shareholder does not forfeit his or her right to his or her full equity interest in the Seller Entity and the Seller Entity does not forfeit its right to any portion of the Seller Entity Interest. The Company’s only recourse against the Employed Selling Shareholder for breach of either the Employment Agreement or the Non-Compete Agreement is to seek damages and other legal remedies under such agreements. There are no conditions in any of the arrangements with an Employed Selling Shareholder that would result in a forfeiture of the equity interest held in the Seller Entity or of the Seller Entity Interest.

For the nine months ended September 30, 2017 and September 30, 2016, the following table details the changes in the carrying amount of mandatorily redeemable non-controlling interest (in thousands):

| | <u>Nine Months Ended September 30, 2017</u> | <u>Nine Months Ended September 30, 2016</u> |
|--|---|---|
| Beginning balance | \$ 69,190 | \$ 45,974 |
| Operating results allocated to mandatorily redeemable non-controlling interest partners | 4,366 | 3,146 |
| Distributions to mandatorily redeemable non-controlling interest partners | (5,136) | (3,955) |
| Changes in the redemption value of mandatorily redeemable non-controlling interest | 7,839 | 6,056 |
| Payments for settlement of mandatorily redeemable non-controlling interest | (2,230) | (1,136) |
| Purchases of businesses - initial liability related to mandatorily redeemable non-controlling interest | 10,282 | 11,191 |
| Ending balance | <u>\$ 84,311</u> | <u>\$ 61,276</u> |

The following table details the carrying amount of the mandatorily redeemable non-controlling interest (in thousands) as of September 30, 2017 and September 30, 2016:

| | <u>September 30, 2017</u> | <u>September 30, 2016</u> |
|--|---------------------------|---------------------------|
| Contractual time period has lapsed but holder's employment has not been terminated | \$ 31,448 | \$ 21,269 |
| Contractual time period has not lapsed and holder's employment has not been terminated | 56,092 | 42,576 |
| Holder's employment has terminated and contractual time period has expired | - | - |
| Holder's employment has terminated and contractual time period has not expired | - | - |
| Redemption value prior to excess distributed earnings | <u>\$ 87,540</u> | <u>\$ 63,845</u> |
| Excess distributions over earnings and losses | (3,229) | (2,569) |
| | <u>\$ 84,311</u> | <u>\$ 61,276</u> |

4. REDEEMABLE NON-CONTROLLING INTERESTS

When the Company acquires a majority interest in a Therapy Practice, those Acquisitions occur in a series of steps as described in numbers 1 through 10 of footnote 3 – Mandatorily Redeemable Non-Controlling Interests. For the Acquisitions that occurred after the first quarter of 2017, the Partnership Agreement contained provisions for the redemption of the Seller Entity Interest, either at the option of the Company (the “Call Right”) or at the option of the Seller Entity (the “Put Right”) as follows:

1. Put Right
 - a. In the event that any Selling Shareholder’s employment is terminated involuntarily by the Company without “Cause” pursuant to Section 7(d) of such Selling Shareholder’s Employment Agreement prior to the fifth anniversary of the Closing Date, the Seller Entity thereafter shall have an irrevocable right to cause the Company to purchase from Seller Entity the Terminated Selling Shareholder’s Allocable Percentage of Seller Entity’s Interest at the purchase price described in “3” below.
 - b. In the event that any Selling Shareholder is not employed by NewCo as of the fifth anniversary of the Closing Date and the Company has not exercised its Call Right with respect to the Terminated Selling Shareholder’s Allocable Percentage of Seller Entity’s Interest, Seller Entity thereafter shall have the Put Right to cause the Company to purchase from Seller Entity the Terminated Selling Shareholder’s Allocable Percentage of Seller Entity’s Interest at the purchase price described in “3” below.
 - c. In the event that any Selling Shareholder’s employment with NewCo is terminated for any reason on or after the fifth anniversary of the Closing Date, the Seller Entity shall have the Put Right, and upon the exercise of the Put Right, the Terminated Selling Shareholder’s Allocable Percentage of Seller Entity’s Interest shall be redeemed by the Company at the purchase price described in “3” below.

2. Call Right
 - a. If any Selling Shareholder’s employment by NewCo is terminated (i) pursuant to a voluntary termination by the Selling Shareholder or (ii) by NewCo with “Cause” (as defined in the Selling Shareholder’s Employment Agreement), prior to the fifth anniversary of the Closing Date, the Company thereafter shall have an irrevocable right to purchase from Seller Entity the Terminated Selling Shareholder’s Allocable Percentage of Seller Entity’s Interest, in each case at the purchase price described in “3” below.
 - b. In the event that any Selling Shareholder’s employment with NewCo is terminated for any reason on or after the fifth anniversary of the Closing Date, the Company shall have the Call Right, and upon the exercise of the Call Right, the Terminated Selling Shareholder’s Allocable Percentage of Seller Entity’s Interest shall be redeemed by the Company at the purchase price described in “3” below.
3. For the Put Right and the Call Right, the purchase price is derived from a formula based on a specified multiple of NewCo’s trailing twelve months of earnings before interest, taxes, depreciation, amortization, and the Company’s internal management fee, plus an Allocable Percentage of any undistributed earnings of NewCo (the “Redemption Amount”). NewCo’s earnings are distributed monthly based on available cash within NewCo; therefore, the undistributed earnings amount is small, if any.
4. The Purchase Price for the initial equity interest purchased by the Company is also based on the same specified multiple of the trailing twelve-month earnings that is used in the Put Right and the Call Right noted above.
5. The Put Right and the Call Right do not have an expiration date, but the Seller Entity Interest is not required to be purchased by the Company or sold by the Seller Entity.
6. The Put Right and the Call Right never apply to Selling Shareholders who do not become employed by NewCo, since the Company requires that such Selling Shareholders sell their entire ownership interest in the Seller Entity at the closing of the Acquisition.

An Employed Selling Shareholder’s ownership of his or her equity interest in the Seller Entity predates the Acquisition and the Company’s purchase of its partnership interest in NewCo. The Employment Agreement and the Non-Compete Agreement do not contain any provision to escrow or “claw back” the equity interest in the Seller Entity held by such Employed Selling Shareholder, nor the Seller Entity Interest in NewCo, in the event of a breach of the employment or non-compete terms. More specifically, even if the Employed Selling Shareholder is terminated for “cause” by NewCo, such Employed Selling Shareholder does not forfeit his or her right to his or her full equity interest in the Seller Entity and the Seller Entity does not forfeit its right to any portion of the Seller Entity Interest. The Company’s only recourse against the Employed Selling Shareholder for breach of either the Employment Agreement or the Non-Compete Agreement is to seek damages and other legal remedies under such agreements. There are no conditions in any of the arrangements with an Employed Selling Shareholder that would result in a forfeiture of the equity interest held in the Seller Entity or of the Seller Entity Interest.

