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 June 30, 2022

OR

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

FOR THE TRANSITION PERIOD FROM _____TO _____

COMMISSION FILE NUMBER 1-11151

U.S. PHYSICAL THERAPY, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

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

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

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	☐	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

As of August 8, 2022, the number of shares outstanding (issued less treasury stock) of the registrant's common stock, par value $.01 per share, was: 13,004,245.

PART I—FINANCIAL INFORMATION - UNAUDITED

ITEM 1. FINANCIAL STATEMENTS.

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

	June 30, 2022 (unaudited)	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 48,572	$ 28,567
Patient accounts receivable, less allowance for credit losses of $2,948 and $2,768, respectively	50,549	46,272
Accounts receivable - other	18,915	16,144
Other current assets	3,810	4,183
Total current assets	121,846	95,166
Fixed assets:		
Furniture and equipment	60,379	58,743
Leasehold improvements	41,038	39,194
Fixed assets, gross	101,417	97,937
Less accumulated depreciation and amortization	77,188	74,958
Fixed assets, net	24,229	22,979
Operating lease right-of-use assets	101,274	96,427
Investment in unconsolidated affiliate	12,346	12,215
Goodwill	442,761	434,679
Other identifiable intangible assets, net	92,655	86,382
Other assets	1,333	1,578
Total assets	$ 796,444	$ 749,426
LIABILITIES, REDEEMABLE NON-CONTROLLING INTEREST, USPH SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTEREST		
Current liabilities:		
Accounts payable - trade	$ 3,793	$ 3,268
Accounts payable - due to seller of acquired business	3,203	3,203
Accrued expenses	41,246	45,705
Current portion of operating lease liabilities	32,083	30,475
Current portion of term loan and notes payable	4,780	830
Total current liabilities	85,105	83,481
Notes payable, net of current portion	4,258	3,587
Revolving line of credit	-	114,000
Term Loan, net of current portion and deferred financing costs	144,631	-
Deferred taxes	19,483	14,385
Operating lease liabilities, net of current portion	77,776	74,185
Other long-term liabilities	4,858	7,345
Total liabilities	336,111	296,983
Redeemable non-controlling interest - temporary equity	151,400	155,262
Commitments and Contingencies		
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, 15,218,982 and 15,126,160 shares issued, respectively	152	151
Additional paid-in capital	106,801	102,688
Accumulated other comprehensive loss	(395)	-
Retained earnings	232,247	224,395
Treasury stock at cost, 2,214,737 shares	(31,628)	(31,628)
Total USPH shareholders' equity	307,177	295,606
Non-controlling interest - permanent equity	1,756	1,575
Total USPH shareholders' equity and non-controlling interest - permanent equity	308,933	297,181
Total liabilities, redeemable non-controlling interest, USPH shareholders' equity and non-controlling interest - permanent equity	$ 796,444	$ 749,426

See notes to consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30,2022	June 30, 2021
Net patient revenue	$ 118,196	$ 113,238	$ 227,734	$ 212,492
Other revenue	22,460	13,690	44,626	26,804
Net revenue	140,656	126,928	272,360	239,296
Operating cost:				
Salaries and related costs	79,939	68,866	155,088	132,681
Rent, supplies, contract labor and other	28,345	22,394	57,007	43,851
Provision for credit losses	1,551	1,364	2,856	2,564
Total operating cost	109,835	92,624	214,951	179,096
Gross profit	30,821	34,304	57,409	60,200
Corporate office costs	10,741	12,074	22,297	22,948
Operating income	20,080	22,230	35,112	37,252
Other income and expense				
Equity in earnings of unconsolidated affiliate	340	-	679	-
Interest and other income, net	679	46	725	100
Loss on revaluation of put-right liability	(617)	-	(14)	-
Interest expense - debt and other	(987)	(237)	(1,527)	(483)
Total other income and expense	(585)	(191)	(137)	(383)
Income before taxes	19,495	22,039	34,975	36,869
Provision for income taxes	4,239	4,567	7,737	7,511
Net income	15,256	17,472	27,238	29,358
Less: net income attributable to non-controlling interest:				
Redeemable non-controlling interest - temporary equity	(2,626)	(3,611)	(5,183)	(6,064)
Non-controlling interest - permanent equity	(1,435)	(1,425)	(2,061)	(2,685)
	(4,061)	(5,036)	(7,244)	(8,749)
Net income attributable to USPH shareholders	$ 11,195	$ 12,436	$ 19,994	$ 20,609
Basic and diluted earnings per share attributable to USPH shareholders	$ 0.87	$ 0.82	$ 1.55	$ 1.03
Shares used in computation - basic and diluted	12,998	12,902	12,968	12,886
Dividends declared per common share	$ 0.41	$ 0.35	$ 0.82	$ 0.70

See notes to consolidated financial statements.

