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, 2019

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	**76-0364866**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	**(I.R.S. EMPLOYER IDENTIFICATION NO.)**
1300 WEST SAM HOUSTON PARKWAY SOUTH,	
SUITE 300, HOUSTON, TEXAS	**77042**
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	**(ZIP CODE)**

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and 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 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	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
		Emerging growth company	☐

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $.01 par value	USPH	New York Stock Exchange

As of November 7, 2019, the number of shares outstanding (issued less treasury stock) of the registrant's common stock, par value $.01 per share, was: 12,774,157.

PART I—FINANCIAL INFORMATION - UNAUDITED

Item 1.	Financial Statements.	3
	Consolidated Balance Sheets as of September 30, 2019 and December 31, 2018	3
	Consolidated Statements of Income for the three and nine months ended September 30, 2019 and 2018	4
	Consolidated Statements of Cash Flows for the nine months ended September 30, 2019, and 2018	5
	Consolidated Statements of Changes in Equity for the three and nine months ended September 30, 2019 and 2018	6
	Notes to Consolidated Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 3.	Quantitative and Qualitative Disclosure About Market Risk	39
Item 4.	Controls and Procedures	39
PART II—OTHER INFORMATION		
Item 1.	Legal Proceedings	40
Item 6.	Exhibits	40
	Signatures	41
	Certifications	

Table of Contents

ITEM 1. FINANCIAL STATEMENTS.

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

ASSETS	September 30, 2019 (unaudited)	December 31, 2018
Current assets:		
Cash and cash equivalents	$ 27,856	$ 23,368
Patient accounts receivable, less allowance for doubtful accounts of $2,569 and $2,672, respectively	47,118	44,751
Accounts receivable - other	10,462	6,742
Other current assets	7,098	4,353
Total current assets	92,534	79,214
Fixed assets:		
Furniture and equipment	54,464	52,611
Leasehold improvements	31,948	31,712
Fixed assets, gross	86,412	84,323
Less accumulated depreciation and amortization	65,040	64,154
Fixed assets, net	21,372	20,169
Operating lease right-of-use assets	79,793	-
Goodwill	316,639	293,525
Other identifiable intangible assets, net	53,385	48,828
Other assets	1,470	1,430
Total assets	$ 565,193	$ 443,166
LIABILITIES, REDEEMABLE NON-CONTROLLING INTERESTS, USPH SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS		
Current liabilities:		
Accounts payable - trade	$ 2,863	$ 2,019
Accrued expenses	33,573	38,493
Current portion of operating lease liabilities	25,644	-
Current portion of notes payable	718	1,434
Total current liabilities	62,798	41,946
Notes payable, net of current portion	4,292	402
Revolving line of credit	51,000	38,000
Deferred taxes	10,336	9,012
Deferred rent	-	2,159
Operating lease liabilities, net of current portion	58,921	-
Other long-term liabilities	718	829
Total liabilities	188,065	92,348
Redeemable non-controlling interests	139,801	133,943
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, 14,988,894 and 14,899,233 shares issued, respectively	150	149
Additional paid-in capital	85,828	80,028
Retained earnings	181,135	167,396
Treasury stock at cost, 2,214,737 shares	(31,628)	(31,628)
Total USPH shareholders' equity	235,485	215,945
Non-controlling interests	1,842	930
Total USPH shareholders' equity and non-controlling interests	237,327	216,875
Total liabilities, redeemable non-controlling interests, USPH shareholders' equity and non-controlling interests	$ 565,193	$ 443,166

See notes to consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Net patient revenues	$ 104,392	$ 103,354	$ 324,405	$ 309,895
Other revenues	12,859	9,768	35,450	26,667
Net revenues	117,251	113,122	359,855	336,562
Operating costs:				
Salaries and related costs	66,748	64,524	203,684	191,410
Rent, supplies, contract labor and other	22,166	21,654	67,236	65,598
Provision for doubtful accounts	962	890	3,408	3,102
Closure costs	3	(22)	12	8
Total operating costs	89,879	87,046	274,340	260,118
Gross profit	27,372	26,076	85,515	76,444
Corporate office costs	10,556	10,643	33,376	30,934
Operating income	16,816	15,433	52,139	45,510
Other income and expense				
Gain on sale of partnership interest	-	-	5,823	-
Interest and other income, net	7	16	27	70
Interest expense	(557)	(579)	(1,522)	(1,677)
Income before taxes	16,266	14,870	56,467	43,903
Provision for income taxes	3,197	2,991	11,223	8,734
Net income	13,069	11,879	45,244	35,169
Less: net income attributable to non-controlling interests:				
Non-controlling interests - permanent equity	(1,643)	(1,321)	(4,982)	(3,902)
Redeemable non-controlling interests - temporary equity	(2,379)	(2,456)	(8,152)	(6,802)
	(4,022)	(3,777)	(13,134)	(10,704)
Net income attributable to USPH shareholders	$ 9,047	$ 8,102	$ 32,110	$ 24,465
Basic and diluted earnings per share attributable to USPH shareholders	$ 0.66	$ 0.13	$ 1.90	$ 0.88
Shares used in computation - basic and diluted	12,774	12,685	12,750	12,660
Dividends declared per common share	$ 0.30	$ 0.23	$ 0.84	$ 0.69

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, 2019	September 30, 2018
OPERATING ACTIVITIES		
Net income including non-controlling interests	$ 45,244	$ 35,169
Adjustments to reconcile net income including non-controlling interests to net cash provided by operating activities:		
Depreciation and amortization	7,377	7,335
Provision for doubtful accounts	3,408	3,102
Equity-based awards compensation expense	5,262	4,453
Deferred income taxes	3,680	(3,099)
Gain on sale of partnership interest	(5,823)	-
Other	120	128
Changes in operating assets and liabilities:		
Increase in patient accounts receivable	(8,171)	(1,092)
Increase in accounts receivable - other	(1,006)	(3,954)
(Increase) decrease in other assets	(2,744)	233
(Decrease) increase in accounts payable and accrued expenses	(440)	9,742
(Decrease) increase in other liabilities	(443)	1,988
Net cash provided by operating activities	46,464	54,005
INVESTING ACTIVITIES		
Purchase of fixed assets	(7,428)	(5,307)
Purchase of majority interest in businesses	(30,365)	(16,303)
Purchase of redeemable non-controlling interest, temporary equity	(5,699)	-
Purchase of non-controlling interest, permanent equity	(138)	(272)
Proceeds on sale of partnership interest, net	11,601	-
Proceeds on sale of fixed assets	64	2
Net cash used in investing activities	(31,965)	(21,880)
FINANCING ACTIVITIES		
Distributions to non-controlling interests, permanent and temporary equity	(10,862)	(10,470)
Cash dividends paid to shareholders	(10,723)	(8,746)
Proceeds from revolving line of credit	110,000	79,000
Payments on revolving line of credit	(97,000)	(79,000)
Payments to settle mandatorily redeemable non-controlling interests	-	(265)
Principal payments on notes payable	(1,409)	(2,294)
Other	(17)	(42)
Net cash used in financing activities	(10,011)	(21,817)
Net increase in cash and cash equivalents	4,488	10,308
Cash and cash equivalents - beginning of period	23,368	21,933
Cash and cash equivalents - end of period	$ 27,856	$ 32,241
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income taxes	$ 9,458	$ 8,957
Interest	$ 1,412	$ 1,705
Non-cash investing and financing transactions during the period:		
Purchase of businesses - seller financing portion	$ 4,300	$ 950
Purchase of business - payable to common shareholders of acquired business	$ 502	$ -
Notes payable related to purchase of redeemable non-controlling interest, temporary equity	$ 283	$ -
Notes receivable related to sale of partnership interest - redeemable non-controlling interest	$ 2,870	$ -

See notes to consolidated financial statements.

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

	Common Stock		Additional	Retained	Treasury Stock		Total Shareholders'	Non-Controlling	
For the three months ended September 30, 2019	Shares	Amount	Paid-In Capital	Earnings	Shares	Amount	Equity	Interests	Total
Balance June 30, 2019	14,989	$ 149	$ 84,125	$ 176,610	(2,215)	$ (31,628)	$ 229,256	$ 1,491	$ 230,747
Revaluation of redeemable non-controlling interest, net of tax	-	-	-	(679)	-	-	(679)	-	(679)
Compensation expense - equity-based awards	-	-	1,704	-	-	-	1,704	-	1,704
Dividends paid to USPH shareholders	-	-	-	(3,832)	-	-	(3,832)	-	(3,832)
Other	-	1	(1)	(11)	-	-	(11)	-	(11)
Distributions to non-controlling interest partners - permanent equity	-	-	-	-	-	-	-	(1,292)	(1,292)
Net income attributable to non-controlling interests - permanent equity	-	-	-	-	-	-	-	1,643	1,643
Net income attributable to USPH shareholders	-	-	-	9,047	-	-	9,047	-	9,047
Balance September 30, 2019	14,989	$ 150	$ 85,828	$ 181,135	(2,215)	$ (31,628)	$ 235,485	$ 1,842	$ 237,327

	Common Stock		Additional	Retained	Treasury Stock		Total Shareholders'	Non-Controlling	
For the nine months ended September 30, 2019	Shares	Amount	Paid-In Capital	Earnings	Shares	Amount	Equity	Interests	Total
Balance December 31, 2018	14,899	$ 149	$ 80,028	$ 167,396	(2,215)	$ (31,628)	$ 215,945	$ 930	$ 216,875
Issuance of restricted stock, net of cancellations	90	-	-	-	-	-	-	-	-
Revaluation of redeemable non-controlling interest, net of tax	-	-	-	(7,929)	-	-	(7,929)	-	(7,929)
Compensation expense - equity-based awards	-	-	5,262	-	-	-	5,262	-	5,262
Transfer of compensation liability for certain stock issued pursuant to long-term incentive plans	-	-	636	-	-	-	636	-	636
Purchase of non-controlling interest	-	-	(97)	-	-	-	(97)	(7)	(104)
Dividends paid to USPH shareholders	-	-	-	(10,723)	-	-	(10,723)	-	(10,723)
Purchase of partnership interests - redeemable non-controlling interests	-	-	-	298	-	-	298	-	298
Other	-	1	(1)	(17)	-	-	(17)	-	(17)
Distributions to non-controlling interest partners - permanent equity		-	-	-	-	-	-	(4,063)	(4,063)
Net income attributable to non-controlling interests - permanent equity		-	-	-	-	-	-	4,982	4,982
Net income attributable to USPH shareholders	-	-	-	32,110	-	-	32,110	-	32,110
Balance September 30, 2019	14,989	$ 150	$ 85,828	$ 181,135	(2,215)	$ (31,628)	$ 235,485	$ 1,842	$ 237,327