For the nine months ended September 30, 2017, the following table details the changes in the carrying amount of redeemable non-controlling interest (in thousands):

| | <u>Nine Months Ended September 30, 2017</u> |
|---|--|
| Beginning balance | \$ - |
| Operating results allocated to redeemable non-controlling interest partners | 155 |
| Distributions to redeemable non-controlling interest partners | (16) |
| Purchases of businesses - initial equity related to redeemable non-controlling interest | 11,940 |
| Ending balance | <u>\$ 12,079</u> |

5. GOODWILL

The changes in the carrying amount of goodwill consisted of the following (in thousands):

| | Nine Months Ended September 30, 2017 |
|---|---|
| Beginning balance | \$ 226,806 |
| Goodwill acquired during the period | 40,384 |
| Goodwill adjustments for purchase price allocation of business acquired | 860 |
| Ending balance | <u>\$ 268,050</u> |

6. INTANGIBLE ASSETS, NET

Intangible assets, net as of September 30, 2017 and December 31, 2016 consisted of the following (in thousands):

| | September 30, 2017 | December 31, 2016 |
|--|---------------------------|--------------------------|
| Tradenames | \$ 26,352 | \$ 21,234 |
| Referral relationships, net of accumulated amortization of \$6,741 and \$5,275, respectively | 18,092 | 14,859 |
| Non-compete agreements, net of accumulated amortization of \$4,012 and \$3,380, respectively | 3,124 | 1,967 |
| | <u>\$ 47,568</u> | <u>\$ 38,060</u> |

Tradenames, referral relationships and non-compete agreements are related to the businesses acquired. Typically, the value assigned to tradenames has an indefinite life and is tested at least annually for impairment using the relief from royalty method in conjunction with the Company's annual goodwill impairment test. The value assigned to referral relationships is being amortized over their respective estimated useful lives which range from six to 16 years. Non-compete agreements are amortized over the respective term of the agreements which range from five to six years.

The following table details the amount of amortization expense recorded for intangible assets for the three and nine months ended September 30, 2017 and 2016 (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | September 30, 2017 | September 30, 2016 | September 30, 2017 | September 30, 2016 |
| Tradenames | \$ - | \$ 20 | \$ - | \$ 62 |
| Referral relationships | 527 | 352 | 1,466 | 1,027 |
| Non-compete agreements | 231 | 148 | 632 | 429 |
| | <u>\$ 758</u> | <u>\$ 520</u> | <u>\$ 2,098</u> | <u>\$ 1,518</u> |

Based on the balance of referral relationships and non-compete agreements as of September 30, 2017, the expected amount to be amortized in 2017 and thereafter by year is as follows (in thousands):

| Referral Relationships | | Non-Compete Agreements | |
|-------------------------------|---------------|-------------------------------|---------------|
| Years | Annual Amount | Years | Annual Amount |
| 2017 | 1,993 | 2017 | 860 |
| 2018 | 2,063 | 2018 | 883 |
| 2019 | 1,973 | 2019 | 810 |
| 2020 | 1,973 | 2020 | 597 |
| 2021 | 1,973 | 2021 | 519 |
| Thereafter | 9,577 | Thereafter | 88 |

7. ACCRUED EXPENSES

Accrued expenses as of September 30, 2017 and December 31, 2016 consisted of the following (in thousands):

| | September 30, 2017 | December 31, 2016 |
|--|---------------------------|--------------------------|
| Salaries and related costs | \$ 18,631 | \$ 10,569 |
| Credit balances due to patients and payors | 4,157 | 3,880 |
| Group health insurance claims | 2,630 | 2,499 |
| Other | 6,074 | 4,808 |
| Total | \$ 31,492 | \$ 21,756 |

8. NOTES PAYABLE AND AMENDED CREDIT AGREEMENT

Amounts outstanding under the Amended Credit Agreement and notes payable as of September 30, 2017 and December 31, 2016 consisted of the following (in thousands):

| | September 30, 2017 | December 31, 2016 |
|--|---------------------------|--------------------------|
| Credit Agreement average effective interest rate of 3.0% inclusive of unused fee | \$ 56,000 | \$ 46,000 |
| Various notes payable with \$2,745 plus accrued interest due in the next year, interest accrues in the range of 3.25% through 4.0% per annum | 6,697 | 5,823 |
| | <u>62,697</u> | <u>51,823</u> |
| Less current portion | (2,745) | (1,227) |
| Long term portion | \$ 59,952 | \$ 50,596 |

Effective December 5, 2013, the Company entered into an Amended Credit Agreement, as defined below, with a commitment for a \$125.0 million revolving credit facility with a maturity date of November 30, 2018. This agreement was amended in August 2015, January 2016 and March 2017 (hereafter referred to as "Amended Credit Agreement"). The Amended Credit Agreement is unsecured and has loan covenants, including requirements that the Company comply with a consolidated fixed charge coverage ratio and consolidated leverage ratio. Proceeds from the Amended Credit Agreement may be used for working capital, acquisitions, purchases of the Company's common stock, dividend payments to the Company's common shareholders, capital expenditures and other corporate purposes. The pricing grid is based on the Company's consolidated leverage ratio with the applicable spread over LIBOR ranging from 1.5% to 2.5% or the applicable spread over the Base Rate ranging from 0.1% to 1%. Fees under the Amended Credit Agreement include an unused commitment fee ranging from 0.1% to 0.25% depending on the Company's consolidated leverage ratio and the amount of funds outstanding under the Amended Credit Agreement.

The January 2016 amendment to the Amended Credit Agreement increased the cash and noncash consideration that the Company could pay with respect to acquisitions permitted under the Amended Credit Agreement to \$50,000,000 for any fiscal year, and increased the amount the Company may pay in cash dividends to its shareholders in an aggregate amount not to exceed \$10,000,000 in any fiscal year. Further, the March 2017 amendment, among other items, increased the amount the Company may pay in cash dividends to its shareholders in an aggregate amount not to exceed \$15,000,000 in any fiscal year.

On September 30, 2017, \$56.0 million was outstanding on the Amended Credit Agreement resulting in \$69.0 million of availability. As of September 30, 2017 and the date of this report, the Company was in compliance with all of the covenants thereunder.

The Company generally enters into various notes payable as a means of financing a portion of its acquisitions and purchases of non-controlling interests. In conjunction with the acquisitions in the first nine months of 2017, the Company entered into notes payable in the aggregate amount of \$1.7 million, of which an aggregate principal payment of \$1,025,000 is due in 2018 and an aggregate principal payment of \$625,000 is due in 2019. Interest accrues at the rate of 4.0% per annum and is payable with each principal installment. In conjunction with the acquisitions in 2016 and the purchases of non-controlling interests, the Company entered into notes payable in the aggregate amount of \$1.5 million of which an aggregate principal payment of \$444,000 was paid in 2017, \$250,000 is due in November 2017 and \$819,000 is payable in 2018. Interest accrues 3.5% per annum and is payable with each principal installment. In conjunction with the acquisitions in 2015 and the purchases of non-controlling interests, the Company entered into notes payable in the aggregate amount of \$4.9 million, of which an aggregate principal payment of \$575,000 was paid in 2016, \$525,000 due in 2017 (of which \$325,000 was paid in the first nine months of 2017), \$1.9 million is due in 2018 and \$1.9 million in 2019. Interest accrues in the range of 3.25% to 4.0% per annum and is payable with each principal installment.

Aggregate annual payments of principal required pursuant to the Amended Credit Agreement and the above notes payable subsequent to September 30, 2017 are as follows (in thousands):

| | |
|---|------------------|
| During the twelve months ended September 30, 2018 | \$ 2,745 |
| During the twelve months ended September 30, 2019 | 59,952 |
| | <u>\$ 62,697</u> |

The revolving credit facility (balance at September 30, 2017 of \$56.0 million) matures on November 30, 2018.

