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 March 31, 2020

OR

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

FOR THE TRANSITION PERIOD FROM _____TO _____

COMMISSION FILE NUMBER 1-11151

U.S. PHYSICAL THERAPY, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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 May 21, 2020, the number of shares outstanding (issued less treasury stock) of the registrant's common stock, par value $.01 per share, was: 12,843,896.

EXPLANATORY NOTE

As previously disclosed in the Current Report on Form 8-K filed by U.S. Physical Therapy, Inc. (the "Company") on April 16, 2020, the Company expected that the filing of this Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 (the "Report"), originally due on May 11, 2020, would be delayed due to disruptions caused by the COVID-19 pandemic. In particular, due to the government imposed restrictions in many of the areas that the Company operates including its corporate offices, COVID-19 caused disruptions to the Company and limited access to its facilities resulting in limited support from its staff. These restrictions in turn slowed the completion of the Company's internal quarterly review, including evaluating the various impacts of COVID-19 on its financial statements, and to prepare and complete in a timely manner the Report. The Company relied on Release No. 34-88465 issued by the Securities and Exchange Commission on March 25, 2020, pursuant to Section 36 of the Securities Exchange Act of 1934, as amended, to delay the filing of this Report.

PART I—FINANCIAL INFORMATION - UNAUDITED

ITEM 1. FINANCIAL STATEMENTS.

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

ASSETS	March 31, 2020 (unaudited)	December 31, 2019
Current assets:		
Cash and cash equivalents	$ 89,551	$ 23,548
Patient accounts receivable, less allowance for doubtful accounts of $2,557 and $2,698, respectively	42,649	46,228
Accounts receivable - other	11,650	9,823
Other current assets	4,822	5,787
Total current assets	148,672	85,386
Fixed assets:		
Furniture and equipment	56,873	54,942
Leasehold improvements	32,873	33,247
Fixed assets, gross	89,746	88,189
Less accumulated depreciation and amortization	66,764	66,099
Fixed assets, net	22,982	22,090
Operating lease right-of-use assets	83,619	81,586
Goodwill	330,769	317,676
Other identifiable intangible assets, net	55,648	52,588
Other assets	1,563	1,519
Total assets	$ 643,253	$ 560,845
LIABILITIES, REDEEMABLE NON-CONTROLLING INTERESTS, USPH SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS		
Current liabilities:		
Accounts payable - trade	$ 2,950	$ 2,494
Accrued expenses	40,645	30,855
Current portion of operating lease liabilities	26,826	26,486
Current portion of notes payable	728	728
Total current liabilities	71,149	60,563
Notes payable, net of current portion	4,602	4,361
Revolving line of credit	114,000	46,000
Deferred taxes	7,743	10,071
Operating lease liabilities, net of current portion	62,577	60,258
Other long-term liabilities	380	141
Total liabilities	260,451	181,394
Redeemable non-controlling interests - temporary equity	140,498	137,750
U.S. Physical Therapy, Inc. ("USPH") shareholders' equity:		
Preferred stock, $0.01 par value, 500,000 shares authorized, no shares issued and outstanding	-	-
Common stock, $0.01 par value, 20,000,000 shares authorized, 15,058,804 and 14,989,337 shares issued, respectively	151	150
Additional paid-in capital	89,756	87,383
Retained earnings	182,785	184,352
Treasury stock at cost, 2,214,737 shares	(31,628)	(31,628)
Total USPH shareholders' equity	241,064	240,257
Non-controlling interests- permanent equity	1,240	1,444
Total USPH shareholders' equity and non-controlling interests	242,304	241,701
Total liabilities, redeemable non-controlling interests, USPH shareholders' equity and non-controlling interests	$ 643,253	$ 560,845

See notes to consolidated financial statements.

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

	For the Three Months Ended	
	March 31, 2020	March 31, 2019
Net patient revenues	$ 100,126	$ 106,650
Other revenues	12,591	9,581
Net revenues	112,717	116,231
Operating costs:		
Salaries and related costs	69,004	66,267
Rent, supplies, contract labor and other	22,909	22,044
Provision for doubtful accounts	1,361	1,206
Closure costs - lease and other	1,893	(4)
Closure costs - write-off of goodwill	1,859	-
Total operating costs	97,026	89,513
Gross profit	15,691	26,718
Corporate office costs	11,677	11,293
Operating income	4,014	15,425
Interest and other income, net	43	16
Interest expense - debt and other	(427)	(358)
Income before taxes	3,630	15,083
Provision for income taxes	292	2,708
Net income	3,338	12,375
Less: net income attributable to non-controlling interests:		
Non-controlling interests - permanent equity	(526)	(1,537)
Redeemable non-controlling interests - temporary equity	(1,796)	(2,395)
	(2,322)	(3,932)
Net income attributable to USPH shareholders	$ 1,016	$ 8,443
Basic and diluted earnings per share attributable to USPH shareholders	$ 0.20	$ 0.39
Shares used in computation - basic and diluted	12,796	12,707
Dividends declared per common share	$ 0.32	$ 0.27

See notes to consolidated financial statements.

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

	Three Months Ended	
	March 31, 2020	March 31, 2019
OPERATING ACTIVITIES		
Net income including non-controlling interests	$ 3,338	$ 12,375
Adjustments to reconcile net income including non-controlling interests to net cash provided by operating activities:		
Depreciation and amortization	2,607	2,400
Provision for doubtful accounts	1,361	1,206
Equity-based awards compensation expense	1,886	1,728
Deferred income taxes	(1,369)	2,118
Write-off of goodwill - closed clinics	1,859	-
Other	129	12
Changes in operating assets and liabilities:		
(Decrease) Increase in patient accounts receivable	3,209	(4,898)
Increase in accounts receivable - other	(1,752)	(495)
Increase (Decrease) in other assets	2,846	(894)
Increase in accounts payable and accrued expenses	2,027	274
Increase (Decrease) in other liabilities	239	(263)
Net cash provided by operating activities	16,380	13,563
INVESTING ACTIVITIES		
Purchase of fixed assets	(2,754)	(2,497)
Purchase of majority interest in businesses, net of cash acquired	(11,633)	-
Purchase of redeemable non-controlling interest, temporary equity	(1,852)	(2,053)
Purchase of non-controlling interest, permanent equity	-	(139)
Proceeds on sale of fixed assets	316	59
Net cash used in investing activities	(15,923)	(4,630)
FINANCING ACTIVITIES		
Distributions to non-controlling interests, permanent and temporary equity	(2,341)	(2,576)
Proceeds from revolving line of credit	88,000	19,000
Payments on revolving line of credit	(20,000)	(28,000)
Principal payments on notes payable	(114)	(482)
Other	1	(5)
Net cash provided by (used in) financing activities	65,546	(12,063)
Net increase in cash and cash equivalents	66,003	(3,130)
Cash and cash equivalents - beginning of period	23,548	23,368
Cash and cash equivalents - end of period	$ 89,551	$ 20,238
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income taxes	$ 242	$ 313
Interest	$ 349	$ 343
Non-cash investing and financing transactions during the period:		
Purchase of businesses - seller financing portion	$ 300	$ -
Purchase of non-controlling interest - payable	$ -	$ 228

See notes to consolidated financial statements.