For the three months ended September 30, 2018	Common Stock		Additional	Retained	Treasury Stock		Total Shareholders'	Non-Controlling	
	Shares	Amount	Paid-In Capital	Earnings	Shares	Amount	Equity	Interests	Total
Balance June 30, 2018	14,900	$ 149	$ 77,099	$ 165,991	(2,215)	$ (31,628)	$ 211,611	$ 1,137	$ 212,748
Issuance of restricted stock, net of cancellation	(1)		-	-	-	-	-	-	-
Revaluation of redeemable non-controlling interest, net of tax	-	-	-	(6,402)	-	-	(6,402)	-	(6,402)
Compensation expense - equity-based awards	-	-	1,516	-	-	-	1,516	-	1,516
Transfer of compensation liability for certain stock issued pursuant to long-term incentive plans	-	-	-	-	-	-	-	-	-
Purchase of non-controlling interest	-	-	(73)	-	-	-	(73)	(6)	(79)
Dividends paid to USPH shareholders	-	-	-	(2,918)	-	-	(2,918)	-	(2,918)
Distributions to non-controlling interest partners - permanent equity	-	-	-	-	-	-	-	(1,238)	(1,238)
Other	-	-	-	48	-	-	48	-	48
Net income attributable to non-controlling interests - permanent equity		-	-	-	-	-	-	1,321	1,321
Net income attributable to USPH shareholders	-	-	-	8,102	-	-	8,102	-	8,102
Balance September 30, 2018	14,899	$ 149	$ 78,542	$ 164,821	(2,215)	$ (31,628)	$ 211,884	$ 1,214	$ 213,098

For the nine months ended September 30, 2018	Common Stock		Additional	Retained	Treasury Stock		Total Shareholders'	Non-Controlling	
	Shares	Amount	Paid-In Capital	Earnings	Shares	Amount	Equity	Interests	Total
Balance December 31, 2017	14,809	$ 148	$ 73,940	$ 162,406	(2,215)	$ (31,628)	$ 204,866	$ 1,204	$ 206,070
Issuance of restricted stock, net of cancellation	90	1	-	-	-	-	1	-	1
Revaluation of redeemable non-controlling interest, net of tax	-	-	-	(13,353)	-	-	(13,353)	-	(13,353)
Compensation expense - equity-based awards	-	-	4,453	-	-	-	4,453	-	4,453
Transfer of compensation liability for certain stock issued pursuant to long-term incentive plans	-	-	373	-	-	-	373	-	373
Purchase of non-controlling interest	-	-	(224)	-	-	-	(224)	(48)	(272)
Dividends paid to USPH shareholders	-	-	-	(8,746)	-	-	(8,746)	-	(8,746)
Distributions to non-controlling interest partners - permanent equity	-	-	-	-	-	-	-	(3,894)	(3,894)
Other	-	-	-	49	-	-	49	50	99
Net income attributable to non-controlling interests - permanent equity		-	-	-	-	-	-	3,902	3,902
Net income attributable to USPH shareholders	-	-	-	24,465	-	-	24,465	-	24,465
Balance September 30, 2018	14,899	$ 149	$ 78,542	$ 164,821	(2,215)	$ (31,628)	$ 211,884	$ 1,214	$ 213,098

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2019
(unaudited)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of U.S. Physical Therapy, Inc. and its subsidiaries (the "Company"). All significant intercompany transactions and balances have been eliminated. 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 typically 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 most 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, the Company has 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. For the foreseeable future, the Company intends to continue to acquire clinic practices and continue to focus on developing new clinics and opening satellite clinics where appropriate, along with increasing our patient volume through marketing and new clinical programs. Since March 2017, the Company has acquired a majority interest in two industrial injury prevention businesses and acquired one company in the industrial injury prevention sector.

In March 2017, the Company acquired a 55% interest in the initial industrial injury prevention business. On April 30, 2018, the Company acquired a 65% interest in another business in the industrial injury prevention sector. On April 30, 2018, the Company combined the two businesses. After the combination, the Company owned a 59.45% interest in the combined business, Briotix Health, Limited Partnership ("Briotix Health"), the Company's industrial injury prevention operation.

On April 11, 2019, the Company acquired a third company that is a provider of industrial injury prevention services. The acquired company specializes in delivering injury prevention and care, post offer employment testing, functional capacity evaluations and return-to-work services. It performs these services across a network in 45 states including onsite at eleven client locations. The business was then combined with Briotix Health increasing the Company's ownership position in the partnership to approximately 76.0%. The purchase price for this acquisition was $23.6 million, which consisted of $19.6 million in cash (of which $0.5 million remained payable at September 30, 2019 to certain shareholders), and a $4.0 million seller note. The note accrues interest at 5.5% and the principal and accrued interest is payable on April 9, 2021.

Services provided in the industrial injury prevention businesses include onsite injury prevention and rehabilitation, performance optimization, post offer employment testing, functional capacity evaluations, 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 Company performs these services through Industrial Sports Medicine Professionals, consisting of both physical therapists and specialized certified athletic trainers (ATCs).

On September 30, 2019, the Company acquired a 67% interest in an eleven-clinic physical therapy practice. The purchase price for the 67% interest was $12.4 million, of which $12.1 million was paid in cash and a $0.3 million seller note that is payable in two principal installments totaling $150,000 each, plus accrued interest in September 2020 and September 2021. The note accrues interest at 5.0% per annum.

On August 31, 2018, the Company acquired a 70% interest in a four-clinic physical therapy practice. The purchase price for the 70% interest was $7.3 million in cash and $400,000 in a seller note that is payable in two principal installments totaling $200,000 each, plus accrued interest. The first installment was paid in cash in August 2019 and the second installment remains payable in August 2020.

Besides the multi-clinic acquisition above, in 2018, the Company, through several of its majority owned Clinic Partnerships, acquired five separate clinic practices. These practices operate as satellites of the respective existing Clinic Partnerships.

As of September 30, 2019, the Company operated 574 clinics in 41 states, as well as the industrial injury prevention business. The Company also manages physical therapy facilities for third parties, primarily hospital and physicians, with 26 third-party facilities under management as of September 30, 2019.

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, 2018 filed with the Securities and Exchange Commission on March 18, 2019 ("2018 Annual Report").

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, 2019 are not necessarily indicative of the results the Company expects for the entire year. Please also review the Risk Factors section included in the Company's 2018 Annual Report.

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 as non-controlling interests and within the income statements as non-controlling interests – permanent equity.

For acquired Clinic Partnerships with redeemable non-controlling interests, the earnings attributable to the redeemable non-controlling interests are recorded within the consolidated statements of income line item – *net income attributable to non-controlling interests – redeemable non-controlling interests – temporary equity* and the equity interests are recorded on the consolidated balance sheet as *redeemable non-controlling interests*. In accordance with current accounting guidance, the revaluation of redeemable non-controlling interest, net of tax, is not included in net income but charged directly to retained earnings and is included in the earnings per basic and diluted share calculation.

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.

Significant Accounting Policies

Cash Equivalents

The Company maintains its cash and cash equivalents at financial institutions. The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. 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 using 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 purchased software 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 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 fair 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 evaluates indefinite lived tradenames using the relief from royalty method in conjunction with its annual goodwill impairment test. The Company operates a business which is 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 2019, there were six regions for which an impairment test was performed. In addition to the six regions, during 2019, the impairment test included a separate analysis for the industrial injury prevention business, a separate reporting unit.

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 2019, 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 2019 and 2018 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. The Company will continue to monitor for any triggering events or other indicators of impairment.

Redeemable Non-Controlling Interests

The non-controlling interests that are reflected as redeemable non-controlling interests in the consolidated financial statements consist of those that the owners and the Company have certain redemption rights, whether currently exercisable or not, and which currently, or in the future, require that the Company purchase or the owner sell the non-controlling interest held by the owner, if certain conditions are met. 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 or the Company 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 or mandatory (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 for such partnership 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 carrying 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 carrying value. The Company records any adjustment in the redemption value, net of tax, directly to retained earnings and are not reflected in the consolidated statements of income. Although the adjustments are not reflected in the consolidated statements of 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 consolidated statements of net income. Management believes the redemption value (i.e. the carrying amount) and fair value are the same.

Non-Controlling Interests

The Company recognizes non-controlling interests, in which the Company has no obligation but the right to purchase the non-controlling interests, as equity in the consolidated financial statements separate from the parent entity's equity. Net income is allocated to non-controlling interests (permanent equity), redeemable non-controlling interests (temporary equity) and to the Company's shareholders. The amount of net income attributable to non-controlling interests is included in consolidated net income on the face of the consolidated statements of net income. 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 equity investment on the deconsolidation date. When the purchase price of a non-controlling interest by the Company exceeds the book value at the time of purchase, any excess or shortfall 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. See Footnote 4 – Revenue Recognition, for further discussion of revenue recognition.

Allowance for Doubtful Accounts

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 consolidated statements 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.

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 bases 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, 2019. The Company records any interest or penalties, if required, in interest and other 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 and the redemption value of Redeemable non-controlling interests approximate the respective fair values. The fair value of the Company’s redeemable non-controlling interests is determined based on “Level 3” inputs. The interest rate on the Amended Credit Agreement, which is tied to LIBOR, 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 an 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, 2019.

Restricted Stock

Restricted stock issued to employees and directors is normally 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 lapse in equal quarterly installments during the first year after the date of grant. For those granted to officers, the restrictions 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 February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842) ("ASC 842"), which amended prior accounting standards for leases.