9. COMMON STOCK

From September 2001 through December 31, 2008, the Board authorized the Company to purchase, in the open market or in privately negotiated transactions, up to 2,250,000 shares of the Company's common stock. In March 2009, the Board authorized the repurchase of up to 10% or approximately 1,200,000 shares of its common stock ("March 2009 Authorization"). The Amended Credit Agreement permits share repurchases of up to \$15,000,000, subject to compliance with covenants. The Company is required to retire shares purchased under the March 2009 Authorization.

Under the March 2009 Authorization, the Company has purchased a total of 859,499 shares. There is no expiration date for the share repurchase program. There are currently an additional estimated 244,100 shares (based on the closing price of \$61.45 on September 30, 2017) that may be purchased from time to time in the open market or private transactions depending on price, availability and the Company's cash position. The Company did not purchase any shares of its common stock during the nine months ended September 30, 2017.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following is a discussion of our historical consolidated financial condition and results of operations, and should be read in conjunction with (i) our historical consolidated financial statements and accompanying notes thereto included elsewhere in this Quarterly Report on Form 10-Q; (ii) our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission (the "SEC") on June 7, 2017; and (iii) our management's discussion and analysis of financial condition and results of operations included in our 2016 Form 10-K. This discussion includes forward-looking statements that are subject to risk and uncertainties. Actual results may differ substantially from the statements we make in this section due to a number of factors that are discussed in "Forward-Looking Statements" herein and "Part I – Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2016.

References to "we," "us," "our" and the "Company" shall mean U.S. Physical Therapy, Inc. and its subsidiaries.

EXECUTIVE SUMMARY**Our Business**

We operate outpatient physical therapy clinics that provide preventive and post-operative care for a variety of orthopedic-related disorders and sports-related injuries, treatment for neurologically-related injuries and rehabilitation of injured workers. As of September 30, 2017, we operated 569 clinics in 41 states.

We also manage physical therapy facilities for third parties, primarily physicians, with 30 third-party facilities under management as of September 30, 2017.

During the nine months of 2017 and the year ended 2016, we acquired the following clinic groups:

| | <u>Date</u> | <u>% Interest Acquired</u> | <u>Number of Clinics</u> |
|---------------------------|-------------|----------------------------|--------------------------|
| <u>2017</u> | | | |
| June 2017 Acquisition | June 30 | 60% | 9 |
| May 2017 Acquisition | May 31 | 70% | 4 |
| January 2017 Acquisition | January 1 | 70% | 17 |
| <u>2016</u> | | | |
| February 2016 Acquisition | February 29 | 55% | 8 |
| November 2016 Acquisition | November 30 | 60% | 12 |

On June 30, 2017, we acquired a 60% interest in a nine-clinic physical therapy practice. The purchase price for the 60% interest was \$15.8 million in cash and \$0.5 million in a seller note that is payable in two principal installments totaling \$250,000 each, plus accrued interest, in June 2018 and 2019. On May 31, 2017 we also acquired 70% interest in a four-clinic physical therapy practice. The purchase price for the 70% interest was \$2.3 million in cash and \$250,000 in a seller note that is payable in two principal installments totaling \$125,000 each, plus accrued interest, in May 2018 and 2019. On January 1, 2017, we acquired a 70% interest in a seventeen-clinic physical therapy practice. The purchase price for the 70% interest was \$10.7 million in cash and \$0.5 million in a seller note that is payable in two principal installments totaling \$250,000 each, plus accrued interest, in January 2018 and 2019.

In addition to the above clinic groups, we acquired a 55% interest in a company which is a leading provider of workforce performance solutions. Services provided include onsite injury prevention and rehabilitation, performance optimization and ergonomic assessments. The majority of these services are contracted with and paid for directly by employers including a number of Fortune 500 companies. Other clients include large insurers and their contractors. The purchase price for the 55% interest was \$6.2 million in cash and \$0.4 million in a seller note that is payable, principal plus accrued interest, in September 2018. Also, during the first nine months of 2017, we purchased the assets and business of two physical therapy clinics, in separate transactions, for an aggregate purchase price of \$175,000. One clinic was consolidated with an existing clinic and the other operates as a satellite clinic of one of our existing partnerships.

On November 30, 2016, we acquired a 60% interest in a 12 clinic physical therapy practice. The purchase price for the 60% interest was \$11.0 million in cash and \$0.5 million in a seller note that is payable in two principal installments of \$250,000 each, plus accrued interest, in November 2017 and 2018. On February 29, 2016, we acquired a 55% interest in an eight-clinic physical therapy practice. The purchase price for the 55% interest was \$13.2 million in cash and \$0.5 million in a seller note that is payable in two principal installments totaling \$250,000 each, plus accrued interest, one of which was paid in February 2017 and one of which is due in February 2018. In addition, we acquired a single clinic practice in June 2016 for \$50,000.

Selected Operating and Financial Data

The following table presents selected operating and financial data that we believe are key indicators of our operating performance.

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|----------------------------|--------------------|---------------------------|--------------------|
| | September 30, 2017 | September 30, 2016 | September 30, 2017 | September 30, 2016 |
| Number of clinics, at the end of period | 569 | 524 | 569 | 524 |
| Working Days | 63 | 64 | 191 | 192 |
| Average visits per day per clinic | 25.6 | 24.7 | 25.5 | 25 |
| Total patient visits | 914,601 | 822,468 | 2,729,855 | 2,470,769 |
| Net patient revenue per visit | \$ 105.26 | \$ 105.06 | \$ 105.35 | \$ 105.19 |

RESULTS OF OPERATIONS

Three Months Ended September 30, 2017 Compared to the Three Months Ended September 30, 2016

- For the quarter ended September 30, 2017 (the “2017 Third Quarter”), our net income attributable to common shareholders prior to interest expense – mandatorily redeemable non-controlling interests – change in redemption value and costs related to restatement of financials, both net of tax (“operating results”), a non-generally accepted accounting principles (“non-GAAP”) measure, was \$6.0 million for both comparable periods. Diluted earnings per share from operating results was \$0.48 in the 2017 and 2016 period.
- For the quarter ended September 30, 2017, our net income attributable to our shareholders, in accordance with generally accepted accounting principles (“GAAP”), was \$5.2 million, or \$0.41 per diluted share, as compared to \$4.8 million, or \$0.38 per diluted share, for the 2016 period. See schedule below for a reconciliation of net income attributable to our shareholders to operating results.
- During the 2017 Third Quarter, 81 of our clinics were affected by Hurricanes Harvey and Irma. Because of the high winds, loss of electrical power, flooding and road closures attributed to those severe storms, our business was interrupted in large parts of the states of Texas, Florida and Georgia which resulted in the loss of an estimated 8,500 patient visits representing approximately \$752,000 in revenue and gross profit contribution, or \$0.03 diluted earnings per share.