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

	U.S.Physical Therapy, Inc.								
	Common Stock		**Additional**	**Retained**	**Treasury Stock**		**Total Shareholders'**	**Non-Controlling**	
For the three months ended March 31, 2020	**Shares**	**Amount**	**Paid-In Capital**	**Earnings**	**Shares**	**Amount**	**Equity**	**Interests**	**Total**
Balance December 31, 2019	14,989	$ 150	$ 87,383	$ 184,352	(2,215)	$ (31,628)	$ 240,257	$ 1,444	$ 241,701
Issuance of restricted stock, net of cancellations	70	1	-	-	-	-	1	-	1
Revaluation of redeemable non-controlling interest, net of tax	-	-	-	1,570	-	-	1,570	-	1,570
Compensation expense - equity-based awards	-	-	1,886	-	-	-	1,886	-	1,886
Transfer of compensation liability for certain stock issued pursuant to long-term incentive plans	-	-	487	-	-	-	487	-	487
Dividends payable to USPT shareholders	-	-	-	(4,110)	-	-	(4,110)	-	(4,110)
Distributions to non-controlling interest partners - permanent equity	-	-	-	-	-	-	-	(730)	(730)
Other	-	-	-	(43)	-	-	(43)	-	(43)
Net income attributable to non-controlling interest - permanent equity	-	-	-	-	-	-	-	526	526
Net income attributable to USPH shareholders	-	-	-	1,016	-	-	1,016	-	1,016
Balance March 31, 2020	15,059	$ 151	$ 89,756	$ 182,785	(2,215)	$ (31,628)	$ 241,064	$ 1,240	$ 242,304

	U.S.Physical Therapy, Inc.								
	Common Stock		**Additional**	**Retained**	**Treasury Stock**		**Total Shareholders'**	**Non-Controlling**	
For the three months ended March 31, 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
Revaluation of redeemable non-controlling interest, net of tax	77	-	-	(3,437)	-	-	(3,437)	-	(3,437)
Compensation expense - equity-based awards	-	-	1,728	-	-	-	1,728	-	1,728
Transfer of compensation liability for certain stock issued pursuant to long-term incentive plans	-	-	636	-	-	-	636	-	636
Purchase of non-controlling interest	-	-	(97)	-	-	-	(97)	(8)	(105)
Dividends payable to USPT shareholders	-	-	-	(3,445)	-	-	(3,445)	-	(3,445)
Distributions to non-controlling interest partners - permanent equity	-	-	-	-	-	-	-	(1,054)	(1,054)
Other	-	-	-	(5)	-	-	(5)	-	(5)
Net income attributable to non-controlling interests - permanent equity		-	-	-	-	-	-	1,537	1,537
Net income attributable to USPH shareholders	-	-	-	8,443	-	-	8,443	-	8,443
Balance March 31, 2019	14,976	$ 149	$ 82,295	$ 168,952	(2,215)	$ (31,628)	$ 219,768	$ 1,405	$ 221,173

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2020
(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. 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.

On February 27, 2020, the Company acquired interests in a four-clinic physical therapy practice. The four clinics are in four separate partnerships. The Company's interests in the four partnerships range from 10.0% to 83.8%, with an overall 65.0% based on the initial purchase transaction. The aggregate purchase price was $11.9 million, of which $11.6 million was paid in cash and $0.3 million in the form of a seller note. The note accrues interest at 4.75% per annum and the principal and interest is payable on February 2022.

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.

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%.

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).

As of March 31, 2020, the Company operated 567 clinics in 39 states, as well as the industrial injury prevention business. As of May 21, 2020, the Company operates 555 clinics of which 34 are not currently seeing patients. The Company also manages physical therapy facilities for third parties, primarily hospital and physicians, with 30 third-party facilities under management as of March 31, 2020.

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 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, 2019 filed with the Securities and Exchange Commission on February 28, 2020 ("2019 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 three months ended March 31, 2020 are not necessarily indicative of the results the Company expects for the entire year.

The Company included the following Risk Factor which should be read in conjunction with the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 28, 2020.

We are subject to risks associated with public health crises and epidemics/pandemics, such as the novel strain of coronavirus ("COVID-19").

Our operations expose us to risks associated with public health crises and epidemics/pandemics, such as the novel strain of coronavirus (COVID-19) that has spread globally. Since February, the continued spread has led to disruption and volatility in the global capital markets, which increases the cost of, and adversely impacts access to, capital and increases economic uncertainty. The pandemic has caused an economic slowdown of potentially extended duration, and it is possible that it could cause a global recession.

COVID-19 is having, and will continue to have, an adverse impact on our operations and supply chains, including an increase in cancellations of physical therapy patient appointments and a decline in the scheduling of new or additional patient appointments. Due to these impacts and measures, we have experienced, and will continue to experience, significant and unpredictable reductions and cancellations of our patient visits.

Impact on the business and cash reserves resulting from retirement or resignation of key partners and resulting purchase of their non-controlling interests (minority interests)

As described in Note 5, the redeemable non-controlling interests in our partnerships are held by our partners. Upon the occurrence of certain events, such as retirement or other termination of employment, partners from acquired partnerships may have the right to exercise a "put" to cause the Company to purchase their redeemable non-controlling interests. Depending on the amount and timing of the exercise of any "put" rights, the funds required could have an adverse impact on the Company's capital structure.

See "Subsequent Events" in Note 1 for further discussion.

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. The Company did not note an impairment to long-lived assets.

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 (normally 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 or when other triggering events are identified. The Company operates a one segment 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. In addition to the six regions, in 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 did not result in any goodwill amounts that were deemed impaired.

Based on the current economic conditions and the decline in patient visits in March 2020 due to the pandemic, the Company evaluated whether events or circumstances indicated that it was more likely than not that the fair value of the reporting units were reduced below their carrying value as of March 31, 2020. As a result of the assessment, the Company determined that it was not more likely than not that goodwill and tradenames of the reporting units was impaired as of March 31, 2020.

As the Company did not note an impairment no additional disclosures were deemed to be required by management. The Company also considered the impact of these judgments and estimates as they pertain to the disclosure requirements for such items within the Form 10Q and risks and uncertainties discussions and believes that such disclosure is adequate.

Due to the uncertainty of the current economic conditions resulting from the COVID-19 pandemic, the Company will continue to review its carrying amounts of goodwill and other intangibles.

At March 31, 2020, the Company derecognized (wrote-off) goodwill in the amount of $1.9 million related to closed clinics due to COVID-19.

See "Subsequent Events" in Note 1 for further discussion. 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 permanent equity in the consolidated financial statements separate from the parent entity's equity. The amount of net income attributable to non-controlling interests is included in consolidated net income on the face of the 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 3 – 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.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Securities Act ("CARES Act") was enacted. The CARES Act includes changes to certain tax law related to net operating losses and the deductibility of interest expense and depreciation. ASC 740, Income Taxes requires the effects of changes in tax rates and laws on deferred tax balances to be recognized in the period in which the legislation is enacted. The legislation had no effect on the Company's deferred income taxes and current income taxes payable during the three months ended March 31, 2020.

The Company did not have any accrued interest or penalties associated with any unrecognized tax benefits nor was any interest expense recognized during the three months ended March 31, 2020. 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 determining the allocation of 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 reportable 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, goodwill impairment, tradenames, allocations of purchase price, 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 March 31, 2020.

Restricted Stock

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

Recently Adopted Accounting Guidance

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. The standard is required to be applied using the modified retrospective approach with a cumulative-effect adjustment to retained earnings, if any, upon adoption.

The Company has completed the adoption of the standard on January 1, 2020. The financial instruments subject to ASU 2016-13 are the Company's accounts receivable derived from contracts with customers. A significant portion of the Company's accounts receivable are from highly-solvent, creditworthy payors including governmental programs such as Medicare and Medicaid, and highly regulated commercial insurers. The Company's estimate of expected credit losses as of January 1, 2020, using its expected credit loss evaluation process, resulted in no adjustments to the allowance for credit losses and no cumulative-effect adjustment to retained earnings on the adoption date of the standard.