The Company implemented the new lease standard, ASC Topic 842 – Leases as of January 1, 2019 using the transition method in ASU 2018-11 issued in July 2018 which allows the Company to initially apply the new leases standard at adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. There was no adjustment required to retained earnings upon adoption. Accordingly, no retrospective adjustments were made to the comparative periods presented. The Company elected certain of the practical expedients permitted, including the expedient that allows the Company to retain its existing lease assessment and classification.

Adoption of ASC 842 resulted in an increase to total assets and liabilities due to the recording of operating lease right-of-use assets ("ROU") and operating lease liabilities of approximately $78.0 million and $82.6 million respectively, as of January 1, 2019 for operating leases as a lessee. The adoption did not materially impact the Company's consolidated statement of income or cash flows. See Footnote 11 - Leases for further discussion of leases.

In August 2018, the Securities Exchange Commission ("SEC") issued Final Rule 33-10532, Disclosure Update and Simplification, which amends certain disclosure requirements that were redundant, duplicative, overlapping or superseded by other SEC disclosure requirements. The amendments generally eliminated or otherwise reduced certain disclosure requirements of various SEC rules and regulations. However, in some cases, the amendments require additional information to be disclosed, including changes in stockholders' equity in interim periods. The rule is effective 30 days after its publication in the Federal Register. The rule was posted on October 4, 2018. On September 25, 2018, the SEC released guidance advising it will not object to a registrant adopting the requirement to include changes in stockholders' equity in the Form 10-Q for the first quarter beginning after the effective date of the rule. The Company adopted this standard during the first quarter of 2019 Form 10-Q with no material impact 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 does not expect adoption of this ASU to have a material impact.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses, which added a new impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses. The CECL model applies to most debt instruments, including trade receivables. The CECL model does not have a minimum threshold for recognition of impairment losses and entities will need to measure expected credit losses on assets that have a low risk of loss. These changes become effective for the Company on January 1, 2020. The financial instruments subject to ASU 2016-13 are the Company's accounts receivable and notes receivable. Given the very high rate of collectability of the Company's financial instruments, the impact of ASU 2016-13 will not be material to the Company's consolidated statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820) which amended the fair value measurement guidance by removing or clarifying certain existing disclosure requirements, while also adding new disclosure requirements. Specifically, this update removed certain disclosures related to Level 1 and Level 2 transfers and also removed the discussion regarding valuation processes of Level 3 fair value measurements. The update modifies guidance related to investments in certain entities that calculate net asset value to explicitly require disclosure regarding timing of liquidation of the investee's assets and timing of redemption restrictions. The update adds disclosures around the changes in unrealized gains and losses in other comprehensive income for recurring Level 3 investments held at the end of the reporting period and adds disclosures regarding certain unobservable inputs on Level 3 fair value measurements. These changes become effective for the Company on January 1, 2020. Pursuant to ASC 820, the fair value of the Company's redeemable non-controlling interests are determined based on "Level 3" inputs. Management is currently evaluating the potential impact of these changes on the Consolidated Financial Statements.

Subsequent Events

The Company has evaluated events subsequent to September 30, 2019 to assess the need for potential recognition or disclosure in this report. Such events were evaluated through the date these financial statements were issued. Based on this evaluation, it was determined that no subsequent events occurred that require recognition or disclosure in the financial statements.

2. ACQUISITIONS OF BUSINESSES

On April 11, 2019, the Company acquired a company that is a provider of industrial injury prevention services. The acquired company specializes in delivering injury prevention and care, post offer employment testing, functional capacity evaluations and return-to-work services. It performs these services across a network in 45 states including onsite at eleven client locations. The business was then combined with Briotix Health, the Company's industrial injury prevention operation, increasing the Company's ownership position in the Briotix Health partnership to approximately 76.0%. The purchase price for the acquired company was $23.6 million, which consisted of $19.6 million in cash, (of which $0.5 million remained payable at September 30, 2019 to certain shareholders), and a $4.0 million seller note. The note accrues interest at 5.5% and the principal and accrued interest is payable, on April 9, 2021.

On September 30, 2019, the Company acquired a 67% interest in an eleven-clinic physical therapy practice. The purchase price for the 67% interest was $12.4 million, of which $12.1 million was paid in cash and $0.3 million in a seller note that is payable in two principal installments totaling $150,000 each, plus accrued interest in September 2020 and September 2021. The note accrues interest at 5.0% per annum.

The purchase price for the 2019 acquisitions has been preliminarily allocated as follows (in thousands):

Cash paid, net of cash acquired	$	30,365
Payable to shareholders of seller		502
Seller note		4,300
Total consideration	$	35,167
Estimated fair value of net tangible assets acquired:		
Total current assets	$	2,824
Total non-current assets		2,924
Total liabilities		(3,034)
Net tangible assets acquired	$	2,714
Referral relationships		3,000
Non-compete		1,290
Tradename		4,100
Goodwill		30,293
Fair value of non-controlling interest (classified as redeemable non-controlling interests)		(6,230)
	$	35,167

The purchase prices plus the fair value of the non-controlling interests for the acquisition in 2019 was allocated to the fair value of the assets acquired, inclusive of identifiable intangible assets, i.e. trade names, referral relationships and non-compete agreements, and liabilities assumed based on the estimated fair values at the acquisition date, with the amount in excess of fair values being recorded as goodwill. The Company is in the process of completing its formal valuation analysis of the acquisitions, to identify and determine the fair value of tangible and identifiable intangible assets acquired and the liabilities assumed. Thus, the final allocation of the purchase price may differ from the preliminary estimates used at September 30, 2019 based on additional information obtained and completion of the valuation of the identifiable intangible assets. Changes in the estimated valuation of the tangible assets acquired, the completion of the valuation of identifiable intangible assets 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. The Company does not expect the adjustments to be material.

For the acquisitions in 2019, the 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 amortization period is 11.0 years. For non-compete agreements, the amortization period is 6.0 years. The values assigned to tradenames are tested annually for impairment.

For the 2019 acquisitions, a majority of total current assets primarily represents accounts receivable. Total non-current assets are fixed assets and equipment used in the practice.

On August 31, 2018, the Company acquired a 70% interest in a four-clinic physical therapy practice. The purchase price for the 70% interest was $7.3 million in cash and $0.4 million in a seller note that is payable in two principal installments totaling $200,000 each plus accrued interest. The first installment was paid in cash in August 2019 and the second installment remains payable in August 2020.

In March 2017, the Company acquired a 55% interest in the initial industrial injury prevention business. The purchase price for the 55% interest was $6.2 million in cash and $0.4 million in a seller note that was paid in September 2018. On April 30, 2018, the Company acquired a 65% interest in another business in the industrial injury prevention sector. The aggregate purchase price for the 65% interest was $8.6 million in cash and $400,000 in a seller note that was paid on April 30, 2019. On April 30, 2018, the Company combined the two businesses. After the combination, the Company owned a 59.45% interest in the combined business, Briotix Health, the Company's industrial injury prevention operation. See discussion above regarding an additional acquisition on April 30, 2019 in the industrial injury prevention business.

Services provided include onsite injury prevention and rehabilitation, performance optimization, post offer employment testing, functional capacity evaluations 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 Company performs these services through Industrial Sports Medicine Professionals, consisting of both physical therapists and highly specialized certified athletic trainers (ATCs).

In addition, during 2018, the Company, through several of its majority owned Clinic Partnerships, acquired five separate clinic practices. These practices operate as satellites of the existing Clinic Partnership. The aggregate purchase price was $1.0 million inclusive of cash of $850,000 and a note payable of $150,000. The note accrued interest at 4.5% and the principal and accrued interest, was paid in cash on August 31, 2019.

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 purchase price for the 2018 acquisitions has been allocated as follows (in thousands):

Cash paid, net of cash acquired	$ 16,367
Seller notes	950
Total consideration	$ 17,317
Estimated fair value of net tangible assets acquired:	
Total current assets	$ 1,633
Total non-current assets	305
Total liabilities	(525)
Net tangible assets acquired	$ 1,413
Referral relationships	2,926
Non-compete	298
Tradename	990
Goodwill	19,835
Fair value of non-controlling interest (classified as redeemable non-controlling interests)	(8,145)
	$ 17,317

The purchase prices plus the fair value of the non-controlling interests for the acquisitions in 2018 were allocated to the fair value of the assets acquired, inclusive of identifiable intangible assets, i.e. trade names, referral relationships and non-compete agreements, and liabilities assumed based on the fair values at the acquisition date, with the amount exceeding the fair values being recorded as goodwill. The Company has completed its formal valuation analyses for the acquisitions in 2018 with immaterial changes to the values.

For the acquisitions in 2018, the 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 weighted average amortization period was 10.54 years at December 31, 2018. For non-compete agreements, the weighted average amortization period was 6.00 years at December 31, 2018. The values assigned to tradenames are tested annually for impairment.

For the 2018 acquisitions, total current assets primarily represent accounts receivable. Total non-current assets are fixed assets, primarily equipment, used in the practices.

The consideration paid for each of the acquisitions was derived through arm's length negotiations. Funding for the cash portions was derived from proceeds from the Company's revolving credit facility. The results of operations of the acquisitions have been included in the Company's consolidated financial statements since their respective date of acquisition. Unaudited proforma consolidated financial information for the acquisitions in the 2019 and 2018 acquisitions have not been included as the results, individually and in the aggregate, were not material to current operations.

3. SALE OF PARTNERSHIP INTEREST

The Company recognized a non-operating pre-tax gain of $5.8 million during the nine months ended September 30, 2019, which resulted from the sale of its 50% interest in one of its physical therapy partnerships in June 2019, to the founders of the practice. The sales proceeds, all of which was in cash, was $11.6 million.

4. REVENUE RECOGNITION

Categories

Revenues are recognized in the period in which services are rendered.

Net patient revenues consists of revenues for physical therapy and occupational therapy clinics that provide pre-and post-operative care and treatment for orthopedic related disorders, sports-related injuries, preventative care, rehabilitation of injured workers and neurological-related injuries. Net patient revenues (patient revenues less estimated contractual adjustments) are recognized at the estimated net realizable amounts from third-party payors, patients and others in exchange for services rendered when obligations under the terms of the contract are satisfied. There is an implied contract between us and the patient upon each patient visit. Generally, this occurs as the Company provides physical and occupational therapy services, as each service provided is distinct and future services rendered are not dependent on previously rendered services. 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.