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

	Three Months Ended		For the Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Net income	$ 15,256	$ 17,472	$ 27,238	$ 29,358
Other comprehensive loss				
Unrealized loss on cash flow hedge	(531)	-	(531)	-
Tax effect at statutory rate (federal and state) of 25.55%	136	-	136	-
Comprehensive income	$ 14,861	$ 17,472	$ 26,843	$ 29,358
Comprehensive income attributable to non-controlling interest	(4,061)	(5,036)	(7,244)	(8,749)
Comprehensive income attributable to USPH shareholders	$ 10,800	$ 12,436	$ 19,599	$ 20,609

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

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
OPERATING ACTIVITIES		
Net income including non-controlling interest and earnings from unconsolidated affiliates, net	$ 27,238	$ 29,358
Adjustments to reconcile net income including non-controlling interest to net cash provided by operating activities:		
Depreciation and amortization	7,298	5,484
Provision for credit losses	2,856	2,564
Equity-based awards compensation expense	3,660	3,405
Deferred income taxes	4,307	3,160
Loss on revaluation of put-right liability	14	-
(Gain) loss on sale of clinics and fixed assets	(614)	106
Earnings in unconsolidated affiliate	(679)	-
Changes in operating assets and liabilities:		
Increase in patient accounts receivable	(7,459)	(5,325)
(Increase) decrease in accounts receivable - other	(2,862)	129
(Increase) decrease in other assets	230	(255)
Decrease in accounts payable and accrued expenses	(3,891)	(3,672)
(Decrease) increase in other long-term liabilities	(2,587)	602
Net cash provided by operating activities	27,511	35,556
INVESTING ACTIVITIES		
Purchase of fixed assets	(4,569)	(3,301)
Purchase of majority interest in businesses, net of cash acquired	(11,799)	(20,402)
Purchase of redeemable non-controlling interest, temporary equity	(8,648)	(9,536)
Purchase of non-controlling interest, permanent equity	(156)	-
Proceeds on sales of partnership interest, clinics and fixed assets	740	(168)
Distributions from unconsolidated affiliate	548	-
Proceeds on sales of redeemable non-controlling interest-temporary	344	32
Net cash used in investing activities	(23,540)	(33,375)
FINANCING ACTIVITIES		
Distributions to non-controlling interest, permanent and temporary equity	(7,202)	(9,398)
Cash dividends paid to shareholders	(10,659)	(9,028)
Proceeds from revolving line of credit	61,000	128,000
Proceeds from term loan	150,000	-
Payments on revolving line of credit	(175,000)	(106,000)
Principal payments on notes payable	(338)	(4,207)
(Payment) receipt of Medicare Accelerated and Advance Funds	-	(14,054)
Payment of deferred financing costs	(1,779)	-
Other	12	7
Net cash used in financing activities	16,034	(14,680)
Net decrease in cash and cash equivalents	20,005	(12,499)
Cash and cash equivalents - beginning of period	28,567	32,918
Cash and cash equivalents - end of period	$ 48,572	$ 20,419
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income taxes	$ 4,524	$ 6,967
Interest paid	$ 1,319	$ 741
Non-cash investing and financing transactions during the period:		
Purchase of businesses - seller financing portion	$ 374	$ 550
Purchase of businesses - contingent consideration	$ -	$ 1,000
Notes payable related to purchase of redeemable non-controlling interest, temporary equity	$ 948	$ -
Notes payable due to purchase of non-controlling interest, permanent equity	$ 296	$ -
Notes receivable related to sale of partnership interest	$ -	$ 287
Notes receivable related to sale of partnership interest - redeemable non-controlling interest	$ 1,476	$ -