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 has completed the adoption of the standard on January 1, 2020 and there was no impact to goodwill from the Company's adoption of this change.

Recently Issued Accounting Guidance

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. This ASU provides temporary optional expedients and exceptions to the guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from the London Interbank Offered Rate and other interbank offered rates to alternative reference rates. The new guidance was effective upon issuance, and the Company is allowed to elect to apply the amendments prospectively through December 31, 2022. The Company is currently evaluating the impact this standard will have on its combined financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes ("ASU 2019-12"). The objective of ASU 2019-12 is to simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and to provide more consistent application to improve the comparability of financial statements. The amendments in this ASU are effective for fiscal years beginning after December 15, 2020, and early adoption is permitted. We are currently evaluating the impact this guidance may have on our consolidated financial statements and related footnote disclosures.

Subsequent Events

The Company continues to experience significantly lower physical therapy revenue than normal and in the near term expects to incur losses. The Company's physical therapy patient volumes in April declined to as low as 45% of normal. In a number of our markets, patient volume is increasing albeit at a slow pace. The Company is currently at approximately a little over 60% of normal patient volume but that varies significantly by region. As of May 20, 2020, the Company has 69 clinics that are closed as a result of this pandemic; 34 of these clinics are anticipated to be closed only temporarily. At least 35 clinics likely will not reopen, of which 22 of those were closed in late March. The Company's industrial injury prevention business has also experienced a reduction in business, although not as significant as experienced by our physical therapy operations. Management has taken a number of steps to mitigate operating losses primarily through furloughs and salary cuts and to a lesser extent through terminations. To date, the Company has furloughed or terminated more than 2,150 employees (1,400 furloughs and 750 terminations), comprising approximately 40% of the employees across the Company. In the corporate office, across-the-board employee salary reductions have been implemented from 20% to 25%, as well as 35% to 40% salary reductions for executives, and a 50% reduction in fees paid to our Board of Directors. A number of the Company's clinic partnerships have made salary reductions as well. Management estimates that these workforce and pay reductions would equate to annualized savings of approximately $87 million. The Company continues to (i) deploy a telehealth and e-visit solutions to perform services remotely, (ii) renegotiate leases, (iii) slow development of new clinics, (iv) delay potential acquisitions and (v) reduce other expenses. Given the rapid and evolving nature of COVID-19, the Company's revenue will be negatively affected, and it is uncertain how COVID-19 will affect operations generally if these impacts continue to persist for an extended period of time. Any of these aforementioned impacts would have a significant adverse effect on our business, financial condition and results of operations, and at this point, the extent of the impact of COVID-19 remains uncertain.

In response to the COVID-19 pandemic, the federal government approved the CARES Act. The CARES Act allows for qualified healthcare providers to receive advanced payments under the existing Medicare Accelerated and Advance Payments Program ("MAAPP funds") during the COVID-19 pandemic. Under this program, healthcare providers may choose to receive advanced payments for future Medicare services provided. The Company applied for and received approval from Centers for Medicare & Medicaid Services ("CMS") in April 2020 to receive advanced payments and, through April 30, 2020, the Company has received $12.3 million under this program. The Company will record these payments as a contract liability until all performance obligations have been met as the payments are made on behalf of patients before services are provided. MAAPP funds received will be applied to future Medicare billings commencing in August 2020, with all such remaining amounts required to be repaid by November 2020. Beginning November 2020, any unpaid balance will begin accruing interest. Failure to repay the advanced payments when due will result in interest charges on the outstanding balance owed.

The Company has also received funds from the Public Health and Social Services Emergency Fund ("Relief Fund") ($5.9 million to date) as part of the CARES Act. The Relief Fund monies do not have to be repaid, are used to fund operations and will be positively incremental to operating results in the second quarter of 2020. In addition, the Company is taking advantage of the allowed deferral of the employer payroll taxes under the CARES Act. In April 2020, the Company began deferring payment on its share of payroll taxes owed, as allowed by the CARES Act through December 31, 2020. The Company is able to defer half of its share of payroll taxes owed until December 31, 2021, with the remaining half due on December 31, 2022.

As of March 31, 2020, the Company was in compliance with all of the covenants contained in the credit agreement. The Company cannot be certain whether it will be in compliance with covenants at the end of the second quarter of 2020. The Company is in discussions with its lender regarding an amendment to the facility so as to maintain compliance with all covenants. The Company anticipates an amendment will be in place by the end of the second quarter of 2020.

Currently, the Company has a cash balance of approximately $110.0 million. All funds available on our credit line of $125.0 million have been drawn.

During April 2020 and May 2020, the Company closed 11 clinics and 2 clinics respectively. The Company will record closure costs in the second quarter of at least $0.9 million.

2. ACQUISITIONS OF BUSINESSES

On February 27, 2020, the Company acquired interests in a four-clinic physical therapy practice. The four clinics are in four separate partnerships. The Company's interests in the four partnerships range from 10.0% to 83.8%, with an overall 65.0% based on the initial purchase transaction. The aggregate purchase price was $11.9 million, of which $11.6 million was paid in cash and $0.3 million in the form of a seller note. The note accrues interest at 4.75% per annum and the principal and interest is payable on February 2022.

The purchase price plus the fair value of the non-controlling interests for the acquisitions in 2020 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 March 31, 2020 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 2020, 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 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 purchase price for the 2020 acquisitions has been preliminarily allocated as follows (in thousands):

		Total
Cash paid, net of cash acquired	$	11,633
Seller note		300
Total consideration	$	11,933
Estimated fair value of net tangible assets acquired:		
Total current assets	$	991
Total non-current assets		400
Total liabilities		(469)
Net tangible assets acquired	$	922
Referral relationships		1,600
Non-compete		750
Tradename		1,500
Goodwill		13,632
Fair value of non-controlling interest (classified as redeemable non-controlling interests)		(6,471)
	$	11,933

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.

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 of 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 $22.9 million ($23.6 million less cash acquired of $0.7 million), which consisted of $18.9 million in cash, (of which $ million will be paid 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.

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.

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.

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

	IIPS*	Clinic Practice	Total
Cash paid, net of cash acquired	$ 18,427	$ 12,170	$ 30,597
Payable to shareholders of seller	486	-	486
Seller note	4,000		4,300
Total consideration	$ 22,913	$ 12,470	$ 35,383
Estimated fair value of net tangible assets acquired:			
Total current assets	$ 1,641	$ 696	$ 2,337
Total non-current assets	878	3,028	3,906
Total liabilities	(2,884)	(2,816)	(5,700)
Net tangible assets acquired	$ (365)	$ 908	$ 543
Referral relationships	1,500	1,500	3,000
Non-compete	590	700	1,290
Tradename	2,500	1,600	4,100
Goodwill	18,688	13,991	32,679
Fair value of non-controlling interest (classified as redeemable non-controlling interests)	-	(6,229)	(6,229)
	$ 22,913	$ 12,470	$ 35,383

* Industrial injury prevention services

The purchase prices plus the fair value of the non-controlling interests for the acquisitions in 2019 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 2019 with immaterial changes to the values.

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 weighted average amortization period was 11.0 years at December 31, 2019. For non-compete agreements, the weighted average amortization period was 6.0 years at December 31, 2019. The values assigned to tradenames are tested annually for impairment.

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 2020 and 2019 acquisitions have not been included as the results, individually and in the aggregate, were not material to current operations.

During 2019, the Company acquired additional interests in four partnerships which are included in non-controlling interest. The additional interests purchased in each of the partnerships ranged from 1% and 55%. Also in 2019, the Company sold a 1% interest in a partnership. The net after tax difference between the payments and the portion of undistributed earnings of $196,000 was credited to additional paid-in capital.