Management contract revenues, which are included in other revenues in the consolidated statements of net income, are derived from contractual arrangements whereby the Company manages a clinic owned by a third party. 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 at the point in time when services are performed. Costs, typically salaries for our employees, are recorded when incurred.

Revenues from the industrial injury prevention business, which are also included in other revenues in the consolidated statements of net income, are derived from onsite services the Company provides to clients' employees including injury prevention, rehabilitation, ergonomic assessments and performance optimization. Revenue from the industrial injury prevention business is recognized when obligations under the terms of the contract are satisfied. Revenues are recognized at an amount equal to the consideration the Company expects to receive in exchange for providing injury prevention services to its clients. The revenue is determined and recognized based on the number of hours and respective rate for services provided in a given period.

Additionally, other revenues include services the Company provides on-site, such as schools and industrial worksites, for physical or occupational therapy services, and athletic trainers and gym membership fees. Contract terms and rates are agreed to in advance between the Company and the third parties. Services are typically performed over the contract period and revenue is recorded at the point of service. If the services are paid in advance, revenue is recorded as a contract liability over the period of the agreement and recognized at the point in time, when the services are performed.

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 clinic operating costs in the statements of net income. Patient 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.

The following table details the revenue related to the various categories (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Net patient revenues	$ 104,392	$ 103,354	$ 324,405	$ 309,895
Management contract revenues	2,174	1,922	6,534	6,319
Industrial injury prevention services revenues	9,948	7,281	27,136	18,407
Other revenues	737	565	1,780	1,941
	$ 117,251	$ 113,122	$ 359,855	$ 336,562

Medicare Reimbursement

The Medicare program reimburses outpatient rehabilitation providers based on the Medicare Physician Fee Schedule (''MPFS''). For services provided in 2019, a 0.25% increase has been applied to the fee schedule payment rates before applying the mandatory budget neutrality adjustment. For services provided in 2020 through 2025, a 0.0% percent update will be applied each year to the fee schedule payment rates, before applying the mandatory budget neutrality adjustment. Beginning in 2021, payments to individual therapists (Physical/Occupational Therapist in Private Practice) paid under the fee schedule may be subject to adjustment based on performance in the Merit Based Incentive Payment System ("MIPS"), which measures performance based on certain quality metrics, resource use, and meaningful use of electronic health records. Under the MIPS requirements, a provider's performance is assessed according to established performance standards each year and then is used to determine an adjustment factor that is applied to the professional's payment for the corresponding payment year. The provider's MIPS performance in 2019 will determine the payment adjustment in 2021. Each year from 2019 through 2024, professionals who receive a significant share of their revenues through an alternate payment model ("APM"), (such as accountable care organizations or bundled payment arrangements) that involves risk of financial losses and a quality measurement component will receive a 5% bonus in the corresponding payment year. The bonus payment for APM participation is intended to encourage participation and testing of new APMs and to promote the alignment of incentives across payors. The specifics of the MIPS and APM adjustments will be subject to future notice and comment rule-making.

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, extended the 2% reductions to Medicare payments through fiscal year 2025. The Bipartisan Budget Act of 2018, enacted on February 9, 2018, extends the 2% reductions to Medicare payments through fiscal year 2027.

Historically, 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 was subject to an annual dollar limit (i.e., the ‘‘Therapy Cap’’ or ‘‘Limit’’). For 2017, the annual Limit on outpatient therapy services was $1,980 for combined Physical Therapy and Speech Language Pathology services and $1,980 for Occupational Therapy services. As a result of Bipartisan Budget Act of 2018, the Therapy Caps have been eliminated, effective as of January 1, 2018.

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 Centers for Medicare and Medicaid Services (“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. The Bipartisan Budget Act of 2018 extended the targeted medical review indefinitely, but reduced the threshold to $3,000 through December 31, 2027. For 2028, the threshold amount will be increased by the percentage increase in the Medicare Economic Index (“MEI”) for 2028 and in subsequent years the threshold amount will increase based on the corresponding percentage increase in the MEI for such subsequent year.

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%.

Medicare claims for outpatient therapy services furnished by therapy assistants on or after January 1, 2022 must include a modifier indicating the service was furnished by a therapy assistant. CMS was required to develop a modifier to mark services provided by a therapy assistant by January 1, 2019, and then submitted claims have to report the modifier mark starting January 1, 2020. Outpatient therapy services furnished on or after January 1, 2022 in whole or part by a therapy assistant will be paid at an amount equal to 85% of the payment amount otherwise applicable for the service.

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, 2019. 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, 2019 and 2018, net patient revenue from Medicare were approximately $88.8 million and $76.6 million, respectively.

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, historically the difference between net revenues and corresponding cash collections has generally reflected a difference within approximately 1% of net revenues. Additionally, analysis of subsequent periods' 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, 2019.

A contract's transaction price is allocated to each distinct performance obligation and recognized when, or as, the performance obligation is satisfied. To determine the transaction price, the Company includes the effects of any variable consideration, such as the probability of collecting that amount. The Company applies established rates to the services provided, and adjusts for the terms of payor contracts, as applicable. These contracted amounts are different from the Company's established rates. The Company has established a "contractual allowance" for this difference. The allowance is based on the terms of payor contracts, historical and current reimbursement information and current experience with the clinic and partners. The Company's established rates less the contractual allowance is the revenue that is recognized in the period in which the service is rendered. This revenue is deemed the transaction price and stated as "Net Patient Revenue" on the Company's consolidated statements of income.

The Company's performance obligations are satisfied at a point in time. After the clinic has provided services and satisfied its obligation to the customer for the reimbursement rates stipulated in the payor contracts (i.e. the transaction price), the Company recognizes the revenue, net of contractual allowances, in the period in which the services are rendered. The Company recognizes the full amount of revenue and reports the contractual allowances as a contra (or offset) revenue account to report a net revenue number based on the expected collections.

5. EARNINGS PER SHARE

In accordance with current accounting guidance, the revaluation of redeemable non-controlling interest (see Footnote 6 – Redeemable Non-Controlling Interest), net of tax, charged directly to retained earnings is included in the earnings per basic and diluted share calculation. The following table provides a detail of the basic and diluted earnings per share computation (in thousands, except per share data).

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Computation of earnings per share - USPH shareholders:				
Net income attributable to USPH shareholders	$ 9,047	$ 8,102	$ 32,110	$ 24,465
Charges to retained earnings:				
Revaluation of redeemable non-controlling interest	(922)	(8,680)	(10,752)	(18,105)
Tax effect at statutory rate (federal and state) of 26.25%	242	2,279	2,822	4,753
	$ 8,367	$ 1,701	$ 24,180	$ 11,113
Earnings per share (basic and diluted)	$ 0.66	$ 0.13	$ 1.90	$ 0.88
Shares used in computation:				
Basic and diluted earnings per share - weighted-average shares	12,774	12,685	12,750	12,660

6. REDEEMABLE NON-CONTROLLING INTEREST

Since October 2017, when the Company acquires a majority interest (the “Acquisition”) in a physical therapy clinic business (referred to as “Therapy Practice”), these Acquisitions occur 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.

The Partnership Agreement contains 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 under certain circumstances prior to a specified date (the “Specified Date”), the Seller Entity thereafter may 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 Specified 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 Specified 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 prior to the Specified 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 Specified 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, and the Seller Entity Interest is not required to be purchased by the Company or sold by the Seller Entity unless either; the Put Right and the Call Right is exercised.
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 three and nine months ended September 30, 2019 and September 30, 2018, the following table details the changes in the carrying amount (fair value) of the redeemable non-controlling interests (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Beginning balance	$ 133,366	$ 117,027	$ 133,943	$ 102,572
Operating results allocated to redeemable non-controlling interest partners	2,379	2,456	8,152	6,802
Distributions to redeemable non-controlling interest partners	(1,636)	(2,497)	(6,799)	(6,576)
Changes in the fair value of redeemable non-controlling interest	922	8,681	10,752	18,106
Purchases of redeemable non-controlling interest	(1,459)	-	(6,344)	-
Reduction of non-controlling interest due to sale of USPh partnership interest	-	-	(6,132)	-
Acquired interest	6,230	3,282	6,230	8,145
Sales of redeemable non-controlling interest - temporary equity	-	-	2,870	-
Notes receivable related to sales of redeemable non-controlling interest - temporary equity	-	-	(2,870)	-
Other	(1)	(43)	(1)	(143)
Ending balance	$ 139,801	$ 128,906	$ 139,801	$ 128,906

In conjunction with the sale of the Company's 50% interest in a partnership to the founders in 2019, the redeemable non-controlling interest related to this partnership was reduced.

For the nine months ended September 30, 2019, the Company purchased additional interests in seven partnerships for an aggregate price of $6.0 million of which $5.7 million was paid in cash and $0.3 million in seller notes. The seller notes are payable in two equal installments plus accrued interest. The excess of the purchase price over the recorded value of the interests (redeemable non-controlling interests) was $0.4 million. The $0.4 million, net of tax of $0.1 million, was recognized directly in retained earnings in accordance with current accounting literature.

Also during the nine months ended September 30, 2019, the Company sold various interest in the three partnerships for an aggregate price of $2.8 million, in exchange for notes receivable payable based on distributions of the specific partnerships. The Company continues to own an interest in all three of the partnerships.