Operating results is defined as USPH’s net income attributable to common shareholders prior to interest expense – mandatorily redeemable non-controlling interests – change in redemption value and costs related to the restatement of financial statements, both net of tax. Management uses operating results, which eliminates this current non-cash item that can be subject to volatility, as one of the principal measures to evaluate and monitor financial performance period over period. Management believes that operating results is useful information for investors to use in comparing the Company's period-to-period results as well as for comparing with other similar businesses since most do not have mandatorily redeemable instruments and therefore have different liability and equity structures.

| | Three Months Ended September 30, | |
|--|---|------------------------------|
| | 2017 | 2016 (as restated) |
| Net income attributable to USPH shareholders | \$ 5,150 | \$ 4,804 |
| Adjustments: | | |
| Interest expense MRNCI * - change in redemption value | 1,247 | 1,934 |
| Costs related to restatement of financials - legal and accounting | 158 | - |
| Tax effect at statutory rate (federal and state) of 39.25% | (551) | (759) |
| Operating results | <u>\$ 6,004</u> | <u>\$ 5,979</u> |
| Basic and diluted net income attributable to USPH shareholders per share | <u>\$ 0.41</u> | <u>\$ 0.38</u> |
| Basic and diluted operating results per share | <u>\$ 0.48</u> | <u>\$ 0.48</u> |
| Shares used in computation: | | |
| Basic and diluted | <u>12,581</u> | <u>12,520</u> |

*Mandatorily redeemable non-controlling interest

Revenues

- Net revenues increased \$14.7 million or 16.6% from \$88.3 million in the third quarter of 2016 to \$103.0 million in 2017 Third Quarter, primarily due to an 11.2% increase in net patient revenues from the physical therapy operations and a full quarter of revenues from the workforce performance solutions business acquired in March 2017 (see above discussion under “Executive Summary”).
- Net patient revenues from physical therapy operations increased approximately \$9.9 million to \$96.3 million in the 2017 period from \$86.4 million in the 2016 period due to an increase in total patient visits of 11.2% from 822,468 to 914,601 plus an increase in average net patient revenue per visit to \$105.26 from \$105.06. Of the \$9.9 million increase, \$9.4 million was related to clinics opened or acquired in the past 12 months. For the 2017 and 2016 period, revenues from management contracts was \$1.7 million and \$1.3 million for 2016 period. The revenues from the recently acquired workforce performance solutions business was \$4.4 million for the 2017 Third Quarter. Other revenue was \$0.6 million for the 2017 period and the 2016 period.

Net patient revenues are based on established billing rates less allowances and discounts for patients covered by contractual programs and workers’ compensation. Net patient revenues are determined after contractual and other adjustments relating to patient discounts from certain payors. Payments received under contractual programs and workers’ compensation are based on predetermined rates and are generally less than the established billing rates.

Operating Costs

Total operating costs were \$81.8 million, or 79.4% of net revenues, in 2017 Third Quarter as compared to \$68.7 million, or 77.7% of net revenues, in the 2016 period. The increase was attributable to \$8.6 million in operating costs related to new clinics opened or acquired in the past 12 months (“New Clinics”), \$3.7 million related to the addition of the workforce performance solutions business and \$0.8 million related to clinics opened or acquired prior to September 1, 2016 (“Mature Clinics”). Each component of operating costs is discussed below:

Operating Costs—Salaries and Related Costs

Salaries and related costs increased to \$60.3 million for the 2017 Third Quarter from \$49.9 million for the 2016 Third Quarter, an increase of \$10.4 million. Salaries and related costs for New Clinics and the workforce performance solutions business amounted to \$9.2 million for the 2017 Third Quarter. Salaries and related costs for Mature Clinics increased by \$1.2 million for the 2017 Third Quarter, of which \$0.7 million of the \$1.2 million increase related to a full quarter of activity in 2017 for clinics opened or acquired in the first nine months of 2016, as compared to the 2016 Third Quarter. Salaries and related costs as a percentage of net revenues were 58.5% for the 2017 Third Quarter and 56.4% for the 2016 Third Quarter.

Operating Costs—Rent, Supplies, Contract Labor and Other Costs

Rent, supplies, contract labor and other were \$20.6 million for the 2017 Second Quarter and \$17.9 million for the 2016 Third Quarter. For New Clinics and the workforce performance solutions business, rent, supplies, contract labor and other amounted to \$3.1 million for the 2017 Third Quarter. For Mature Clinics, rent, supplies, contract labor and other decreased by \$0.4 million in the 2017 Third Quarter compared to the 2016 Third Quarter. Rent, supplies, contract labor and other as a percentage of net revenues was 20.0% for the 2017 Third Quarter and 20.2% for the 2016 Third Quarter.

Operating Costs—Provision for Doubtful Accounts

The provision for doubtful accounts was \$0.9 million for both the 2017 and 2016 Third Quarter. The provision for doubtful accounts for patient accounts receivable as a percentage of net patient revenues was 0.9% for the 2017 Third Quarter and 1.0% for the 2016 Third Quarter.

Our provision for doubtful accounts for patient accounts receivable as a percentage of total patient accounts receivable was 4.6% at September 30, 2017, as compared to 4.4% at December 31, 2016. Our day's sales outstanding were 37 days at September 30, 2017 and 36 days at December 31, 2016.

Gross Margin

The gross margin for the 2017 Third Quarter was \$21.2 million, or 20.6% of revenue, as compared to \$19.7 million, or 22.3% of revenue, for the 2016 Third Quarter. The gross margin for the Company's physical therapy clinics was 20.9% in the recent quarter as compared to 22.4% a year earlier. The gross margin on management contracts was 16.8% in the 2017 Third Quarter as compared to 15.6% in the 2016 Third Quarter. The gross margin for the recently acquired workforce performance solutions business was 14.1%.

Corporate Office Costs

Corporate office costs, consisting primarily of salaries and benefits of corporate office personnel, rent, insurance costs, depreciation and amortization, travel, legal, accounting, professional, and recruiting fees, were \$8.3 million for the 2017 Third Quarter and \$7.6 million for the 2016 Third Quarter. Included in the corporate office costs in the 2017 Third Quarter was \$158,000 of charges related to the legal and accounting costs related to the restatement of our financial statements. As a percentage of net revenues, corporate office costs were 8.1% for the 2017 Third Quarter and 8.6% for the 2016 Third Quarter.

Interest Expense mandatorily redeemable non-controlling interest – change in redemption value

Interest Expense mandatorily redeemable non-controlling interest – change in redemption value decreased to \$1.2 million in the 2017 Third Quarter from \$1.9 million in the 2016 Third Quarter. The change in redemption value for acquired partnerships is based on the redemption amount (which is derived from a formula based on a specified multiple times the underlying business' trailing twelve months of earnings before interest, taxes, depreciation, amortization and our internal management fee) at the end of the reporting period compared to the end of the previous period. This change is directly related to an increase or decrease in the profitability and underlying value of the Company's partnerships as compared to the prior quarter.

Interest Expense mandatorily redeemable non-controlling interest – earnings allocable

Interest expense – mandatorily redeemable non-controlling interest – earnings allocable, which represent the portion of earnings allocable to the holders of mandatorily redeemable non-controlling interest, increased to \$1.3 million in the 2017 Third Quarter from \$0.9 million in the 2016 Third Quarter.

Interest Expense – debt and other

Interest expense increased to \$641,000 in the 2017 Third Quarter compared to \$326,000 in the 2016 Third Quarter due to a higher average balance outstanding under our Amended Credit Agreement. At September 30, 2017, \$56.0 million was outstanding under our Amended Credit Agreement. See “—Liquidity and Capital Resources” below for a discussion of the terms of our Amended Credit Agreement.

Provision for Income Taxes

The provision for income taxes for the 2017 Third Quarter was \$3.1 million and for the 2016 Third Quarter was \$2.8 million. The provision for income taxes as a percentage of income before taxes less net income attributable to non-controlling interest was 37.8% in the 2017 Third Quarter and 36.4% in the 2016 Third Quarter. Included in both the 2017 Third Quarter and 2016 Third Quarter was an excess tax benefit of \$0.2 million related to accounting for stock compensation.