3. 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	
	March 31, 2020	**March 31, 2019**
Net patient revenues	$ 100,126	$ 106,650
Management contract revenues	2,149	2,146
Industrial injury prevention services revenues	9,876	6,900
Other revenues	566	535
	$ 112,717	$ 116,231

Medicare Reimbursement

The Medicare program reimburses outpatient rehabilitation providers based on the Medicare Physician Fee Schedule (''MPFS''). For services provided in 2018, a 0.5% increase was applied to the fee schedule payment rates; for services provided in 2019, a 0.25% increase was applied to the fee schedule payment rates before applying the mandatory budget neutrality adjustment. For services provided in 2020 through 2025, a 0.0% update will be applied each year to the fee schedule payment rates, before applying the mandatory budget neutrality adjustment. However, in the 2020 MPFS Final Rule, CMS proposed an increase to the code values for office/outpatient evaluation and management (E/M) codes and cuts to other codes to maintain budget neutrality of the MPFS. This change in code valuations would be effective January 1, 2021. Under the proposal, physical/occupational therapy services could see code reductions that may result in an estimated 8% decrease in payment. In announcing this possible reduction in the applicable physical/occupational therapy codes, CMS indicated that it would further consider and address industry and provider concerns before finalizing the 2021 code values.

Our physical therapists and occupational therapists are able to provide services to patients on a remote basis, using a variety of technologies. This is particularly helpful during the pendency of the Coronavirus emergency, as some patients are reluctant to travel. Reimbursement and coverage for these services vary among payors. Effective as of March 1, 2020, CMS provided a temporary waiver to allow physical therapists and occupational therapists (and their respective assistants) to perform and be reimbursed for the full scope of services performed remotely as "telehealth visits," provided the telehealth services ae performed by therapists associated with clinics that are enrolled with Medicare on a private practice basis. Currently, clinics enrolled with Medicare as certified rehabilitation agencies are not authorized to perform and be reimbursed for telehealth visits for Medicare beneficiaries. Approximately 60% of our clinics participate with Medicare as private practices. The foregoing telehealth temporary waiver will continue until the end of the Coronavirus emergency as determined by CMS, unless extended further by CMS.

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. The CARES Act, enacted on March 27, 2020, temporarily suspended the 2% payment adjustment, effective for claims with dates of service from May 1, 2020 through December 31, 2020.

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 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 extends the targeted medical review indefinitely, but reduces 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%. In addition, the MCTRA directed CMS to implement a claims-based data collection program to gather additional data on patient function during the course of therapy in order to better understand patient conditions and outcomes. All practice settings that provide outpatient therapy services are required to include this data on the claim form. Since 2013, therapists have been required to report new codes and modifiers on the claim form that reflect a patient's functional limitations and goals at initial evaluation, periodically throughout care, and at discharge. Reporting of these functional limitation codes and modifiers are required on the claim for payment.

Medicare claims for outpatient therapy services furnished by therapy assistants on or after January 1, 2020 must include a modifier indicating the service was furnished by a therapy assistant. 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. We believe that we are in compliance in all material respects with all applicable laws and regulations and are not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on our financial statements as of March 31, 2020. 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 three months ended March 31, 2020 and 2019, net patient revenue from Medicare accounted for approximately $27.5 and $28.3 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 March 31, 2020.

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.

4. EARNINGS PER SHARE

In accordance with current accounting guidance, the revaluation of redeemable non-controlling interest (see Footnote 5 – 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	
	March 31, 2020	March 31, 2019
Computation of earnings per share - USPH shareholders:		
Net income attributable to USPH shareholders	$ 1,016	$ 8,443
Credit (charges) to retained earnings:		
Revaluation of redeemable non-controlling interest	2,129	(4,661)
Tax effect at statutory rate (federal and state) of 26.25%	(559)	1,224
	$ 2,586	$ 5,006
Earnings per share (basic and diluted)	$ 0.20	$ 0.39
Shares used in computation:		
Basic and diluted earnings per share - weighted-average shares	12,796	12,707

5. 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 months ended March 31, 2020 and for the year ended December 31, 2019, the following table details the changes in the carrying amount (fair value) of the redeemable non-controlling interests (in thousands):

	Three Months Ended March 31, 2020	Year Ended December 31, 2019
Beginning balance	$ 137,750	$ 133,943
Operating results allocated to redeemable non-controlling interest partners	1,796	10,659
Distributions to redeemable non-controlling interest partners	(1,611)	(10,221)
Changes in the fair value of redeemable non-controlling interest	(2,129)	11,893
Purchases of redeemable non-controlling interest	(1,852)	(8,934)
Acquired interest	6,471	6,230
Sales of redeemable non-controlling interest - temporary equity	-	3,120
Reduction of non-controlling interest due to sale of USPh partnership interest	-	(6,132)
Notes receivable related to sales of redeemable non-controlling interest - temporary equity	-	(2,870)
Reduction in notes receivable related to the the sales of redeemable non-controlling interest - temporary equity	73	62
Ending balance	$ 140,498	$ 137,750

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

	March 31, 2020	December 31, 2019
Contractual time period has lapsed but holder's employment has not been terminated	$ 67,491	$ 51,921
Contractual time period has not lapsed and holder's employment has not been terminated	73,007	85,829
Holder's employment has terminated and contractual time period has expired	-	-
Holder's employment has terminated and contractual time period has not expired	-	-
	$ 140,498	$ 137,750

6. GOODWILL

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

	Three Months Ended March 31, 2020	Year Ended December 31, 2019
Beginning balance	$ 317,676	$ 293,525
Goodwill acquired	13,632	31,330
Goodwill related to partnership interest sold	-	(7,325)
Goodwill write-off related to closed clinics	(1,859)	-
Goodwill adjustments for purchase price allocation of businesses acquired in prior year	1,320	146
Ending balance	$ 330,769	$ 317,676

The derecognition (write-off) of goodwill in the amount of $1.9 million was related to certain clinics that have been permanently closed.

7. INTANGIBLE ASSETS, NET

Intangible assets, net as of March 31, 2020 and December 31, 2019 consisted of the following (in thousands):

	March 31, 2020	December 31, 2019
Tradenames	$ 33,549	$ 32,049
Referral relationships, net of accumulated amortization of $12,290 and $11,677, respectively	19,354	18,367
Non-compete agreements, net of accumulated amortization of $5,601 and $5,424, respectively	2,745	2,172
	$ 55,648	$ 52,588

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 three months ended March 31, 2020 and 2019 (in thousands):

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Referral relationships	$ 613	$ 533
Non-compete agreements	177	169
	$ 790	$ 702

Based on the balance of referral relationships and non-compete agreements as of March 31, 2020, the expected amount to be amortized in 2020 and thereafter by year is as follows (in thousands):

Referral Relationships

Years	Annual Amount
Ending December 31,	
2020 (excluding the three months ended March 31, 2020)	$ 1,911
2021	$ 2,549
2022	$ 2,500
2023	$ 2,393
2024	$ 2,228
Thereafter	$ 7,773

Non-Compete Agreements

Years	Annual Amount
Ending December 31,	
2020 (excluding the three months ended March 31, 2020)	$ 545
2021	$ 665
2022	$ 489
2023	$ 419
2024	$ 363
Thereafter	$ 264

8. ACCRUED EXPENSES

Accrued expenses as of March 31, 2020 and December 31, 2019 consisted of the following (in thousands):

	March 31, 2020	December 31, 2019
Salaries and related costs	$ 19,230	$ 19,340
Credit balances due to patients and payors	5,115	4,303
Group health insurance claims	2,499	2,277
Dividends payable	4,110	-
Closure costs	1,843	-
Federal income taxes payable	1,891	-
Other	5,957	4,935
Total	$ 40,645	$ 30,855

Closure costs relating to the 22 clinics closed in late March, included in the consolidated statement of income, consist primarily of remaining lease commitments (included in accrued liabilities above) and the write-off of leasehold improvements for those clinics closed in the three months ended March 31, 2020.