The following table categorizes the carrying amount (fair value) of the redeemable non-controlling interests (in thousands):

	September 30, 2019	September 30, 2018
Contractual time period has lapsed but holder's employment has not been terminated	$ 40,958	$ 34,587
Contractual time period has not lapsed and holder's employment has not been terminated	98,843	94,319
Holder's employment has terminated and contractual time period has expired	-	-
Holder's employment has terminated and contractual time period has not expired	-	-
	$ 139,801	$ 128,906

7. GOODWILL

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

	Nine Months Ended September 30, 2019	Year Ended December 31, 2018
Beginning balance	$ 293,525	$ 271,338
Goodwill acquired	30,293	19,778
Goodwill related to partnership interest sold	(7,325)	-
Goodwill adjustments for purchase price allocation of businesses acquired in prior year	146	2,409
Ending balance	$ 316,639	$ 293,525

8. INTANGIBLE ASSETS, NET

Intangible assets, net as of September 30, 2019 and December 31, 2018 consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
Tradenames	$ 32,049	$ 30,256
Referral relationships, net of accumulated amortization of $10,714 and $9,370, respectively	18,967	16,895
Non-compete agreements, net of accumulated amortization of $4,901 and $4,716, respectively	2,369	1,677
	$ 53,385	$ 48,828

Tradenames, referral relationships and non-compete agreements are related to the businesses acquired. 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 sixteen 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 nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Referral relationships	$ 593	$ 569	$ 1,707	$ 1,648
Non-compete agreements	172	172	510	460
	$ 765	$ 741	$ 2,217	$ 2,108

Based on the balance of referral relationships and non-compete agreements as of September 30, 2019, the expected amount to be amortized in the last three months of 2019 and thereafter by year is as follows (in thousands):

Referral Relationships		Non-Compete Agreements	
Years Ending December 31,	Annual Amount	Years Ending December 31,	Annual Amount
2019 (excluding the nine months ended September 30, 2019)	$ 601	2019 (excluding the nine months ended September 30, 2019)	$ 198
2020	$ 2,403	2020	$ 619
2021	$ 2,403	2021	$ 541
2022	$ 2,354	2022	$ 363
2023	$ 2,247	2023	$ 294
2024	$ 2,082	2024	$ 238
Thereafter	$ 6,877	Thereafter	$ 116

9. ACCRUED EXPENSES

Accrued expenses as of September 30, 2019 and December 31, 2018 consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
Salaries and related costs	$ 21,089	$ 21,726
Credit balances due to patients and payors	5,075	7,293
Group health insurance claims	2,996	3,124
Other	4,413	6,350
Total	$ 33,573	$ 38,493

10. NOTES PAYABLE AND AMENDED CREDIT AGREEMENT

Amounts outstanding under the Amended Credit Agreement and notes payable as of September 30, 2019 and December 31, 2018 consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
Credit Agreement average effective interest rate of 4.03% inclusive of unused fee	$ 51,000	$ 38,000
Various notes payable with $718 plus accrued interest due in the next year, interest accrues in the range of 3.75% through 5.50% per annum	5,010	1,836
	$ 56,010	$ 39,836
Less current portion	(718)	(1,434)
Long term portion	$ 55,292	$ 38,402

Effective December 5, 2013, the Company entered into an Amended and Restated Credit Agreement with a commitment for a $125.0 million revolving credit facility. This agreement was amended in August 2015, January 2016, March 2017 and November 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 1.25% to 2.0% 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 0.25% to 0.3% 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 $50.0 million 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 $10.0 million in any fiscal year. 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 $15.0 million in any fiscal year. The November 2017 amendment, among other items, adjusted the pricing grid as described above, increased the aggregate amount the Company may pay in cash dividends to its shareholders to an amount not to exceed $20.0 million and extended the maturity date to November 30, 2021.

On September 30, 2019, $51.0 million was outstanding on the Amended Credit Agreement resulting in $74.0 million of availability. As of September 30, 2019 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 acquisition on September 30, 2019, the Company entered into a note payable in the amount of $300,000 payable in two equal principal installments due in September 2020 and September 2021 plus accrued interest. Interest accrues at the rate of 5.00% per annum. In conjunction with the acquisition on April 12, 2019, the Company entered into a note payable in the amount of $4,000,000 payable in April 2021 plus accrued interest. Interest accrues at the rate of 5.50% per annum. In March 4, 2019, in conjunction with the purchase of a redeemable non-controlling interest, the Company entered into a note payable in the amount of $228,120 that is payable in two principal installments of $114,080 each, plus accrued interest, in March 2020 and 2021. In conjunction with the acquisition of the four clinic practices on August 31, 2018, the Company entered into a note payable in the amount of $400,000 that is payable in two principal installments of $200,000 each, plus accrued interest. The first installment of principal and accrued interest was paid in August 2019 and the second installment of principal and accrued interest remains payable in August 2020. Interest accrues at the rate of 5.00% per annum. In conjunction with the acquisition of the industrial injury prevention business on April 30, 2018, the Company entered into a note payable in the amount of $400,000 that is payable in two principal installments of $200,000 each, plus accrued interest. The first installment was paid in April 2019 and the second is due in April 2020. Interest accrues at the rate of 4.75% per annum. In conjunction with the acquisition of the two clinic practices on February 28, 2018, the Company entered into a note payable in the amount of $150,000, which was paid in August 2019. Interest accrued at the rate of 4.5% per annum.

Subsequent aggregate annual payments of principal required pursuant to the Amended Credit Agreement and outstanding notes payable at September 30, 2019 are as follows (in thousands):

During the twelve months ended September 30, 2020	$	718
During the twelve months ended September 30, 2021		4,292
During the twelve months ended September 30, 2022		51,000
	$	56,010

The revolving credit facility (balance at September 30, 2019 of $51.0 million) matures on November 30, 2021.

11. LEASES

The Company has operating leases for its corporate offices and operating facilities. The Company determines if an arrangement is a lease at the inception of a contract. Effective January 1, 2019, right-of-use assets and operating lease liabilities are included in its consolidated balance sheet. Right-of-use assets represent the Company's right to use an underlying asset during the lease term and operating lease liabilities represent net present value of the Company's obligation to make lease payments arising from the lease. Right-of-use assets and operating lease liabilities are recognized at commencement date based on the net present value of the fixed lease payments over the lease term. The Company's operating lease terms are generally five years or less. The Company's lease terms include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. As most of the Company's operating leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Operating fixed lease expense is recognized on a straight-line basis over the lease term.

In accordance with ASC 842, the Company records on its consolidated balance sheet leases with a term greater than 12 months. The Company has elected, in compliance with current accounting standards, not to record leases with an initial terms of 12 months or less in the consolidated balance sheet. ASC 842 requires the separation of the fixed lease components from the variable lease components. The Company has elected the practical expedient to account for separate lease components of a contract as a single lease cost thus causing all fixed payments to be capitalized. Non-lease and variable cost components are not included in the measurement of the right-of-use assets or operating lease liabilities. The Company also elected the package of practical expedients permitted within ASC 842, which among other things, allows the Company to carry forward historical lease classification. Variable lease payment amounts that cannot be determined at the commencement of the lease such as increases in lease payments based on changes in index rates or usage are not included in the right-of- use assets or operating lease liabilities. These are expensed as incurred and recorded as variable lease expense.

The components of lease expense were as follows (in thousands):

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost	$ 7,303	$ 22,598
Short-term lease cost	265	933
Variable lease cost	1,477	4,605
Total lease cost *	$ 9,045	$ 28,136

* Sublease income was immaterial

Lease cost is reflected in the consolidated statement of net income in the line item – rent, supplies, contract labor and other.

Supplemental information related to leases was as follows (in thousands):

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of operating lease liabilities	$ 7,187	$ 22,579
Right-of-use assets obtained in exchange for new operating lease liabilities *	$ 6,319	$ 104,833

* For the nine months ended September 30, 2019 includes the right-of-use assets obtained in exchange for lease liabilities of $82.6 million which were recognized upon adoption of ASC Topic 842 at January 1, 2019.

The aggregate future lease payments for operating leases as of September 30, 2019 were as follows (in thousands):

Fiscal Year	Amount
2019 (excluding the nine months ended September, 30, 2019)	$ 7,387
2020	27,372
2021	21,344
2022	15,003
2023	9,987
2024 and thereafter	10,407
Total lease payments	$ 91,500
Less: imputed interest	(6,935)
Total operating lease liabilities	$ 84,565

Average lease terms and discount rates were as follows:

	Nine Months Ended September 30, 2019
Weighted-average remaining lease term - Operating leases	4.02 Years
Weighted-average discount rate - Operating leases	3.9%

12. 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 114,899 shares (based on the closing price of $130.55 on September 30, 2019) 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, 2019.

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, 2018 filed with the Securities and Exchange Commission (the "SEC") on March 18, 2019 ("2018 Annual Report"); and (iii) our management's discussion and analysis of financial condition and results of operations included in our 2018 Annual Report. 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 2018 Annual Report.

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 pre- and post-operative care and treatment for a variety of orthopedic-related disorders and sports-related injuries, neurologically-related injuries and rehabilitation of injured workers. At September 30, 2019, we operated 574 clinics in 41 states. In addition to our ownership and operation of outpatient physical therapy clinics, we also manage physical therapy facilities for third parties, such as physicians and hospitals, with 26 such third-party facilities under management as of September 30, 2019.

In March 2017, we purchased a 55.0% interest in our initial industrial injury prevention business. On April 30, 2018, we made a second acquisition and subsequently combined the two businesses. After the combination, we owned a 59.45% interest in the combined business. On April 11, 2019, we acquired a third company that is a provider of industrial injury prevention services. The acquired company specializes in delivering injury prevention and care, post offer employment testing, functional capacity evaluations and return-to-work services. It performs these services across a network in 45 states including onsite at eleven client locations. The business was then combined with Briotix Health, our industrial injury prevention operation, increasing our ownership position in the Briotix Health partnership to approximately 76.0%. The purchase price for the acquisition was $23.6 million, which consisted of $19.6 million in cash (of which $0.5 million remained payable at September 30, 2019 to certain shareholders), and a $4.0 million seller note. The note accrues interest at 5.5% and the principal and accrued interest is payable on April 9, 2021.

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. We perform these services through Industrial Sports Medicine Professionals, consisting of both physical therapists and highly specialized certified athletic trainers (ATCs).

In addition to the above acquired interests in the industrial injury prevention businesses, on August 31, 2018, we acquired a 70% interest in a four-clinic physical therapy practice. The purchase price for the 70% interest was $7.3 million in cash and $400,000 in a seller note that is payable in two principal installments totaling $200,000 each, plus accrued interest. The first installment was paid in August 2019 and the second installment is due in August 2020.