Non-controlling Interests

Net income attributable to non-controlling interests (permanent equity) was \$1.2 million for the 2017 Third Quarter and \$1.3 million for the 2016 Third Quarter. Net income attributable to redeemable non-controlling interests (temporary equity) was \$0.2 million in the 2017 Third Quarter.

Nine Months Ended September 30, 2017 Compared to the Nine Months Ended September 30, 2016

- For the nine months ended September 30, 2017, our operating results, a non-GAAP measure, were \$20.0 million as compared to \$19.0 million in the comparable 2016 period. Diluted earnings per share from operating results was \$1.59 in the 2017 period as compared to \$1.52 in the 2016 period.
- For the nine months ended September 30, 2017, our net income attributable to its shareholders, in accordance with GAAP, was \$14.9 million, or \$1.19 per diluted share, as compared to \$15.3 million, or \$1.22 per diluted share, for the 2016 period. See schedule below for a reconciliation of net income attributable to our shareholders to operating results.

Operating results is defined as USPH’s net income attributable to common shareholders prior to interest expense – mandatorily redeemable non-controlling interests – change in redemption value and costs related to the restatement of financial statements, both net of tax. Management uses operating results, which eliminates this current non-cash item that can be subject to volatility, as one of the principal measures to evaluate and monitor financial performance period over period. Management believes that operating results is useful information for investors to use in comparing the Company’s period-to-period results as well as for comparing with other similar businesses since most do not have mandatorily redeemable instruments and therefore have different liability and equity structures.

| | Nine Months Ended September 30, | |
|--|--|------------------------------|
| | 2017 | 2016 (as restated) |
| Net income attributable to USPH shareholders | \$ 14,907 | \$ 15,304 |
| Adjustments: | | |
| Interest expense MRNCI * - change in redemption value | 7,839 | 6,056 |
| Costs related to restatement of financials - legal and accounting | 470 | - |
| Tax effect at statutory rate (federal and state) of 39.25% | (3,261) | (2,377) |
| Operating results | <u>\$ 19,955</u> | <u>\$ 18,983</u> |
| Basic and diluted net income attributable to USPH shareholders per share | <u>\$ 1.19</u> | <u>\$ 1.22</u> |
| Basic and diluted operating results per share | <u>\$ 1.59</u> | <u>\$ 1.52</u> |
| Shares used in computation: | | |
| Basic and diluted | <u>12,563</u> | <u>12,494</u> |

*Mandatorily redeemable non-controlling interests

Revenues

- Net revenues increased \$39.2 million or 14.7% from \$265.7 million in the 2016 First Nine Months to \$304.8 million in the 2017 First Nine Months, primarily due to a 10.5% increase in net patient visits from 2,470,769 to 2,729,855, higher revenues from management contracts due to an increase in the number of facilities managed by the Company and revenues from the workforce performance solutions business acquired in March 2017.
- Net patient revenues from physical therapy operations increased approximately \$27.7 million to \$287.6 million in the 2017 period from \$259.9 million in the 2016 period due to an increase in total patient visits of 10.5% from 2,470,769 to 2,729,855 and slight increase in average net patient revenue per visit to \$105.35 from \$105.19. Of the \$27.7 million increase, \$22.0 million related to New Clinics opened or acquired in the past 12 months. For the 2017 First Nine Months, revenues from management contracts was \$5.2 million as compared to \$4.3 million for the 2016 First Nine Months. The revenues from the recently acquired workforce performance solutions business was \$10.3 million for the seven months of operations in 2017. Other revenue was \$1.8 million for the 2017 First Nine Months and \$1.5 million for the 2016 First Nine Months.

Net patient revenues are based on established billing rates less allowances and discounts for patients covered by contractual programs and workers' compensation. Net patient revenues are determined after contractual and other adjustments relating to patient discounts from certain payors. Payments received under contractual programs and workers' compensation are based on predetermined rates and are generally less than the established billing rates.

Operating Costs

Total operating costs were \$238.4 million, or 78.2% of net revenues, for the 2017 First Nine Months as compared to \$202.5 million, or 76.2% of net revenues, for the 2016 First Nine Months. The increase was attributable to \$20.8 million in operating costs related to New Clinics, an additional \$5.3 million related to a full nine months of activity in 2017 for clinics opened or acquired in the first nine months of 2016 and \$8.8 million related to the addition of the workforce performance solutions business and \$1.0 million related to clinics opened or acquired prior to 2016. Each component of operating costs is discussed below:

Operating Costs—Salaries and Related Costs

Salaries and related costs increased to \$174.9 million for the 2017 First Nine Months from \$146.5 million for the 2016 First Nine Months, an increase of \$28.4 million. Salaries and related costs for New Clinics and the workforce performance solutions business amounted to \$22.0 million for the 2017 First Nine Months. Salaries and related costs for Mature Clinics increased by \$6.4 million for the 2017 First Nine Months, primarily related to \$3.8 million for a full quarter of activity in 2017 for clinics opened or acquired in the first nine months of 2016, as compared to the 2016 First Nine Months. Salaries and related costs as a percentage of net revenues were 57.4% for the 2017 First Nine Months and 55.1% for the 2016 First Nine Months.

Operating Costs—Rent, Supplies, Contract Labor and Other Costs

Rent, supplies, contract labor and other were \$60.7 million for the 2017 First Nine Months and \$52.9 million for the 2016 First Nine Months. For New Clinics and the workforce performance solutions business, rent, supplies, contract labor and other amounted to \$7.4 million for the 2017 First Nine Months. For Mature Clinics, rent, supplies, contract labor and other increased by \$0.4 million in the 2017 First Nine Months compared to the 2016 First Nine Months. For clinics opened or acquired in the 2016 First Nine Months, rent, supplies, contract labor and other increased \$1.5 million related to a full quarter of activity in 2017. For clinics opened or acquired prior to 2016, rent, supplies, contract labor and other decreased \$1.1 million in the 2017 First Nine Months compared to the 2016 First Nine Months. Rent, supplies, contract labor and other as a percentage of net revenues was 19.9% for the 2017 First Nine Months and the 2016 First Nine Months.

Operating Costs—Provision for Doubtful Accounts

The provision for doubtful accounts was \$2.7 million for the 2017 First Nine Months and \$3.0 million for the 2016 First Nine Months. The provision for doubtful accounts for patient accounts receivable as a percentage of net patient revenues was 0.9% for the 2017 First Nine Months and 1.1% for the 2016 First Nine Months.

Our provision for doubtful accounts for patient accounts receivable as a percentage of total patient accounts receivable was 4.6% at September 30, 2017, as compared to 4.4% at December 31, 2016. Our day's sales outstanding were 37 days at September 30, 2017 and 36 days at December 31, 2016.

Gross Margin

The gross margin for the 2017 First Nine Months was \$66.5 million, or 21.8% of revenue, as compared to \$63.2 million, or 23.8% of revenue, for the 2016 First Nine Months. The gross margin for the Company's physical therapy clinics was 22.2% in the recent quarter as compared to 23.9% a year earlier. The gross margin on management contracts was 13.1% in the 2017 First Nine Months as compared to 19.5% in the 2016 First Nine Months. The gross margin for the recently acquired workforce performance solutions business was 14.5%.