9. NOTES PAYABLE AND AMENDED CREDIT AGREEMENT

Amounts outstanding under the Amended Credit Agreement (as defined below) and notes payable as of March 31, 2020 and December 31, 2019 consisted of the following (in thousands):

	March 31, 2020	December 31, 2019
Credit Agreement average effective interest rate of 2.4% inclusive of unused fee	$ 114,000	$ 46,000
Various notes payable with $728 plus accrued interest due in the next year, interest accrues in the range of 4.75% through 5.50% per annum	5,330	5,089
	$ 119,330	$ 51,089
Less current portion	(728)	(728)
Long term portion	$ 118,602	$ 50,361

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 March 31, 2020, $114.0 million was outstanding on the Amended Credit Agreement resulting in $11.0 million of availability. As of the date of this report, the Company has drawn all funds available, therefore, the outstanding amount is $125 million.

As of March 31, 2020, the Company was in compliance with all of the covenants contained in the credit agreement. The Company cannot be certain that it will be in compliance with covenants at the end of second quarter of 2020. The Company is in discussions with its lender regarding an amendment to the facility so as to maintain compliance with all covenants. The Company anticipates an amendment will be in place by the end of the second quarter of 2020.

The Company generally enters into various notes payable as a means of financing a portion of its acquisitions and purchases of non-controlling interests. In conjunction with the acquisitions on February 27, 2020, the Company entered into a note payable in the amount of $300,000 payable in February 2022 plus accrued interest. Interest accrues at the rate of 4.75% per annum. In conjunction with the 2019 acquisitions, the Company entered into notes payable in the aggregate amount of $4.6 million of which an aggregate principal payment of $0.2 million is due in 2020 and $4.3 million is due in 2021. Interest accrues in the range of 4.75% to 5.50% per annum and is payable with each principal installment.

Subsequent aggregate annual payments of principal required pursuant to the Amended Credit Agreement and outstanding notes payable at March 31, 2020 are as follows (in thousands):

During the twelve months ended March 31, 2021	$	728
During the twelve months ended March 31, 2022		118,602
	$	119,330

The revolving credit facility (balance at March 31, 2020 of $114.0 million) matures on November 30, 2021.

10. 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 March 31, 2020		Three Months Ended March 31, 2019	
Operating lease cost	$	7,812	$	7,587
Short-term lease cost		294		371
Variable lease cost		1,532		1,581
Total lease cost *	$	9,638	$	9,539

* 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 March 31, 2020	Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of operating lease liabilities (in thousands)	$ 7,790	$ 7,706
Right-of-use assets obtained in exchange for new operating lease liabilities (in thousands) *	$ 11,540	$ 89,885

* 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 March 31, 2020 were as follows (in thousands):

Fiscal Year	Amount
2020 (excluding the three months ended March 31, 2020)	$ 22,273
2021	24,801
2022	18,922
2023	13,514
2024	8,298
2025 and therafter	9,318
Total lease payments	$ 97,126
Less: imputed interest	7,723
Total operating lease liabilities	$ 89,403

Average lease terms and discount rates were as follows:

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Weighted-average remaining lease term - Operating leases	4.25 Years	3.7 Years
Weighted-average discount rate - Operating leases	3.9%	3.8%

11. 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 217,391 shares (based on the closing price of $69.00 on March 31, 2020) 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 three months ended March 31, 2020.

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, 2019 filed with the Securities and Exchange Commission (the "SEC") on February 28, 2020 ("2019 Annual Report"); and (iii) our management's discussion and analysis of financial condition and results of operations included in our 2019 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 in Part II, Item 1A. Risk Factors of this 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.

Business Update Related to COVID-19

The total repercussions of the coronavirus disease 2019 ("COVID-19") pandemic on the results of our operations and overall financial performance remain uncertain. We have provided certain performance metrics that will assist our readers in understanding how the COVID-19 pandemic affected our business during the one month ended March 31,2020, including our 1) net revenues for the two months ended February 29, 2020 and February 28, 2019 (excluding net revenues for the clinics sold in the partnership in June), 2) net revenues for the one month ended March 31, 2020 and March 31, 2019 (excluding net revenues for the clinics sold in the partnership in June), 3) net revenues for the three months ended March 31, 2020 and March 31, 2019, and 4) certain operating data for the previously mentioned periods. Please refer to our risk factors discussed in Part II, Item 1A, "Risk Factors" of this Form 10-Q and as previously reported in the 2019 Annual Report for more information.

Beginning in mid-March, hospitals and other medical facilities began to halt elective and non-essential surgeries. Additionally, state governments in areas with significant growth of COVID-19 infections implemented mandatory closures of non-essential and non-life sustaining businesses, executed stay-at-home orders, imposed restrictions on travel and closed schools. These actions continued to develop and towards the end of March, most states had significant restrictions on businesses and individuals. The suspension of elective surgeries, decrease in physician office visits and recommendations of social distancing along with the aforementioned limitations had an adverse impact on our volume of patient visits. Due to these impacts and measures, we have experienced significant and unpredictable reductions and cancellations of our patient visits.

We have provided below certain performance benchmarks and measures to help explain the adverse impact of COVID-19 on our Operating Results (as defined below). For the first quarter ended March 31, 2020, we have defined the pre-COVID-19 period as the two months ended February 29, 2020 and the post-COVID-19 period as the one month ended March 31, 2020. The following performance measures and operating data excludes the effects of the clinics in the partnership sold in June 2019 and should be evaluated in conjunction with the Operating Results for the entire quarters ended March 31, 2020 and 2019. The performance measures and operating data presented for the two months ended February 29, 2020 and one month ended March 31, 2020 are, when combined, equal to the performance measures and operating data presented for the full quarter ended March 31, 2020.

	Two months ended February 29, 2020	2019	% Change	One month ended March 31, 2020	2019	% Change	Three months ended March 31, 2020	2019	% Change
Selected Financial Data:									
Net revenues (in thousands) - reported	$ 78,193	$ 75,901	3.0%	$ 34,524	$ 40,330	-14.4%	$ 112,717	$ 116,231	-3.0%
Net revenues (in thousands) - without sold clinics	$ 78,193	$ 72,232	8.3%	$ 34,524	$ 38,314	-9.9%	$ 112,717	$ 110,546	2.0%
Operating Statistics (without sold clinics):									
Number of clinics, at the end of period	587	561		567	559		567	559	
Working Days	42	42		22	21		64	63	
Average visits per day per clinic	27.7	26.5		22.7	27.9		26.2	27.0	
Total patient visits	676,328	623,943		294,695	328,288		971,023	952,231	
Net patient revenue per visit	$ 103.06	$ 105.89		$ 103.22	$ 106.29		$ 103.11	$ 106.02	

We continue to experience significantly lower physical therapy revenue than normal and in the near term expects to incur losses. Our physical therapy patient volumes in April declined to as low as 45% of normal. In a number of our markets, patient volume is increasing albeit at a slow pace. We are currently at approximately slightly above 60% of normal patient volume but that varies significantly by region. As of May 20, 2020, we have 69 clinics that are closed as a result of this pandemic; 34 of these clinics are anticipated to be closed only temporarily. At least 35 clinics likely will not reopen, of which 22 of those were closed in late March. Our industrial injury prevention business has also experienced a reduction in business, although not as significant as experienced by our physical therapy operations. We have taken a number of steps to mitigate operating losses primarily through furloughs and salary cuts and to a lesser extent through terminations. To date, we have furloughed or terminated more than 2,150 employees (1,400 furloughs and 750 terminations), comprising approximately 40% of the employees across the Company. In the corporate office, across-the-board employee salary reductions have been implemented from 20% to 25%, as well as a 35% to 40% salary reductions for executives, and a 50% reduction in fees paid to our Board of Directors. A number of our clinic partnerships have made salary reductions as well. We estimate that these workforce and pay reductions would equate to annualized savings of approximately $87 million. The Company continues to (i) deploy a telehealth and e-visit solutions to perform services remotely, (ii) renegotiate leases, (iii) slow development of new clinics, (iv) delay potential acquisitions and (v) reduce other expenses. Given the rapid and evolving nature of COVID-19, our revenue will be negatively affected, and it is uncertain how COVID-19 will affect operations generally if these impacts continue to persist for an extended period of time. Any of these aforementioned impacts would have a significant adverse effect on our business, financial condition and results of operations, and at this point, the extent of the impact of COVID-19 remains uncertain.