On September 30, 2019, we acquired a 67% interest in eleven-clinic physical therapy practice. The purchase price for the 67% interest was $12.4 million of which $12.1 million was paid in cash and $0.3 million in a seller note that is payable in two principal installments totaling $150,000 each, plus accrued interest in September 2020 and September 2021. The note accrues interest at 5.0% per annum.

In addition, during 2018, through several of our majority owned Clinic Partnerships, we acquired five separate clinic practices. These practices operate as satellites of the existing Clinic Partnership. The aggregate purchase price was $1.0 million inclusive of cash of $850,000 and a note payable of $150,000. The note accrued interest at 4.5% and was paid, principal and accrued interest, on August 31, 2019.

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842) ("ASC 842"), which amended prior accounting standards for leases.

We adopted ASC 842 as of January 1, 2019, which resulted in an increase to total assets and liabilities due to the recording of operating lease right-of-use assets and operating lease liabilities of approximately $78.0 million and $82.6 million respectively, as of January 1, 2019 for operating leases as a lessee. The adoption did not materially impact our consolidated statement of income or cash flows.

Selected Operating and Financial Data

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

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Number of clinics, at the end of period	574	588	574	588
Working Days	64	63	191	191
Average visits per day per clinic	27.5	26.6	27.5	26.4
Total patient visits	996,063	979,875	3,055,451	2,934,515
Net patient revenue per visit	$ 104.80	$ 105.48	$ 106.17	$ 105.60

RESULTS OF OPERATIONS

Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018

- For the third quarter ended September 30, 2019, our Operating Results (as defined below) increased 11.7% to $9.0 million, or $0.71 per diluted share, as compared to $8.1 million, or $0.64 per diluted share, in the third quarter of 2018. For the nine months ended September 30, 2019, our Operating Results increased 13.7% to $27.8 million, or $2.18 per diluted share, as compared to $24.5 million, or $1.93 per diluted share, in the first nine months of 2018. Operating Results, a non-Generally Accepted Accounting Principle ("GAAP") measure, equals net income attributable to our shareholders per the consolidated statements of net income less the gain on the sale of a partnership interest as described below. The earnings per share from Operating Results also excludes the impact of the revaluation of redeemable non-controlling interest. On June 30, 2019, the Company sold its 50% interest in one physical therapy partnership to the group's founders for $11.6 million and recognized a pre-tax gain of $5.8 million on the sale.

- For the third quarter ended September 30, 2019, the net income attributable to our shareholders was $9.0 million, as compared to $8.1 million in the third quarter of 2018. Inclusive of the charge for revaluation of non-controlling interest, net of tax, used to compute diluted earnings per share, in accordance with GAAP, in the recent quarter, the amount is $8.4 million, or $0.66 per share, as compared to $1.7 million, or $0.13 per share for the third quarter of 2018. In accordance with current accounting guidance, the revaluation of redeemable non-controlling interest, net of tax, is not included in net income but charged directly to retained earnings but is included in the earnings per basic and diluted share calculation.

The following table provides details of the diluted earnings per share computation and reconciles net income attributable to our shareholders calculated in accordance with GAAP to Operating Results. Management believes providing Operating Results to investors is useful information for comparing our period-to-period results. Operating Results per share, a non-GAAP measure, equals net income attributable to our shareholders per the consolidated statement of net income, and excludes the impact of the gain on the sale of a partnership interest and the revaluation of redeemable non-controlling interest, net of tax, to calculate earnings per share. In accordance with current accounting guidance, the revaluation of redeemable non-controlling interest, net of tax, is not included in net income but charged directly to retained earnings and is included in the earnings per basic and diluted share calculation. Management uses Operating Results, which eliminates certain items described above that can be subject to volatility and unusual costs, 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 our period-to-period results as well as for comparing with other similar businesses since most do not have redeemable non-controlling interest instruments and therefore have different liability and equity structures.

Operating Results is not a measure of financial performance under GAAP. Operating Results should not be considered in isolation or as an alternative to, or substitute for, net income attributable to our shareholders presented in the consolidated financial statements.

	Three Months Ended September 30,	
	2019	2018
Computation of earnings per share - USPH shareholders:		
Net income attributable to USPH shareholders	$ 9,047	$ 8,102
Charges to retained earnings:		
Revaluation of redeemable non-controlling interest	(922)	(8,680)
Tax effect at statutory rate (federal and state) of 26.25%	242	2,279
	$ 8,367	$ 1,701
Earnings per share (basic and diluted)	$ 0.66	$ 0.13
Adjustments:		
Gain on sale of partnership interest	-	-
Revaluation of redeemable non-controlling interest	922	8,680
Tax effect at statutory rate (federal and state) of 26.25%	(242)	(2,279)
Operating Results	$ 9,047	$ 8,102
Basic and diluted Operating Results per share	$ 0.71	$ 0.64
Shares used in computation - basic and diluted	12,774	12,685

Revenues

- Net revenues increased $4.1 million or 3.7% from $113.1 million in the 2018 Third Quarter to $117.2 million in the 2019 Third Quarter, due to an increase in net patient revenues from physical therapy operations, internal growth, new clinic development and an acquisition, and an increase in the revenue from the industrial injury prevention business, due to internal growth and an acquisition. Included in the 2018 Third Quarter was revenue of $5.9 million for clinics within the partnership sold on June 30, 2019. The 2019 Third Quarter had 64 business days versus 63 in the 2018 Third Quarter.

- Despite the loss of net patient revenues in the clinics of the sold partnership mentioned previously, net patient revenues from physical therapy operations increased approximately $1.0 million, or 1.0%, to $104.4 million in the 2019 Third Quarter from $103.4 million in the 2018 Third Quarter due to an increase in total patient visits of 1.7% from 980,000 to 996,000 offset by a decrease in the average net patient revenue per visit of $0.68 to $104.80 from $105.48. The reduction in net rate is largely attributable to an $825,000 overpayment relating to a single payor for one partnership of which $525,000 affected the third quarter of 2019. The overpayment was discovered by management this summer. It occurred over several years and following a thorough review was accounted for in the two recent quarterly periods. Of the $1.0 million increase in net patient revenues, $1.6 million of the increase related to clinics opened or acquired after September 30, 2018 (“New Clinics”). Net patient revenues related to clinics opened or acquired prior to October 1, 2018 excluding the clinics sold (“Mature Clinics”) increased by $5.3 million. Net patient revenues related to the clinics sold was $5.9 million in the 2018 Third Quarter. Revenue from physical therapy management contracts was $2.2 million for the 2019 Third Quarter and $1.9 million for the 2018 Third Quarter.

- Revenue from the industrial injury prevention business increased 36.6% to $9.9 million in the 2019 Third Quarter compared to $7.3 million in the 2018 Third Quarter due to internal growth and an acquisition in April 2019.

- Other miscellaneous revenue was $0.7 million in the 2019 Third Quarter and $0.6 million in the 2018 Third Quarter.

Net patient revenues are based on established billing rates less allowances 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 $89.9 million, or 76.7% of net revenues, in the 2019 Third Quarter as compared to $87.1 million, or 76.9% of net revenues, in the 2018 Third Quarter. The $2.8 million increase was attributable to $3.9 million in operating costs related to New Clinics, an increase of $1.4 million related to Mature Clinics, an increase of $0.2 million related to management contracts and an increase of $2.8 million related to the industrial injury prevention business including a recent acquisition and $0.3 million in integration costs incurred related to the recent acquisition. These increases were offset by a reduction in expenses related to the clinics sold of $5.5 million. Each component of operating costs is discussed below:

Operating Costs—Salaries and Related Costs

Salaries and related costs increased to $66.7 million for the 2019 Third Quarter from $64.5 million for the 2018 Third Quarter, an increase of $2.2 million. Salaries and related costs for New Clinics amounted to $1.1 million for the 2019 Third Quarter. Salaries and related costs for the industrial injury prevention business was $6.3 million in the 2019 Third Quarter compared to $4.2 million 2018 Third Quarter, an increase of $2.1 million primarily due to the acquisition in April 2019. For Mature Clinics, salaries and related costs increased by $3.2 million for the 2019 Third Quarter compared to the 2018 Third Quarter. For management contracts, salaries and related costs remained relatively the same for the 2019 Third Quarter compared to the 2018 Third Quarter. Salaries and related costs related to the clinics in the partnership sold was $4.2 million for the 2018 Third Quarter. Salaries and related costs as a percentage of net revenues were 56.9% for the 2019 Third Quarter and 57.0% for the 2018 Third Quarter.

Operating Costs—Rent, Supplies, Contract Labor and Other

Rent, supplies, contract labor and other were $22.2 million for the 2019 Third Quarter and $21.7 million for the 2018 Third Quarter. For New Clinics, rent, supplies, contract labor and other amounted to $0.6 million for the 2019 Third Quarter. For Mature Clinics, rent, supplies, contract labor and other increased by $0.1 million in the 2019 Third Quarter compared to the 2018 Third Quarter and for the industrial injury prevention business increased by $1.0 million for the respective periods. For management contracts, rent, supplies, contract labor and other increased by $0.1 million for the 2019 Third Quarter compared to the 2018 Third Quarter. Rent, supplies, contract labor and other related to the clinics in the partnership sold was $1.3 million for the 2018 Third Quarter. Rent, supplies, contract labor and other as a percentage of net revenues was 18.9% for the 2019 Third Quarter and 19.1 % for the 2018 Third Quarter.

Operating Costs—Provision for Doubtful Accounts

The provision for doubtful accounts was $1.0 million for the 2019 Third Quarter and $0.9 million for the 2018 Third Quarter. The provision for doubtful accounts for patient accounts receivable as a percentage of net patient revenues was 0.8% for both the 2019 Third Quarter and 2018 comparable periods.

Our provision for doubtful accounts for patient accounts receivable as a percentage of total patient accounts receivable was 5.17% at September 30, 2019, as compared to 5.63% at December 31, 2018. Our days' sales outstanding was 34 days at September 30, 2019 and 37 days at December 31, 2018.