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					Treasury Stock				
For the three months ended June 30, 2022	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Shares	Amount	Total Shareholders' Equity	Non-Controlling Interests	Total
Balance March 31, 2022	$ 15,206	151	$ 105,205	-	$ 227,243	(2,215)	$ (31,628)	$ 300,971	$ 1,245	$ 302,216
Issuance of restricted stock, net of cancellations	13	1	-	-	-	-	-	1	-	1
Revaluation of redeemable non-controlling interest, net of tax	-	-	-	-	116	-	-	116	-	116
Compensation expense - equity-based awards	-	-	1,814	-	-	-	-	1,814	-	1,814
Transfer of compensation liability for certain stock issued pursuant to long-term incentive plans	-	-	1	-	-	-	-	1	-	1
Purchase of partnership interests - non-controlling interest	-	-	(219)	-	-	-	-	(219)	239	20
Dividends paid to USPH shareholders	-	-	-	-	(5,332)	-	-	(5,332)	-	(5,332)
Distributions to non-controlling interest partners - permanent equity	-	-	-	-	-	-	-	-	(1,163)	(1,163)
Deferred taxes related to redeeemable non-controlling interest - temporary equity	-	-	-	-	(1,486)	-	-	(1,486)	-	(1,486)
Other	-	-	-	-	511	-	-	511	-	511
Net income attributable to non-controlling interest - permanent equity	-	-	-	-	-	-	-	-	1,435	1,435
Net income attributable to USPH shareholders	-	-	-	-	11,195	-	-	11,195	-	11,195
Other comprehensive loss	-	-	-	(395)	-	-	-	(395)	-	(395)
Balance June 30, 2022	15,219	152	$ 106,801	$ (395)	$ 232,247	(2,215)	$ (31,628)	$ 307,177	$ 1,756	$ 308,933

	U.S.Physical Therapy, Inc.									
	Common Stock					Treasury Stock				
For the six months ended June 30, 2022	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Shares	Amount	Total Shareholders' Equity	Non-Controlling Interests	Total
Balance December 31, 2021	$ 15,126	151	$ 102,688	-	$ 224,395	(2,215)	$ (31,628)	$ 295,606	$ 1,575	$ 297,181
Issuance of restricted stock, net of cancellations	93	1	-	-	-	-	-	1	-	1
Revaluation of redeemable non-controlling interest, net of tax	-	-	-	-	3	-	-	3	-	3
Compensation expense - equity-based awards	-	-	3,660	-	-	-	-	3,660	-	3,660
Transfer of compensation liability for certain stock issued pursuant to long-term incentive plans	-	-	707	-	-	-	-	707	-	707
Purchase of partnership interests - non-controlling interest	-	-	(265)	-	-	-	-	(265)	(95)	(360)
Dividends paid to USPH shareholders	-	-	-	-	(10,659)	-	-	(10,659)	-	(10,659)
Distributions to non-controlling interest partners - permanent equity	-	-	-	-	-	-	-	-	(2,471)	(2,471)
Deferred taxes related to redeemable non-controlling interest - temporary equity	-	-	-	-	(1,486)	-	-	(1,486)	-	(1,486)
Other	-	-	11	-	-	-	-	11	686	697
Net income attributable to non-controlling interest - permanent equity	-	-	-	-	-	-	-	-	2,061	2,061
Net income attributable to USPH shareholders	-	-	-	-	19,994	-	-	19,994	-	19,994
Other comprehensive loss	-	-	-	(395)	-	-	-	(395)	-	(395)
Balance June 30, 2022	15,219	152	$ 106,801	$ (395)	$ 232,247	(2,215)	$ (31,628)	$ 307,177	$ 1,756	$ 308,933

	U.S.Physical Therapy, Inc.									
	Common Stock					Treasury Stock				
For the three months ended June 30, 2021	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Shares	Amount	Total Shareholders' Equity	Non-Controlling Interests	Total
Balance March 31, 2021	15,111	151	$ 97,286	$ -	$ 210,375	(2,215)	$ (31,628)	$ 276,184	$ 1,057	$ 277,241
Issuance of restricted stock, net of cancellations	10	-	-	-	-	-	-	-	-	-
Revaluation of redeemable non-controlling interest, net of tax	-	-	-	-	(1,897)	-	-	(1,897)	-	(1,897)
Compensation expense - equity-based awards	-	-	1,754	-	-	-	-	1,754	-	1,754
Dividends paid to USPT shareholders	-	-	-	-	(4,514)	-	-	(4,514)	-	(4,514)
Distributions to non-controlling interest partners - permanent equity	-	-	-	-	-	-	-	-	(1,510)	(1,510)
Other	-	-	(1)	-	(114)	-	-	(115)	(9)	(124)
Net income attributable to non-controlling interest - permanent equity	-	-	-	-	-	-	-	-	1,425	1,425
Net income attributable to USPH shareholders	-	-	-	-	12,436	-	-	12,436	-	12,436
Balance June 30, 2021	15,121	151	$ 99,039	$ -	$ 216,286	(2,215)	$ (31,628)	$ 283,848	$ 963	$ 284,811