Selected Operating and Financial Data

At March 31, 2020, we operated 567 clinics in 39 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 30 such third-party facilities under management as of March 31, 2020.

In March 2017, we acquired a 55% interest in an 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, Briotix Health, Limited Partnership ("Briotix Health"). Services provided include onsite injury 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 specialized certified athletic trainers (ATCs). 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 acquired business was then combined with Briotix Health increasing our ownership position in the partnership to approximately 76.0%.

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).

On February 27, 2020, we acquired interests in a four-clinic physical therapy practice. The four clinics are in four separate partnerships. Our interests in the four partnerships range from 10.0% to 83.8%, with an overall 65.0% based on the initial purchase transaction. The purchase price was $11.9 million, of which $11.6 million was paid in cash and a $0.3 million seller note. The note accrues interest at 4.75% per annum and the principal and interest is payable on February 2022.

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.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2020 Compared to the Three Months Ended March 31, 2019

- For the 2020 First Quarter, our Operating Results (as defined below) were $3.9 million, or $0.30 per diluted share, as compared to $8.4 million, or $0.66 per diluted share for the first quarter ended March 31, 2019 ("2019 First Quarter"). Operating Results, a non-GAAP measure, equals net income attributable to our shareholders per the consolidated statement of net income plus charges incurred for CFO search and closure costs, both net of tax. The earnings per share from Operating Results also excludes the impact of the revaluation of redeemable non-controlling interest.

- For the 2020 First Quarter, our net income attributable to our shareholders, in accordance with GAAP, was $1.0 million as compared to $8.4 million for the 2019 First Quarter. Inclusive of the credit or charge for the revaluation of non-controlling interest, net of tax, used to compute diluted earnings per share, in accordance with GAAP, in the 2020 First Quarter, the amount is $2.6 million, or $0.20 per share, as compared to $5.0 million, or $0.39 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 or credited directly to retained earnings; however, the charge or credit for this change is included in the earnings per basic and diluted share calculation. See above for a discussion of the effects of COVID-19 pandemic on our operations.

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, a non-GAAP measure, equals net income attributable to our shareholders per the consolidated statement of net income plus charges incurred for our CFO search and closure costs, both net of tax. The earnings per share from Operating Results also excludes the impact of the revaluation of redeemable non-controlling interest. In accordance with current accounting guidance, the revaluation of redeemable non-controlling interest, net of tax, is included in the earnings per basic and diluted share calculation, although it is not included in net income but charged directly to retained earnings. 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 March 31,	
	2020	2019
Computation of earnings per share - USPH shareholders:		
Net income attributable to USPH shareholders	$ 1,016	$ 8,443
Credit (charges) to retained earnings:		
Revaluation of redeemable non-controlling interest	2,129	(4,661)
Tax effect at statutory rate (federal and state) of 26.25%	(559)	1,224
	$ 2,586	$ 5,006
Earnings per share (basic and diluted)	$ 0.20	$ 0.39
Adjustments:		
Charges incurred for CFO search	133	-
Closure costs	3,752	-
Revaluation of redeemable non-controlling interest	(2,129)	4,661
Tax effect at statutory rate (federal and state) of 26.25%	(461)	(1,224)
Operating Results	$ 3,881	$ 8,443
Basic and diluted Operating Results per share	$ 0.30	$ 0.66
Shares used in computation - basic and diluted	12,796	12,707

Revenues

- Excluding the loss of revenues from the clinics within the partnership sold in June of 2019 (“sold clinics”) of $5.7 million for the 2019 First Quarter, net revenues for the 2020 First Quarter of $112.7 million increased 2.0% from adjusted revenue of $110.5 million ($116.2 million less the $5.7 million) in 2019 First Quarter despite the adverse effects, beginning in mid-March, of the COVID-19 pandemic on the Company’s clinics.

- Net patient revenues from physical therapy operations decreased $6.5 million, or 6.1%, to $100.1 million in the 2020 First Quarter from $106.7 million in the 2019 First Quarter primarily due to the $5.7 million of lost revenue from sold clinics and the adverse effects of COVID-19. Total patient visits were 971,000 in the 2020 First Quarter and 1,001,510 for the 2019 First Quarter (inclusive of 49,300 for the sold clinics). The average net patient revenue per visit was $103.11 for the 2020 First Quarter and $106.49 for the 2019 First Quarter. Excluding the 49,300 visits, the net revenue per visit was $106.02 for the 2019 First Quarter. Of the $0.8 million ($6.5 million less $5.7 million) decrease in net patient revenues, $5.4 million related to a decrease in business of clinics opened or acquired prior to April 1, 2019 (“Mature Clinics”) and was offset by $4.6 million related to clinics opened or acquired after March 31, 2019 (“New Clinics”). Revenue from physical therapy management contracts was $2.1 million for both 2020 and 2019 first quarters.

- Revenue from the industrial injury prevention business increased 43.1% to $9.9 million in the 2020 First Quarter compared to $6.9 million in the 2019 First Quarter due to internal growth and an acquisition in the second quarter of 2019. Management estimates that the industrial injury prevention business lost approximately $126,000 in revenue and contribution margin due to the pandemic.

- Other miscellaneous revenue was $0.6 million in the 2020 First Quarter and $0.5 million in the 2019 First 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, excluding closure costs, were $93.3 million in the 2020 First Quarter, or 82.7% of net revenues, as compared to $89.5 million in the 2019 First Quarter, or 77.0% of net revenues. The $3.8 million increase was attributable to $5.2 million in operating costs related to New Clinics and $2.6 million related to the industrial injury prevention business, primarily related to the acquisition, offset by a decrease of $4.0 million related to Mature Clinics. Closure costs of $3.8 million include estimates of remaining lease obligations, write-off of goodwill and other costs. The Company will incur additional closure costs in the second quarter of 2020.

Each component of operating costs is discussed below:

Operating Costs—Salaries and Related Costs

Salaries and related costs increased to $69.0 million for the 2020 First Quarter from $66.3 million for the 2019 First Quarter, an increase of $2.7 million. Salaries and related costs for New Clinics amounted to $3.4 million for the 2020 First Quarter. Salaries and related costs for the industrial injury prevention business was $6.9 million in the 2020 First Quarter compared to $4.3 million 2019 First Quarter, an increase of $2.6 million primarily due to the acquisition in April 2019. For Mature Clinics, salaries and related costs decreased by $3.3 million in the 2020 First Quarter compared to the 2019 First Quarter. For management contracts, salaries and related costs increased slightly by $0.1 million for the 2020 First Quarter compared to the 2019 First Quarter. Salaries and related costs as a percentage of net revenues were 61.2% for the 2020 First Quarter and 57.0% for the 2019 First Quarter.