Gross Profit

The gross profit for the 2019 Third Quarter grew by 5.0% or $1.3 million, to $27.4 million, as compared to $26.1 million in the 2018 Third Quarter. The gross profit percentage was 23.3% of net revenue in the most recent period as compared to 23.1% in the 2018 Third Quarter. The gross profit percentage for our physical therapy clinics was 23.9% in the recent quarter as compared to 22.8% in the 2018 Third Quarter. The gross profit percentage for the industrial injury prevention business was 19.9% in the recent quarter as compared to 29.7% in the 2018 Third Quarter. The gross profit percentage on physical therapy management contracts was 11.2% in the 2019 Third Quarter as compared to 9.9% in the 2018 Third Quarter.

Corporate Office Costs

Corporate office costs, consisting primarily of salaries, incentive compensation, and benefits of corporate office personnel, rent, insurance costs, depreciation and amortization, travel, legal, accounting, professional, and recruiting fees, were $10.6 million for the 2019 Third Quarter and for the 2018 Third Quarter. As a percentage of net revenues, corporate office costs were 9.0% for the 2019 Third Quarter and 9.4% for the 2018 Third Quarter.

Operating Income

Operating income for the 2019 Third Quarter increased 9.0% to $16.8 million as compared to $15.4 million in the 2018 Third Quarter.

Interest Expense

Interest expense was $0.6 million in the 2019 Third Quarter and in the 2018 Third Quarter due to higher average borrowings under our revolving credit line. At September 30, 2019, $51.0 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 2019 Third Quarter was $3.2 million and for the 2018 Third Quarter was $3.0 million. The provision for income tax as a percentage of income before taxes less net income attributable to non-controlling interest was 26.1% and 27.0%, respectively, for the 2019 Third Quarter and 2018 Third Quarter.

See table below detailing calculation of the provision for income tax as a percentage of income before taxes less net income attributable to non-controlling interest ($ in thousands):

	Three Months Ended	
	September 30, 2019	September 30, 2018
Income before taxes	$ 16,266	$ 14,870
Less: net income attributable to non-controlling interests:		
Non-controlling interests - permanent equity	(1,643)	(1,321)
Redeemable non-controlling interests - temporary equity	(2,379)	(2,456)
	$ (4,022)	$ (3,777)
Income before taxes less net income attributable to non-controlling interests	$ 12,244	$ 11,093
Provision for income taxes	$ 3,197	$ 2,991
Percentage	26.1%	27.0%

Net Income Attributable to Non-controlling Interests

Net income attributable to non-controlling interests (permanent equity) was $1.6 million in the 2019 Third Quarter and $1.3 million in the 2018 Third Quarter. Net income attributable to redeemable non-controlling interests (temporary equity) was $2.4 million in the 2019 Third Quarter and $2.5 million in the 2018 Third Quarter.

Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018

- For the nine months ended September 30, 2019 ("2019 First Nine Months"), our Operating Results increased 13.7% to $27.8 million, or $2.18 per diluted share, as compared to $24.5 million, or $1.93 per diluted share during the nine months ended September 30, 2018 (the "2018 First Nine Months" Operating Results, a non-GAAP measure, equals net income attributable to our shareholders per the consolidated statements of net income less the gain on the sale of a partnership interest as described below. The earnings per share from Operating Results also excludes the impact of the revaluation of redeemable non-controlling interest. On June 30, 2019, the Company sold its 50% interest in one physical therapy partnership to the group's founders for $11.6 million and recognized a pre-tax gain of $5.8 million on the sale.

- For the 2019 First Nine Months, our net income attributable to its shareholders, in accordance with GAAP, was $32.1 million as compared to $24.5 million for the comparable period of 2018. Inclusive of the charge for revaluation of non-controlling interest, net of tax, used to compute diluted earnings per share, in accordance with GAAP, in the recent nine months, the amount is $24.2 million, or $1.90 per share, as compared to $11.1 million, or $0.88 per share for the 2018 First Nine Months. In accordance with current accounting guidance, the revaluation of redeemable non-controlling interest, net of tax, is not included in net income but charged directly to retained earnings but is included in the earnings per basic and diluted share calculation.

The following table provides details of the diluted earnings per share computation and reconciles net income attributable to our shareholders calculated in accordance with GAAP to Operating Results. Management believes providing Operating Results to investors is useful information for comparing our period-to-period results. Operating Results (as defined below), a non-GAAP measure, equals net income attributable to our shareholders per the consolidated statements of net income, and excludes the impact of the gain on the sale of a partnership interest and the revaluation of redeemable non-controlling interest to calculate the Operating Results per share. In accordance with current accounting guidance, the revaluation of redeemable non-controlling interest, net of tax, is not included in net income but charged directly to retained earnings and is included in the earnings per basic and diluted share calculation. Management uses Operating Results, which eliminates certain items described above that can be subject to volatility and unusual costs, 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 our period-to-period results as well as for comparing with other similar businesses since most do not have redeemable non-controlling interest instruments and therefore have different liability and equity structures.

Operating Results is not a measure of financial performance under GAAP. Operating Results should not be considered in isolation or as an alternative to, or substitute for, net income attributable to our shareholders.

	Nine Months Ended September 30,	
	2019	2018
Computation of earnings per share - USPH shareholders:		
Net income attributable to USPH shareholders	$ 32,110	$ 24,465
Charges to retained earnings:		
Revaluation of redeemable non-controlling interest	(10,752)	(18,105)
Tax effect at statutory rate (federal and state) of 26.25%	2,822	4,753
	$ 24,180	$ 11,113
Earnings per share (basic and diluted)	$ 1.90	$ 0.88
Adjustments:		
Gain on sale of partnership interest	(5,823)	-
Revaluation of redeemable non-controlling interest	10,752	18,105
Tax effect at statutory rate (federal and state) of 26.25%	(1,293)	(4,753)
Operating Results	$ 27,816	$ 24,465
Basic and diluted Operating Results per share	$ 2.18	$ 1.93
Shares used in computation - basic and diluted	12,750	12,660

Revenues

- Net revenues increased $23.3 million, or 6.9% from $336.6 million in the First Nine Months of 2018 to $359.9 million in the 2019 First Nine Months, primarily due to an increase in net patient revenues from physical therapy operations due to internal growth and new clinic development plus an acquisition, and an increase in the revenue from the industrial injury prevention business due to internal growth and acquisitions. Both the 2019 and 2018 First Nine Months had 191 business days.

- Net patient revenues from physical therapy operations increased approximately $14.5 million, or 4.7%, to $324.4 million in the 2019 First Nine Months from $309.9 million in the 2018 First Nine Months due to an increase in total patient visits of 4.1% from 2,935,000 to 3,055,000 and an increase in the average net patient revenue per visit to $106.17 from $105.60. The net rate was affected by an $825,000 overpayment relating to a single payor for one partnership. The overpayment was discovered by management this summer. It occurred over several years and following a thorough review was accounted for in the two recent quarterly periods. Of the $14.5 million increase in net patient revenues, $16.5 million related to Mature Clinics and $3.7 million related to New Clinics. The net patient revenues related to the clinics sold on June 30, 2019 had the effect of reducing total net revenues by $5.7 million in the 2019 First Nine Months (only six months included - $17.9 million) compared to the same period in 2018 (nine months included - $12.2 million). Revenue from physical therapy management contracts was $6.5 million for the 2019 First Nine Months and $6.3 million for the 2018 comparable period.

- Revenue from the industrial injury prevention business increased 47.4% to $27.1 million in the 2019 First Nine Months compared to $18.4 million in the 2018 First Nine Months due to internal growth and recent acquisitions.

- Other miscellaneous revenue was $1.8 million in the 2019 First Nine Months and $1.9 million in the 2018 First Nine Months.

Net patient revenues are based on established billing rates less allowances 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 $274.3 million, or 76.2% of net revenues, in the 2019 First Nine Months as compared to $260.1 million, or 77.3% of net revenues, in the 2018 First Nine Months. The $14.2 million increase was attributable to $7.9 million in operating costs related to Mature Clinics, an increase of $4.1 million related to New Clinics, an increase of $6.9 million related to the industrial injury prevention business and an increase in management contracts costs of $0.6 million offset by a reduction in expenses related to the clinics sold of $5.3 million. Each component of operating costs is discussed below:

Operating Costs—Salaries and Related Costs

Salaries and related costs increased to $203.7 million for the 2019 First Nine Months from $191.4 million for the 2018 First Nine Months, an increase of $12.3 million. Salaries and related costs for New Clinics amounted to $2.5 million for the 2019 First Nine Months. Salaries and related costs for the industrial injury prevention business was $16.7 million in the 2019 First Nine Months compared to $11.4 million in the 2018 First Nine Months, an increase of $5.3 million. For Mature Clinics, salaries and related costs increased by $8.4 million for the 2019 First Nine Months compared to the 2018 First Nine Months. For management contracts, salaries and related costs increased by $0.1 million for the 2019 Third Quarter compared to the 2018 Third Quarter. Salaries and related costs related to the clinics in the partnership sold reduced by $4.0 million for the 2019 First Nine Months (six months of operations) compared to the 2018 First Nine Months (nine months of operations). Salaries and related costs as a percentage of net revenues were 56.6% for the 2019 First Nine Months and 56.9% for the 2018 First Nine Months.

Operating Costs—Rent, Supplies, Contract Labor and Other

Rent, supplies, contract labor and other were $67.2 million for the 2019 First Nine Months and $65.6 million for the 2018 First Nine Months. For New Clinics, rent, supplies, contract labor and other amounted to $1.5 million for the 2019 First Nine Months. For Mature Clinics, rent, supplies, contract labor and other decreased by $0.3 million in the 2019 First Nine Months compared to the 2018 First Nine Months and for the industrial injury prevention business increased by $1.6 million for the respective periods. For management contracts, rent, supplies, contract labor and other remained relatively the same for the 2019 First Nine Months compared to the 2018 First Nine Months. Rent, supplies, contract labor and other related to the clinics in the partnership sold reduced by $1.2 million for the 2019 First Nine Months (six months of operations) compared to the 2018 First Nine Months (nine months of operations). Rent, supplies, contract labor and other as a percentage of net revenues was 18.7% for the 2019 First Nine Months and 19.5% for the 2018 First Nine Months.