	U.S.Physical Therapy, Inc.									
	Common Stock					Treasury Stock				
For the six months ended June 30, 2021	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Shares	Amount	Total Shareholders' Equity	Non-Controlling Interests	Total
Balance December 31, 2020	15,065	151	$ 95,622	$ -	$ 212,015	(2,215)	$ (31,628)	$ 276,160	$ 1,470	$ 277,630
Issuance of restricted stock, net of cancellations	56	-	-	-	-	-	-	-	-	-
Revaluation of redeemable non-controlling interest, net of tax	-	-	-	-	(7,310)	-	-	(7,310)	-	(7,310)
Compensation expense - equity-based awards	-	-	3,403	-	-	-	-	3,403	-	3,403
Dividends paid to USPT shareholders	-	-	-	-	(9,028)	-	-	(9,028)	-	(9,028)
Distributions to non-controlling interest partners - permanent equity	-	-	-	-	-	-	-	-	(3,182)	(3,182)
Short swing profit settlement	-	-	13	-	-	-	-	13	-	13
Other	-	-	1	-	-	-	-	1	(10)	(9)

Net income attributable to non-controlling interest - permanent equity	-	-	-	-	-	-	-	-	2,685	2,685
Net income attributable to USPH shareholders	-	-	-	-	20,609	-	-	20,609	-	20,609
Balance June 30, 2021	15,121	151	$ 99,039	$ -	$ 216,286	(2,215)	$ (31,628)	$ 283,848	$ 963	$ 284,811

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2022
(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 operates its business through two reportable business segments. The Company's reportable segments include the physical therapy operations segment and the industrial injury prevention services segment. The Company's physical therapy operations consist of physical therapy and occupational therapy clinics that provide pre-and post-operative care and treatment for orthopedic-related disorders, sports-related injuries, preventive care, rehabilitation of injured workers and neurological injuries. Services provided by the industrial injury prevention services segment include onsite injury prevention and rehabilitation, performance optimization and ergonomic assessments.

During the 2021 year and the six months ended June 30, 2022, the Company completed the acquisitions of four multi-clinic practices and two industrial injury prevention businesses as detailed below.

Acquisition	Date	Acquired	Clinics
March 2022 Acquisition	March 31, 2022	70%	6
December 2021 Acquisition	December 31, 2021	75%	3
November 2021 Acquisition	November 30, 2021	70%	IIPS*
September 2021 Acquisition	September 30, 2021	100%	IIPS*
June 2021 Acquisition	June 30, 2021	65%	8
March 2021 Acquisition	March 31, 2021	70%	6

* Industrial injury prevention services business

As of June 30, 2022, the Company operated 608 clinics in 39 states. The Company also manages physical therapy facilities for third parties, primarily hospital and physicians, with 33 third-party facilities under management as of June 30, 2022.

During the six months ended June 30, 2022, the Company closed three clinics and sold five clinics.

Physical Therapy Operations

The physical therapy operations segment primarily operates through subsidiary clinic partnerships, in which the Company generally owns a 1% general partnership interest in the Clinic Partnerships. Our limited partnership interests generally range from 65% to 75% 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 as employees to manage the clinic operations, retain a non-controlling ownership interest in the clinics and receive 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.

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 interest – permanent equity and within the income statements as net income attributable to non-controlling interest – permanent equity.

For acquired Clinic Partnerships with redeemable non-controlling interest, the earnings attributable to the redeemable non-controlling interest are recorded within the consolidated statements of income line item – *net income attributable to non-controlling interest – redeemable non-controlling interest – temporary equity* and the equity interest is recorded on the consolidated balance sheet as *redeemable non-controlling interest – temporary equity*. 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 basic and diluted earnings per 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 cost – salaries and related costs. The respective liability is included in current liabilities – accrued expenses on the balance sheets.

Industrial Injury Prevention Services

Services provided in the industrial injury prevention services segment include onsite services for clients' employees including 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 certified athletic trainers.