Operating Costs—Rent, Supplies, Contract Labor and Other

Rent, supplies, contract labor and other were $22.9 million for the 2020 First Quarter and $22.0 million for the 2019 First Quarter. For New Clinics, rent, supplies, contract labor and other amounted to $1.7 million for the 2020 First Quarter. For Mature Clinics, rent, supplies, contract labor and other decreased by $1.1 million in the 2020 First Quarter compared to the 2019 First Quarter. For the industrial injury prevention business, rent, supplies, contract labor and other increased by $0.3 million for the respective periods. Rent, supplies, contract labor and other as a percentage of net revenues was 20.3% for the 2020 First Quarter and 19.0 % for the 2019 First Quarter.

Operating Costs—Provision for Doubtful Accounts

The provision for doubtful accounts was $1.4 million for the 2020 First Quarter and $1.2 million for the 2019 First Quarter. The provision for doubtful accounts for patient accounts receivable as a percentage of net patient revenues was 1.2% for the 2020 First Quarter and 1.0% for the comparable period in 2019.

Our provision for doubtful accounts for patient accounts receivable as a percentage of total patient accounts receivable was 5.66% at March 31, 2020, as compared to 5.50% at December 31, 2019. Our days' sales outstanding were both 33 days at March 31, 2020 and December 31, 2019.

Gross Profit

Gross profit for 2020 First Quarter, excluding closure costs, was $19.4 million, as compared to $26.7 million in the 2019 First Quarter. The gross profit percentage, excluding closure costs, decreased and was 17.2% of net revenue in the 2020 First Quarter as compared to 23.1% in the 2019 First Quarter. The gross profit percentage for our physical therapy clinics, excluding closure costs, was 17.3% in the 2020 First Quarter as compared to 23.0% in the 2019 First Quarter. The gross profit percentage on physical therapy management contracts was 15.7% in the 2020 First Quarter as compared to 18.5% in the 2019 First Quarter. The gross profit for the industrial injury prevention business was $1.7 million, or 16.8% in the 2020 First Quarter as compared to $1.5 million, or 22.3%, in the 2019 First 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 $11.7 million for the 2020 First Quarter and $11.3 million for the 2019 First Quarter. As a percentage of net revenues, corporate office costs were 10.4% for the 2020 First Quarter and 9.7% for the 2019 First Quarter.

Operating Income

Operating income for the 2020 First Quarter was $4.0 million as compared to $15.4 million 2019 First Quarter. Operating income as a percentage of net revenue decreased by 970 basis points from 13.3% in the 2019 period to 3.6% in 2020. See discussion above related to the effects of COVID-19 on our business for more.

Interest Expense

Interest expense was $0.4 million in the 2020 First Quarter compared to $ 0.3 million in the 2019 First Quarter due to higher borrowings under our revolving credit line. At March 31, 2020, $114.0 million was outstanding under our Amended Credit Agreement (as defined below). 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 tax for the 2020 First Quarter was $0.3 million and $2.7 million in the 2019 First Quarter. The provision for income tax as a percentage of income before taxes less net income attributable to non-controlling interest was 22.3% for the 2020 First Quarter and 24.3% for the 2019 First 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	
	March 31, 2020	March 31, 2019
Income before taxes	$ 3,630	$ 15,083
Less: net income attributable to non-controlling interests:		
Non-controlling interests - permanent equity	(526)	(1,537)
Redeemable non-controlling interests - temporary equity	(1,796)	(2,395)
	$ (2,322)	$ (3,932)
Income before taxes less net income attributable to non-controlling interests	$ 1,308	$ 11,151
Provision for income taxes	$ 292	$ 2,708
Percentage	22.3%	24.3%

Net Income Attributable to Non-controlling Interests

Net income attributable to non-controlling interests (permanent equity) was $0.5 million in the 2020 First Quarter and $1.5 million in the 2019 First Quarter. Net income attributable to redeemable non-controlling interests (temporary equity) was $1.8 million in the 2020 First Quarter and $2.4 million in the 2019 First Quarter.

LIQUIDITY AND CAPITAL RESOURCES

We believe that our business has sufficient cash to allow us to meet our short-term cash requirements. At March 31, 2020 and December 31, 2019, we had $89.5 million and $23.5 million, respectively, in cash. We believe that our cash is sufficient to fund the working capital needs of our operating subsidiaries through at least March 31, 2021.

As of the date of this filing, we have approximately $110.0 million in cash. In addition to collections from our patient receivables, we have drawn all funds available under the Amended Credit Agreement of $125.0 million, received funds from (a) the Medicare Accelerated and Advance Payment Program ("MAAPP") ($12.4 million to date) and (b) the Public Health and Social Services Emergency Fund ("Relief Fund") ($5.7 million to date) as part of the Coronavirus Aid, Relief, and Economics Securities Act ("CARES Act"). MAAPP funds received will be applied to future Medicare billings commencing in August 2020, with all such remaining amounts required to be repaid by us by November 2020. Beginning November 2020, any unpaid balance will begin accruing interest. The Relief Fund monies do not have to be repaid. In addition, we are taking advantage of the allowed deferral of the employer payroll taxes under the CARES Act.

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.

As of March 31, 2020, we were in compliance with all of the covenants contained in the credit agreement. Management cannot be certain the Company will be in compliance with covenants at the end of second quarter of 2020. Management is in discussions with our lender regarding an amendment to the facility so as to maintain compliance with all covenants. Management anticipates an amendment will be in place by the end of the second quarter of 2020.

Cash and cash equivalents increased by $66.1 million from December 31, 2019 to March 31, 2020. During the 2020 First Quarter, $16.4 million was provided by operations, and $68.0 million of net proceeds from our revolving line of credit. The major uses of cash for investing and financing activities included: purchases of interests in the four-clinic practice acquired ($11.6 million), distributions to non-controlling interests inclusive of those classified as redeemable non-controlling interests ($2.3 million), purchase of fixed assets ($2.7 million) and a purchase of redeemable non-controlling interests ($1.9 million).

On February 27, 2020, we acquired interests in a four-clinic physical therapy practice. The four clinics are in four separate partnerships. Our interests in the four partnerships range from 10.0% to 83.8%, with an overall 65.0% based on the initial purchase transaction. The aggregate purchase price was $11.9 million, of which $11.6 million was paid in cash and a $0.3 million seller note. The note accrues interest at 4.75% per annum and the principal and interest is payable on February 2022.

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. It performs these services across a network of 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 acquired company was $22.9 million ($23.6 million less cash acquired of $0.7 million), which consisted of $18.9 million in cash, (of which $0.5 million will be paid 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 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 was payable in two equal installments of $114,080 each, plus accrued interest. The first installment was paid in March 2020 and the second installment remains payable in March 2021.

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 March 30, 2020 relate to certain of the acquisitions of businesses and purchases of redeemable non-controlling interests that occurred in 2018 through March 2020. 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 March 31, 2020, the balance on these notes payable was $5.3 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 March 31, 2020, we have accrued $5.1 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 March 31, 2020, there are currently an additional estimated 217,391 shares (based on the closing price of $69.00 on March 31, 2020) 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 three months ended March 31, 2020.

FACTORS AFFECTING FUTURE RESULTS

The risks related to our business and operations include:

- the multiple effects of the impact of public health crises and epidemics/pandemics, such as the novel strain of COVID-19, for which the financial magnitude cannot be currently estimated;
- 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 reputational 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;
- competitive environment in the industrial injury prevention business, which could result in the termination or non-renewal of contractual service arrangements and other adverse financial consequences for that service line;
- acquisitions, and the successful integration of the operations of the acquired businesses;
- impact on the business and cash reserves resulting from retirement or resignation of key partners and resulting purchase of their non controlling interests (minority interests);
- 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 harm 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, 2019 and our subsequent current and periodic reports, including the additional risk factor noted in our Current Report on Form 8-K filed on April 24, 2020.