Operating Costs—Provision for Doubtful Accounts

The provision for doubtful accounts was $3.4 million for the 2019 First Nine Months and $3.1 million for the 2018 First Nine Months. The provision for doubtful accounts for patient accounts receivable as a percentage of net patient revenues was 0.9% both for the 2019 First Nine Months and 2018 First Nine Months.

Our provision for doubtful accounts for patient accounts receivable as a percentage of total patient accounts receivable was 5.17% at September 30, 2019, as compared to 5.63% at December 31, 2018. Our day's sales outstanding remained at 34 days at September 30, 2019 and 37 days at December 31, 2018.

Gross Profit

The gross profit for the 2019 First Nine Months grew by 11.9% or $9.1 million to $85.5 million, as compared to $76.4 million in the 2018 First Nine Months. The gross profit percentage was 23.8% of net revenue in the most recent period as compared to 22.7% in the 2018 First Nine Months. The gross profit percentage for our physical therapy clinics was 23.9% in the recent quarter as compared to 22.6% in the 2018 First Nine Months. The gross profit percentage for the industrial injury prevention business was 24.0% in the recent quarter as compared to 24.2% in the 2018 First Nine Months. The gross profit percentage on physical therapy management contracts was 15.0% in the 2019 First Nine Months as compared to 22.0% in the 2018 First Nine Months.

Corporate Office Costs

Corporate office costs, consisting primarily of salaries, incentive compensation, and benefits of corporate office personnel, rent, insurance costs, depreciation and amortization, travel, legal, accounting, professional, and recruiting fees, were $33.4 million for the 2019 First Nine Months and $30.9 million for the 2018 First Nine Months. As a percentage of net revenues, corporate office costs were 9.3% for the 2019 First Nine Months and 9.2% for the 2018 First Nine Months.

Operating Income

Operating income for the 2019 First Nine Months increased 14.6% to $52.1 million as compared to $45.5 million in the 2018 First Nine Months. Operating income as a percentage of net revenue was 13.5% in the 2018 period and 14.5% in the 2019 First Nine Months.

Gain on sale of partnership interest

The gain of $5.8 million in the 2019 First Nine Months resulted from a sale of partnership interest. As previously disclosed, on June 30, 2019, we sold a 50% interest in one physical therapy partnership to the group's founders. The sales proceeds, all of which was in cash, was $11.6 million.

Interest Expense

Interest expense was $1.5 million in the 2019 First Nine Months and $1.7 million in the 2018 First Nine Months. At September 30, 2019, $51.0 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 2019 First Nine Months was $11.2 million and for the 2018 First Nine Months was $8.7 million. The provision for income tax as a percentage of income before taxes less net income attributable to non-controlling interest was 25.9% and 26.3%, respectively, for the 2019 First Nine Months and 2018 First Nine Months.

See table below detailing calculation of the provision for income tax as a percentage of income before taxes less net income attributable to non-controlling interest ($ in thousands):

	Nine Months Ended	
	September 30, 2019	September 30, 2018
Income before taxes	$ 56,467	$ 43,903
Less: net income attributable to non-controlling interests:		
Non-controlling interests - permanent equity	(4,982)	(3,902)
Redeemable non-controlling interests - temporary equity	(8,152)	(6,802)
	$ (13,134)	$ (10,704)
Income before taxes less net income attributable to non-controlling interests	$ 43,333	$ 33,199
Provision for income taxes	$ 11,223	$ 8,734
Percentage	25.9%	26.3%

Net Income Attributable to Non-controlling Interests

Net income attributable to non-controlling interests (permanent equity) was $5.0 million in the 2019 First Nine Months and $3.9 million in the 2018 First Nine Months. Net income attributable to redeemable non-controlling interests (temporary equity) was $8.2 million in the 2019 First Nine Months and $6.8 million in the 2018 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, 2019 and December 31, 2018, we had $27.8 million and $23.4 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 2020. 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. This agreement was amended in August 2015, January 2016, March 2017 and November 2017 (hereafter referred to as “Amended Credit Agreement”). The Amended Credit Agreement is unsecured and has loan covenants, including requirements that we 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 our common stock, dividend payments to our common stockholders, capital expenditures and other corporate purposes. The pricing grid is based on our consolidated leverage ratio with the applicable spread over LIBOR ranging from 1.25% to 2.0% 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 0.25% to 0.3% depending on our 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 we could pay with respect to acquisitions permitted under the Amended Credit Agreement to $50.0 million for any fiscal year, and increased the amount we may pay in cash dividends to our shareholders in an aggregate amount not to exceed $10.0 million in any fiscal year. The March 2017 amendment, among other items, increased the amount we may pay in cash dividends to our shareholders in an aggregate amount not to exceed $15.0 million in any fiscal year. The November 2017 amendment, among other items, adjusted the pricing grid as described above, increased the aggregate amount we may pay in cash dividends to $20.0 million to our shareholders and extended the maturity date to November 30, 2021.

Cash and cash equivalents increased by $4.5 million from December 31, 2018 to September 30, 2019. During the 2019 First Nine Months, $46.5 million was provided by operations, $11.6 million proceeds on sale of a partnership interest, and $13.0 million of net proceeds from our revolving line of credit. The major uses of cash for investing and financing activities included: purchases of majority interests in businesses ($30.4 million), distributions to non-controlling interests inclusive of those classified as redeemable non-controlling interests ($10.9 million), cash dividends paid to shareholders ($10.7 million), purchase of fixed assets ($7.4 million), purchase of redeemable non-controlling interests ($5.7 million) and payments on notes payable ($1.4 million).

On September 30, 2019, we acquired a 67% interest in eleven-clinic physical therapy practice. The purchase price for the 67% interest was $12.4 million, of which $12.1 million was in cash and $0.3 million in a seller note that is payable in two principal installments totaling $150,000 each, plus accrued interest in September 2020 and September 2021. The note accrues interest at 5.0% per annum.

On April 11, 2019, we acquired a company that is a provider of industrial injury prevention services. The acquired company specializes in delivering injury prevention and care, post offer employment testing, functional capacity evaluations and return-to-work services. The purchase price was $23.6 million in cash, which consisted of $19.6 million in cash (of which $0.5 million remained payable at September 30, 2019 to certain shareholders), and a $4.0 million seller note. The principal and accrued interest on the seller note is payable in April 2021.

On March 4, 2019, in conjunction with the purchase of a redeemable non-controlling interest, we entered into a note payable in the amount of $228,120 that is payable in two principal installments of $114,080 each, plus accrued interest, in March 2020 and 2021.

On February 28, 2018, through one of our majority owned partnerships, we acquired the assets and business of two physical therapy clinics, for an aggregate purchase price of $760,000 in cash and $150,000 in seller note that was paid, plus accrued interest, in August 2019.

On April 30, 2018, we purchased a 65% interest in the assets and business of industrial injury prevention services, for an aggregate purchase price of $8.6 million in cash and $400,000 in seller note that is payable, plus accrued interest, on April 30, 2019. The initial industrial injury prevention business was acquired in March 2017 and, on April 30, 2018, we made a second acquisition with the two businesses then combined. After the combination, we own a 59.45% interest in the combined business.

On August 31, 2018 we acquired a 70% interest in a four-clinic physical therapy practice. The purchase price for the 70% interest was $7.3 million in cash and $400,000 in a seller note that is payable in two principal installments totaling $200,000 each, plus accrued interest. The first installment was paid in August 2019 and the second installment remains payable in August 2020.

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 be delayed for a relatively short transition period. 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 accounts 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, 2019 relate to certain of the acquisitions of businesses and purchases of redeemable non-controlling interests that occurred in 2017 through September 2019. Typically, the notes are payable over two years plus any accrued and unpaid interest. Interest accrues at various interest rates ranging from 3.25% to 5.5% per annum, subject to adjustment. At September 30, 2019, the balance on these notes payable was $5.1 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 typically between three and five years from the acquisition date, we have agreed to certain contractual provisions which enable such minority partners to exercise their right to trigger our repurchase of that partner's non-controlling interest at a predetermined multiple of earnings before interest and taxes.

As of September 30, 2019, we have accrued $5.0 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, 2019, there are currently an additional estimated 114,899 shares (based on the closing price of $130.55 on September 30, 2019) 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, 2019.

FACTORS AFFECTING FUTURE RESULTS

The risks related to our business and operations include:

- 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 and/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; which may result in sanctions or reputable harm and increased costs;
- 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;
- changes in reimbursement rates or payment methods from third party payors including government agencies and changes in the deductibles and co-pays owed by patients;
- revenue and earnings expectations;
- legal actions, which could subject us to increased operating costs and uninsured liabilities;
- 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 our information technology systems with adequate safeguards to protect against cyber-attacks;
- a security breach of our or our third party vendors' information technology systems may subject us to potential legal action and reputational hard and may result in a violation of the Health Insurance Portability and Accountability Act of 1996 of the Health Information Technology for Economic and Clinical Health Act;
- maintaining adequate internal controls;
- 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 for the year ended December 31, 2018.

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 the risks listed above.

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, 2019, $51.0 million was outstanding under our Amended Credit Agreement. Based on the balance of the Amended Credit Agreement at September 30, 2019, any change in the interest rate of 1% would yield a decrease or increase in annual interest expense of $510,000.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company’s management completed an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded (i) that our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure and (ii) that our disclosure controls and procedures are effective.

(b) Changes in Internal Control Over Financial Reporting

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. During the first quarter of 2019, we implemented internal controls to ensure we have adequately evaluated our contracts and properly assessed the impact of new accounting standards related to leases on our financial statements to facilitate the adoption of such standards on January 1, 2019. There were no significant changes to our internal control over financial reporting due to the adoption of the new standards.

Table of Contents

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are involved in litigation and other proceedings arising in the ordinary course of business.

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.

Exhibit Number	Description
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

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 8, 2019

By: /s/ LAWRANCE 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

Exhibit Number	Description
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 8, 2019

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

Date: November 8, 2019

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 8, 2019

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, 2019, 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 8, 2019

/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.