Basis of Presentation

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, 2021 filed with the Securities and Exchange Commission on March 1, 2022.

The Company believes, and the Chief Executive Officer and Chief Financial Officer 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 and six months ended June 30, 2022, are not necessarily indicative of the results the Company expects for the entire year.

In addition to the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2021 filed with the SEC on March 1, 2022, see Item 1A in Part II of this report.

Impact of COVID-19

Medicare Accelerated and Advance Payment Program ("MAAPP Funds")

On March 27, 2020, in response to the COVID-19 pandemic, the federal government approved the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The CARES Act provided waivers, reimbursement, grants and other funds to assist health care providers during the COVID-19 pandemic, including $100.0 billion in appropriations for the Public Health and Social Services Emergency Fund, also referred to as the Provider Relief Fund, to be used for preventing, preparing, and responding to the coronavirus, and for reimbursing eligible health care providers for lost revenues and health care related expenses that are attributable to COVID-19.

The CARES Act allowed for qualified healthcare providers to receive advanced payments under the MAAPP Funds during the COVID-19 pandemic. Under this program, healthcare providers could 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. The Company recorded the $14.1 million in advance payments received as a liability. During the three months ended March 31, 2021, the Company repaid the MAAPP Funds of $14.1 million rather than applying them to future services performed. During the six months ended June 30, 2022, and 2021, the Company did not record any income from payments under the CARES Act.

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 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.

The Company did not note an impairment to long-lived assets during the three and six months ended June 30, 2022.

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.

Goodwill and other indefinite-lived intangible assets are not amortized but are instead subject to periodic impairment evaluations. The fair value of goodwill and other identifiable intangible assets with indefinite lives are evaluated for impairment at least annually and upon the occurrence of certain events or conditions and are written down to fair value if considered impaired. These events or conditions include but are not limited to: a significant adverse change in the business environment, regulatory environment, or legal factors; a current period operating or cash flow loss combined with a history of such losses or a projection of continuing losses; or a sale or disposition of a significant portion of a reporting unit. The occurrence of one of these events or conditions could significantly impact an impairment assessment, necessitating an impairment charge. The Company evaluates indefinite lived tradenames in conjunction with its annual goodwill impairment test.

The Company has a two operating segment business which is made up of various clinics within partnerships, and an industrial injury prevention services business. 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 2021 and 2020, there were six regions. In addition to the six regions, the impairment analysis included a separate analysis for the industrial injury prevention services business, as a separate reporting unit.

As part of the impairment analysis, the Company is first required to assess qualitatively if it can conclude whether goodwill is more likely than not impaired. If goodwill is more likely than not impaired, the Company is then required to complete a quantitative analysis of whether a reporting unit's fair value is less than its carrying amount. In evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company considers relevant events or circumstances that affect the fair value or carrying amount of a reporting unit. The Company considers both the income and market approach in determining the fair value of its reporting units when performing a quantitative analysis.

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 evaluation of goodwill in 2021 and 2020 did not result in any goodwill amounts that were deemed impaired.

As part of the annual assessment, 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 December 31, 2021. 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 were impaired as of December 31, 2021.

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

Redeemable Non-Controlling Interest

The non-controlling interests that are reflected as redeemable non-controlling interest 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 interest – temporary equity. 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 adjustments in the redemption value, net of tax, directly to retained earnings and the adjustments 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 Interest

The Company recognizes non-controlling interest, in which the Company has no obligation but the right to purchase the non-controlling interest, as permanent equity in the consolidated financial statements separate from the parent entity's equity. The amount of net income attributable to non-controlling interest 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 Note 3- Revenue Recognition, for further discussion of revenue recognition.

Provision for Credit Losses

The Company determines provisions for credit losses based on the specific agings and payor classifications at each clinic. The provision for credit losses is included in operating cost 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 provisions for credit losses, includes only those amounts the Company estimates to be collectible.

Income Taxes

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

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

The 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 and six months ended June 30, 2022.

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 and six months ended June 30, 2022. The Company records any interest or penalties, if required, in interest and other expense, as appropriate.

Fair Value of Financial Instruments

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a fair value hierarchy has been established that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy are as follows:
Level 1 – Quoted prices in active markets for identical assets or liabilities;
Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose significant inputs are observable; and
Level 3 – Unobservable inputs in which there is little or no market data which require the reporting entity to develop its own assumptions.