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 March 31, 2020, $114.0 million was outstanding under our Amended Credit Agreement. Based on the balance of the Amended Credit Agreement at March 31, 2020, any change in the interest rate of 1% would yield a decrease or increase in annual interest expense of $1,140,000.

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 2020, we properly assessed the impact of new accounting standards related to measurement of credit losses on financial assets (CECL) and assessment of goodwill to facilitate the adoption of such standards on January 1, 2020. There were no significant changes to our internal control over financial reporting due to the adoption of the new standards.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are a party to various legal actions, proceedings, and claims (some of which are not insured), and regulatory and other governmental audits and investigations in the ordinary course of our business. We cannot predict the ultimate outcome of pending litigation, proceedings, and regulatory and other governmental audits and investigations. These matters could potentially subject us to sanctions, damages, recoupments, fines, and other penalties. The Department of Justice, CMS, or other federal and state enforcement and regulatory agencies may conduct additional investigations related to our businesses in the future that may, either individually or in the aggregate, have a material adverse effect on our business, financial position, results of operations, and liquidity.

Healthcare providers are subject to lawsuits under the qui tam provisions of the federal False Claims Act. Qui tam lawsuits typically remain under seal for some time while the government decides whether or not to intervene on behalf of a private qui tam plaintiff (known as a relator) and take the lead in the litigation. These lawsuits can involve significant monetary damages and penalties and award bounties to private plaintiffs who successfully bring the suits. We are and have been a defendant in these cases in the past, and may be named as a defendant in similar cases from time to time in the future.

Florida Litigation

On August 19, 2019, we received notice of a qui tam lawsuit filed by a relator on behalf of the United States, titled U.S. ex rel. Bonnie Elsdon, v. U.S. Physical Therapy, Inc., U.S. Physical Therapy, Ltd., Rehab Partners #2, Inc., The Hale Hand Center, Limited Partnership (the “Hale Partnership”), and Suzanne Hale. This whistleblower lawsuit was filed in the U.S. District Court for the Southern District of Texas, seeking damages and civil penalties under the federal False Claim Act. This lawsuit was originally filed under seal by a former employee of The Hale Hand Center, Limited Partnership (“Hale Partnership”), a majority-owned subsidiary of the Company, on May 25, 2018. The U.S Government declined to intervene in the case and unsealed the Complaint on July 17, 2019. The plaintiff - relator served the Complaint on us and the other named defendants on August 19, 2019.

The Complaint alleges that the Hale Partnership engaged in conduct to purposely “upcode” its billings for services provided to Medicare patients. The plaintiff - relator points to three dates of service and provides examples of what it alleges are inflated billings by the Hale Partnership; the relator then claims that similar false claims must have occurred on other days and at other Company-owned partnerships.

On October 3, 2019, we filed Motions to Dismiss based on numerous grounds on behalf of each of the named defendants. On October 29, 2019, the plaintiff-relator dismissed three of the named defendants, Rehab Partners #2, Inc., U.S. Physical Therapy, Ltd., and Suzanne Hale. The Motions to Dismiss as to the remaining two defendants has been fully briefed and is pending before the Court for a ruling.

We have engaged counsel and fully investigated the matter, and believe that the allegations in the Complaint have no merit. We intend to vigorously defend this action, but at this time we are unable to predict the timing and outcome of the matter.

ITEM 1A. RISK FACTORS.

The risk factors set forth in this report update, and should be read in conjunction with, the risk factors discussed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 28, 2020.

We are subject to risks associated with public health crises and epidemics/pandemics, such as the novel strain of coronavirus (COVID-19).

Our operations expose us to risks associated with public health crises and epidemics/pandemics, such as the novel strain of coronavirus (COVID-19) that has spread globally. Since February, the continued spread has led to disruption and volatility in the global capital markets, which increases the cost of, and adversely impacts access to, capital and increases economic uncertainty. The pandemic has caused an economic slowdown of potentially extended duration, and it is possible that it could cause a global recession.

COVID-19 is having, and will continue to have, an adverse impact on our operations and supply chains, including an increase in cancellations of physical therapy patient appointments and a decline in the scheduling of new or additional patient appointments. Due to these impacts and measures, we have experienced, and will continue to experience, significant and unpredictable reductions and cancellations of our patient visits.

As a result, given the rapid and evolving nature of the virus, COVID-19 will negatively affect our revenue, and it is uncertain how materially COVID-19 will affect operations generally if these impacts persist or worsen over an extended period of time. Any of these impacts would have a significant adverse effect on our business, financial condition and results of operations, and at this point, the extent of the impact of COVID-19 remains uncertain.

Impact on the business and cash reserves resulting from retirement or resignation of key partners and resulting purchase of their non-controlling interests (minority interests)

As described in Note 5, the redeemable non-controlling interests in our partnerships are held by our partners. Upon the occurrence of certain events, such as retirement or other termination of employment, partners from acquired partnerships may have the right to exercise a “put” to cause the Company to purchase their redeemable non-controlling interests. Depending on the amount and timing of the exercise of any “put” rights, the funds required could have an adverse impact on the Company’s capital structure.

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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.
10.1+	U. S. Physical Therapy, Inc. Objective Long-Term Incentive Plan for Senior Management for 2020, effective March 3, 2020 [incorporated by reference to Exhibit 99.1 to the Company Current Report on Form 8-K filed with the SEC on March 6, 2020].
10.2+	Amendment to Employment Agreement entered into as of March 26, 2020 by and between the Company and Lawrance McAfee [incorporated by reference to Exhibit 10.2 to the Company Current Report on Form 8-K filed with the SEC on March 26, 2020].
10.3+	Amendment to Employment Agreement entered into as of March 26, 2020 by and between the Company and Glenn McDowell [incorporated by reference to Exhibit 10.3 to the Company Current Report on Form 8-K filed with the SEC on March 26, 2020].
10.4+	Amendment to Employment Agreement entered into as of March 26, 2020 by and between the Company and Graham Reeve [incorporated by reference to Exhibit 10.4 to the Company Current Report on Form 8-K filed with the SEC on March 26, 2020].
99.1+	U. S. Physical Therapy, Inc. Objective Long-Term Incentive Plan for Senior Management for 2020, effective March 3, 2020 [incorporated by reference to Exhibit 99.1 to the Company Current Report on Form 8-K filed with the SEC on March 6, 2020].
99.2+	U. S. Physical Therapy, Inc. Discretionary Long-Term Incentive Plan for Senior Management for 2020, effective March 3, 2020 [incorporated by reference to Exhibit 99.2 to the Company Current Report on Form 8-K filed with the SEC on March 6, 2020].
99.3+	U. S. Physical Therapy, Inc. Objective Cash/RSA Bonus Plan for Senior Management for 2020, effective March 3, 2020 [incorporated by reference to Exhibit 99.3 to the Company Current Report on Form 8-K filed with the SEC on March 6, 2020].
99.4+	U. S. Physical Therapy, Inc. Discretionary Cash/RSA Bonus Plan for Senior Management for 2020, effective March 3, 2020 [incorporated by reference to Exhibit 99.4 to the Company Current Report on Form 8-K filed with the SEC on March 6, 2020].
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 Documen
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: May 21, 2020

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

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: May 21, 2020

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: May 21, 2020

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: May 21, 2020

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 March 31, 2020, 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.

May 21, 2020

/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.