Corporate Office Costs

Corporate office costs, consisting primarily of salaries and benefits of corporate office personnel, rent, insurance costs, depreciation and amortization, travel, legal, accounting, professional, and recruiting fees, were \$25.7 million for the 2017 First Nine Months and \$24.6 million for the 2016 First Nine Months. Included in the corporate office costs in the first nine months of 2017 was \$470,000 of charges related to the legal and accounting costs for the restatement of our financial statements. As a percentage of net revenues, corporate office costs were 8.4% for the 2017 First Nine Months and 9.3% for the 2016 First Nine Months.

Interest Expense mandatorily redeemable non-controlling interest – change in redemption value

Interest Expense mandatorily redeemable non-controlling interest – change in redemption value increased to \$7.8 million in the 2017 First Nine Months from \$6.1 million in the 2016 First Nine Months. The change in redemption value for acquired partnerships is based on the redemption amount (which is derived from a formula based on a specified multiple times the underlying business' trailing twelve months of earnings before interest, taxes, depreciation, amortization and our internal management fee) at the end of the reporting period compared to the end of the previous period. This is a non-cash item and is directly related to the increase in the profitability and underlying value of the Company's partnerships compared to the respective prior year end.

Interest Expense mandatorily redeemable non-controlling interest – earnings allocable

Interest expense – mandatorily redeemable non-controlling interest – earnings allocable, which represent the portion of earnings allocable to the holders of mandatorily redeemable non-controlling interest, increased to \$4.4 million in the 2017 First Nine Months from \$3.1 million in the 2016 First Nine Months.

Interest Expense – debt and other

Interest expense increased to \$1.6 million in the 2017 First Nine Months compared to \$1.0 million in the 2016 First Nine Months due to a higher average balance outstanding under our Amended Credit Agreement. At September 30, 2017, \$56.0 million was outstanding under our Amended Credit Agreement. See “—Liquidity and Capital Resources” below for a discussion of the terms of our Amended Credit Agreement.

Provision for Income Taxes

The provision for income taxes for the 2017 First Nine Months was \$8.0 million and for the 2016 First Nine Months was \$8.7 million. The provision for income taxes as a percentage of income before taxes less net income attributable to non-controlling interest was 35.0% in the 2017 First Nine Months and 36.3% in the 2016 First Nine Months. Included in the 2017 First Nine Months was an excess tax benefit of \$1.1 million related to accounting for stock compensation as compared to \$0.8 million in the 2016 First Nine Months.

Non-controlling Interests

Net income attributable to non-controlling interests (permanent equity) was \$4.0 million for the 2017 First Nine Months of 2017 as compared to \$3.1 million in the comparable 2016 period. Net income attributable to redeemable non-controlling interests (temporary equity) was \$0.2 million in the 2017 First Nine Months.

LIQUIDITY AND CAPITAL RESOURCES

We believe that our business is generating sufficient cash flow from operations to allow us to meet our short-term and long-term cash requirements, other than those with respect to future acquisitions. At September 30, 2017 and December 31, 2016, we had \$17.4 million and \$20.0 million, respectively, in cash. Although the start-up costs associated with opening new clinics and our planned capital expenditures are significant, we believe that our cash and unused availability under our revolving credit agreement are sufficient to fund the working capital needs of our operating subsidiaries, future clinic development and acquisitions and investments through at least September 2018. Significant acquisitions would likely require additional financing.

Effective December 5, 2013, we entered into an Amended and Restated Credit Agreement with a commitment for a \$125.0 million revolving credit facility with a maturity date of November 30, 2018. This agreement was amended in August 2015, January 2016 and March 2017 (hereafter referred to as “Amended Credit Agreement”). The Amended Credit Agreement is unsecured and has loan covenants, including requirements that the Company comply with a consolidated fixed charge coverage ratio and consolidated leverage ratio. Proceeds from the Amended Credit Agreement may be used for working capital, acquisitions, purchases of the Company's common stock, dividend payments to the Company's common stockholders, capital expenditures and other corporate purposes. The pricing grid which is based on the Company's consolidated leverage ratio with the applicable spread over LIBOR ranging from 1.5% to 2.5% or the applicable spread over the Base Rate ranging from 0.1% to 1%. Fees under the Amended Credit Agreement include an unused commitment fee ranging from 0.1% to 0.25% depending on the Company's consolidated leverage ratio and the amount of funds outstanding under the Amended Credit Agreement. On September 30, 2017, \$56.0 million was outstanding under our Amended Credit Agreement resulting in \$69.0 million of availability. As of the date of this Quarterly Report, we were in compliance with all of the covenants thereunder. The revolving credit facility (balance at September 30, 2017 of \$56.0 million) matures on November 30, 2018.

Cash and cash equivalents decreased by \$2.6 million from December 31, 2016 to September 30, 2017. During the nine months ended September 30, 2017, \$40.8 million was provided by operations and \$10.0 million from net proceeds drawn on the line of credit provided in our Amended Credit Agreement. The major uses of cash for investing and financing activities included: purchase of businesses (\$33.7 million), cash dividends to our common shareholders (\$7.5 million), purchases of fixed assets (\$5.6 million), distributions to non-controlling interests (\$3.7 million), payments to settle mandatorily redeemable non-controlling interests (\$2.2 million), and payments on notes payable (\$0.8 million).

On January 1, 2017, we acquired a 70% interest in a seventeen-clinic physical therapy practice. The purchase price for the 70% interest was \$10.7 million in cash and \$0.5 million in a seller note that is payable in two principal installments totaling \$250,000 each, plus accrued interest, in January 2018 and 2019.

In March 2017, we acquired a 55% interest in a company which is a leading provider of workforce performance solutions. Services provided include onsite injury prevention and rehabilitation, performance optimization and ergonomic assessments. The majority of these services are contracted with and paid for directly by employers including a number of Fortune 500 companies. Other clients include large insurers and their contractors. The purchase price for the 55% interest was \$6.2 million in cash and \$0.4 million in a seller note that is payable, principal plus accrued interest, in September 2018.

On May 31, 2017, we acquired a 70% interest in a four-clinic physical therapy practice. The purchase price for the 70% interest was \$2.3 million in cash and \$250,000 in a seller note that is payable in two principal installments totaling \$125,000 each, plus accrued interest, in May 2018 and 2019.

On June 30, 2017, we acquired a 60% interest in a nine-clinic physical therapy practice. The purchase price for the 60% interest was \$15.8 million in cash and \$0.5 million in a seller note that is payable in two principal installments totaling \$250,000 each, plus accrued interest, in June 2018 and 2019.

On November 30, 2016, we acquired a 60% interest in a 12 clinic physical therapy practice. The purchase price for the 60% interest was \$11.0 million in cash and \$0.5 million in a seller note that is payable in two principal installments of \$250,000 each, plus accrued interest, in November 2017 and 2018. On February 29, 2016, we acquired a 55% interest in an eight-clinic physical therapy practice. The purchase price for the 55% interest was \$13.2 million in cash and \$0.5 million in a seller note that is payable in two principal installments totaling \$250,000 each, plus accrued interest, one of which was paid in February 2017 and one of which is payable in February 2018. In addition, we acquired a single clinic practice in June 2016 for \$50,000.

Historically, we have generated sufficient cash from operations to fund our development activities and to cover operational needs. We plan to continue developing new clinics and making additional acquisitions. We also from time to time purchase the non-controlling interests in our Clinic Partnerships. Generally, any acquisition or purchase of non-controlling interests is expected to be accomplished using a combination of cash and financing. Any large acquisition would likely require financing.

We make reasonable and appropriate efforts to collect accounts receivable, including applicable deductible and co-payment amounts, in a consistent manner for all payor types. Claims are submitted to payors daily, weekly or monthly in accordance with our policy or payor's requirements. When possible, we submit our claims electronically. The collection process is time consuming and typically involves the submission of claims to multiple payors whose payment of claims may be dependent upon the payment of another payor. Claims under litigation and vehicular incidents can take a year or longer to collect. Medicare and other payor claims relating to new clinics awaiting Medicare Rehab Agency status approval initially may not be submitted for six months or more. When all reasonable internal collection efforts have been exhausted, accounts are written off prior to sending them to outside collection firms. With managed care, commercial health plans and self-pay payor type receivables, the write-off generally occurs after the account receivable has been outstanding for at least 120 days.

We generally enter into various notes payable as a means of financing our acquisitions. Our outstanding notes payable as of September 30, 2017 relate to certain of the acquisitions of businesses, purchases of non-controlling interests and settlements of mandatorily redeemable non-controlling interests that occurred in 2015 through June 2017. Typically, the notes are payable in equal annual installments of principal over two years plus any accrued and unpaid interest. Interest accrues at various interest rates ranging from 3.25% to 4.0% per annum, subject to adjustment. At September 30, 2017, the balance on these notes payable was \$6.7 million. In addition, we assumed leases with remaining terms of 1 month to 6 years for the operating facilities.

In conjunction with the above mentioned acquisitions, in the event that a limited minority partner's employment ceases at any time after a specified date that is between three and five years from the acquisition date, we have agreed to repurchase that individual's non-controlling interest at a predetermined multiple of earnings before interest and taxes.

As of September 30, 2017, we have accrued \$4.2 million related to credit balances due to patients and payors. This amount is expected to be paid in the next twelve months.

From September 2001 through December 31, 2008, our Board of Directors ("Board") authorized us to purchase, in the open market or in privately negotiated transactions, up to 2,250,000 shares of our common stock. In March 2009, the Board authorized the repurchase of up to 10% or approximately 1,200,000 shares of our common stock ("March 2009 Authorization"). Our Amended Credit Agreement permits share repurchases of up to \$15,000,000, subject to compliance with covenants. We are required to retire shares purchased under the March 2009 Authorization.

There is no expiration date for the share repurchase program. As of September 30, 2017, there are currently an additional estimated 244,100 shares (based on the closing price of \$61.45 on September 30, 2017) that may be purchased from time to time in the open market or private transactions depending on price, availability and our cash position. We did not purchase any shares of our common stock during the nine months ended September 30, 2017.

FACTORS AFFECTING FUTURE RESULTS

The risks related to our business and operations include:

- cost, risks and uncertainties associated with the Company's recent restatement of its prior financial statements due to the correction of its accounting methodology for redeemable noncontrolling partnership interests, and including any pending and future claims or proceedings relating to such matters;
- changes in Medicare rules and guidelines and reimbursement or failure of our clinics to maintain their Medicare certification or enrollment status;
- revenue we receive from Medicare and Medicaid being subject to potential retroactive reduction;
- business and regulatory conditions including federal and state regulations;
- governmental and other third party payor inspections, reviews, investigations and audits;
- compliance with federal and state laws and regulations relating to the privacy of individually identifiable patient information, and associated fines and penalties for failure to comply;
- legal actions, which could subject us to increased operating costs and uninsured liabilities;
- changes in reimbursement rates or payment methods from third party payors including government agencies and deductibles and co-pays owed by patients;
- revenue and earnings expectations;
- general economic conditions;
- availability and cost of qualified physical therapists;
- personnel productivity and retaining key personnel;
- competitive, economic or reimbursement conditions in our markets which may require us to reorganize or close certain clinics and thereby incur losses and/or closure costs including the possible write-down or write-off of goodwill and other intangible assets;
- acquisitions, purchase of non-controlling interests (minority interests) and the successful integration of the operations of the acquired businesses;
- our ability to design and maintain effective internal control over financial reporting and remediate the material weakness in internal control over financial reporting related to our accounting for redeemable non-controlling partnership interests;
- maintaining necessary insurance coverage;
- availability, terms, and use of capital; and
- weather and other seasonal factors.

See Risk Factors in Item 1A of our Annual Report on Form 10-K.

Forward-Looking Statements

We make statements in this report that are considered to be forward-looking statements within the meaning given such term under Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements contain forward-looking information relating to the financial condition, results of operations, plans, objectives, future performance and business of our Company. These statements (often using words such as “believes”, “expects”, “intends”, “plans”, “appear”, “should” and similar words) involve risks and uncertainties that could cause actual results to differ materially from those we project. Included among such statements are those relating to opening new clinics, availability of personnel and the reimbursement environment. The forward-looking statements are based on our current views and assumptions and actual results could differ materially from those anticipated in such forward-looking statements as a result of certain risks, uncertainties, and factors, which include, but are not limited to:

Many factors are beyond our control. Given these uncertainties, you should not place undue reliance on our forward-looking statements. Please see our periodic reports filed with the Securities and Exchange Commission (the “SEC”) for more information on these factors. Our forward-looking statements represent our estimates and assumptions only as of the date of this report. Except as required by law, we are under no obligation to update any forward-looking statement, regardless of the reason the statement is no longer accurate.

- cost, risks and uncertainties associated with the Company’s recent restatement of its prior financial statements due to the correction of its accounting methodology for redeemable noncontrolling partnership interests, and including any pending and future claims or proceedings relating to such matters;
- changes as the result of government enacted national healthcare reform;
- changes in Medicare rules and guidelines and reimbursement or failure of our clinics to maintain their Medicare certification status;
- revenue we receive from Medicare and Medicaid being subject to potential retroactive reduction;
- business and regulatory conditions including federal and state regulations;
- governmental and other third party payor inspections, reviews, investigations and audits;
- compliance with federal and state laws and regulations relating to the privacy of individually identifiable patient information, and associated fines and penalties for failure to comply;
- legal actions; which could subject us to increased operating costs and uninsured liabilities;
- changes in reimbursement rates or payment methods from third party payors including government agencies and deductibles and co-pays owed by patients;
- revenue and earnings expectations;
- general economic conditions;
- availability and cost of qualified physical therapists;
- personnel productivity and retaining key personnel;
- competitive, economic or reimbursement conditions in our markets which may require us to reorganize or close certain clinics and thereby incur losses and/or closure costs including the possible write-down or write-off of goodwill and other intangible assets;
- acquisitions, purchase of non-controlling interests (minority interests) and the successful integration of the operations of the acquired businesses;
- maintaining adequate internal controls;
- maintaining necessary insurance coverage;
- our ability to design and maintain effective internal control over financial reporting and remediate the material weakness in internal control over financial reporting related to our accounting for redeemable non-controlling partnership interests;
- availability, terms, and use of capital; and
- weather and other seasonal factors.

Many factors are beyond our control. Given these uncertainties, you should not place undue reliance on our forward-looking statements. Please see the other sections of this report and our other periodic reports filed with the Securities and Exchange Commission (the “SEC”) for more information on these factors. Our forward-looking statements represent our estimates and assumptions only as of the date of this report. Except as required by law, we are under no obligation to update any forward-looking statement, regardless of the reason the statement may no longer be accurate.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We do not maintain any derivative instruments, interest rate swap arrangements, hedging contracts, futures contracts or the like. Our primary market risk exposure is the changes in interest rates obtainable on our Amended Credit Agreement. The interest on our Amended Credit Agreement is based on a variable rate. At September 30, 2017, \$56.0 million was outstanding under our Amended Credit Agreement. Based on the balance of the Amended Credit Agreement at September 30, 2017, any change in the interest rate of 1% would yield a decrease or increase in annual interest expense of \$560,000.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as a result of the material weakness in our internal control over financial reporting discussed in the Company's Annual Report on Form 10-K, for the year ended December 31, 2016, our disclosure controls and procedures were not effective in ensuring that the information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

(b) Previously Reported Material Weaknesses in Internal Control over Financial Reporting

As discussed in the Company's Annual Report on Form 10-K, for the year ended December 31, 2016, Management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2016. Based on this assessment, management concluded that our internal control over financial reporting was not effective as of December 31, 2016 as a result of the material weakness discussed below.

Redeemable non-controlling interests – We did not properly account for redeemable non-controlling interests. The Company's business combination / purchase accounting controls relating to our accounting for redeemable non-controlling interests were not designed effectively to ensure that we correctly interpreted and applied technical accounting requirements concerning the classification of such interests on our consolidated financial statements.

Changes in Internal Control Over Financial Reporting

Other than the material weakness described above, there have been no changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Subsequent to the period covered by this report we implemented the following changes to our internal control over financial reporting process as it relates to redeemable non-controlling interests to begin to remediate the material weakness.

- *The Assistant Controller reviews the language and terms of any new standard limited partnership agreement created by the Company's legal department. The sections which contain language having a potential accounting impact are identified and listed on the "Accounting Considerations for Limited Partnership Agreements" checklist.*

- *For each new limited partnership agreement executed by the company's legal department, the Assistant Controller obtains a completed and signed "Accounting Considerations for Limited Partnership Agreements" checklist from the company's General Counsel indicating if the language having a potential accounting impact denoted on the checklist referenced above has changed.*
- *If a change is denoted on the "Accounting Considerations for Limited Partnership Agreements" checklist, the Corporate or Assistant Controller will review the agreement and research the changed language for accounting and disclosure implications. If the nature of the language is such that interpretation is subjective, and Management does not believe they have the technical experience in that transaction type, research will include seeking outside counsel from a third party accounting expert, such as a consulting or accounting firm. A memo is drafted with the appropriate facts and resolution and approved by the Corporate Controller and Chief Financial Officer.*

Management believes the new process and controls stated above are thorough enough to identify and prevent the type of accounting error which occurred related to limited partnership agreements.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are involved in litigation and other proceedings arising in the ordinary course of business. On March 31, 2017, an alleged shareholder filed a putative class action lawsuit in the United States District Court for the Southern District of New York (the “Court”) against the Company, chief executive officer Christopher J. Reading, chief financial officer Lawrence C. McAfee and corporate controller Jon C. Bates, alleging, *inter alia*, that the defendants misstated or omitted to state material information concerning the Company’s historical accounting for redeemable non-controlling interests of acquired partnerships, in alleged violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The complaint seeks a declaration that the action is a proper class action under Rule 23 of the Federal Rules of Civil Procedure, unspecified compensatory damages in an amount to be determined at trial and interest, costs and expenses. On June 26, 2017, the Court appointed a lead plaintiff in the matter. On July 31, 2017, the lead plaintiff filed an amended complaint, alleging substantially the same violations and seeking substantially the same unspecified damages. The amended complaint also names Glenn McDowell, the Company’s Chief Operating Officer, as an additional defendant. The proceeding is in its initial stages and, except for position statements required by the Court to be submitted by both the plaintiff and defendants, the defendants have not yet answered, moved against or otherwise responded to the complaint, though they intend to file a motion to dismiss and defend themselves vigorously. While the ultimate outcome of lawsuits or other proceedings cannot be predicted with certainty, we do not believe the impact of existing lawsuits or other proceedings will have a material impact on our business, financial condition or results of operations.

ITEM 6. EXHIBITS.

| <u>Exhibit Number</u> | <u>Description</u> |
|-----------------------|--------------------|
|-----------------------|--------------------|

| | |
|-------|--|
| 31.1* | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer. |
|-------|--|

| | |
|-------|--|
| 31.2* | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer. |
|-------|--|

| | |
|-------|---|
| 31.3* | Rule 13a-14(a)/15d-14(a) Certification of Corporate Controller. |
|-------|---|

| | |
|-----|--|
| 32* | Certification Pursuant to 18 U.S.C 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
|-----|--|

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|----------|------------------------|
| 101.INS* | XBRL Instance Document |
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| 101.SCH* | XBRL Taxonomy Extension Schema Document |
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| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document |
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| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document |
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| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document |
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| | |
|----------|--|
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document |
|----------|--|

* Filed herewith

SIGNATURES

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

U.S. PHYSICAL THERAPY, INC.

Date: November 7, 2017

By: /s/ LAWRENCE W. MCAFEE
Lawrance W. McAfee
Chief Financial Officer
(duly authorized officer and principal financial and accounting officer)

By: /s/ JON C. BATES
Jon C. Bates
Vice President/Corporate Controller

INDEX OF EXHIBITS

| <u>Exhibit Number</u> | <u>Description</u> |
|---------------------------|--|
| 31.1* | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer. |
| 31.2* | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer. |
| 31.3* | Rule 13a-14(a)/15d-14(a) Certification of Corporate Controller. |
| 32* | Certification Pursuant to 18 U.S.C 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Taxonomy Extension Schema Document |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document |

* Filed herewith

**EXHIBIT 31.1
CERTIFICATION**

I, Christopher Reading, certify that:

1. I have reviewed this quarterly report on Form 10-Q of U.S. Physical Therapy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ CHRISTOPHER READING

Christopher Reading
President and Chief Executive Officer
(principal executive officer)

Date: November 7, 2017

**EXHIBIT 31.2
CERTIFICATION**

I, Lawrance W. McAfee, certify that:

1. I have reviewed this quarterly report on Form 10-Q of U.S. Physical Therapy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ LAWRENCE W. MCAFEE

Lawrance W. McAfee
Chief Financial Officer
(principal financial and accounting officer)

Date: November 7, 2017

**EXHIBIT 31.3
CERTIFICATION**

I, Jon C. Bates, certify that:

1. I have reviewed this quarterly report on Form 10-Q of U.S. Physical Therapy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JON C. BATES

Jon C. Bates

Vice President/Corporate Controller

Date: November 7, 2017

EXHIBIT 32
CERTIFICATION OF PERIODIC REPORT

In connection with the Quarterly Report of U.S. Physical Therapy, Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher J. Reading, President and Chief Executive Officer of the Company, Lawrance W. McAfee, Chief Financial Officer of the Company, and Jon C. Bates, Vice President and Corporate Controller of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 7, 2017

/s/ CHRISTOPHER J. READING

Christopher J. Reading
Chief Executive Officer

/s/ LAWRANCE W. MCAFEE

Lawrance W. McAfee
Chief Financial Officer

/s/ JON C. BATES

Jon C. Bates
Vice President/Corporate Controller

This certification is made solely pursuant to the requirement of Section 1350 of 18 U.S.C., and is not for any other purpose. A signed original of this written statement required by Section 906 has been provided to U. S. Physical Therapy, Inc. and will be retained by U. S. Physical Therapy, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.