The carrying amounts reported in the balance sheets for cash and cash equivalents, contingent earn-out payments, accounts receivable, accounts payable and notes payable approximate their fair values due to the short-term maturity of these financial instruments. The carrying amount of the debt under the Third Amended and Restated Credit Agreement (defined as “Credit Agreement” in Note 9) approximates the fair value. The interest rate on the debt under the Third Amended and Restated Amended Credit Agreement is tied to the Secured Overnight Financing Rate (“SOFR”).

The redeemable non-controlling interest included on the consolidated balance sheets and the put right associated with the potential future purchase of the separate company in the November 2021 acquisition (as described in Note 2) are both marked to fair value on a recurring basis using Level 3 inputs. The redemption value of redeemable non-controlling interests approximates the fair value. The put right associated with the potential future purchase of the separate company in the November 2021 acquisition is determined using a Monte Carlo simulation model utilizing unobservable inputs such as asset volatility and discount rates. The unobservable inputs in the valuation include asset volatility of 25% and a discount rate of 10.49%. See Note 5 for the changes in the fair value of redeemable non-controlling interest. The put right increased $0.6 million for the three months ended June 30, 2022 and was valued at $3.5 million on June 30, 2022.

The valuations of the Company’s interest rate derivatives are measured as the present value of all expected future cash flows based on SOFR-based yield curves. The present value calculation uses discount rates that have been adjusted to reflect the credit quality of the Company and its counterparty which is a Level 2 fair value measurement. The carrying and fair value of the Company’s interest rate derivative as of June 30, 2022, was $0.5 million, which is included in current liabilities in the Company’s consolidated balance sheet. See Note 10 for changes in the fair value of the interest rate swap.

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 currently operates through two segments: physical therapy operations and industrial injury prevention services.

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 and other intangible assets, allocations of purchase price, provision for credit losses, 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 June 30, 2022.

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 restriction will lapse in equal quarterly installments during the four years following the date of grant. Compensation expense for grants of restricted stock is recognized based on the fair value per share on the date of grant amortized over the vesting period. The 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 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 was permitted. The Company adopted this pronouncement as of January 1, 2021. The adoption of ASU 2020-06 did not have a material impact on the Company’s financial statements.

In August 2020, the FASB issued ASU 2020-06 Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity, which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity’s own equity. As part of this update, convertible instruments are to be included in diluted earnings per share using the if-converted method, rather than the treasury stock method. Further, contracts which can be settled in cash or shares, excluding liability-classified share-based payment awards, are to be included in diluted earnings per share on an if-converted basis if the effect is dilutive, regardless of whether the entity or the counterparty can choose between cash and share settlement. The share-settlement presumption may not be rebutted based on past experience or a stated policy.

This pronouncement was effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2021.The Board specified that an entity should adopt the guidance at the beginning of its annual fiscal year. The Company adopted this pronouncement as of January 1, 2022. The use of either the modified retrospective or fully retrospective method of transition is permitted. The adoption of ASU 2020-06 did not have a material impact on the Company’s financial statements.

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 LIBOR and other interbank offered rates to alternative reference rates. The new guidance was effective upon issuance, and the Company has elected to apply the amendments prospectively through December 31, 2022. Borrowings under the Third Amended and Restated Credit Agreement bear interest based on SOFR. The interest rate applicable to the Third Amended and Restated Credit Agreement is tied to SOFR.

2. ACQUISITIONS OF BUSINESSES

On March 31, 2022, the Company acquired a 70% interest in a six-clinic physical therapy practice. The practice’s owners retained 30% of the equity interests. The purchase price for the 70% equity interest was approximately $11.5 million, of which $11.2 million was paid in cash and $0.3 million in the form of a note payable. The note accrues interest at 3.5% per annum and the principal and interest are payable on March 31, 2024.

The purchase price for the 2022 acquisition has been preliminarily allocated as follows (in thousands):

	Physical Therapy Operations
Cash paid, net of cash acquired	$ 11,799
Seller notes	374
Contingent payments	100
Total consideration	$ 12,273
Estimated fair value of net tangible assets acquired:	
Total current assets	$ 466
Total non-current assets	2,655
Total liabilities	(2,664)
Net tangible assets acquired	457
Customer and referral relationships	3,742
Non-compete agreements	247
Tradenames	659
Goodwill	12,114
Fair value of non-controlling interest (classified as redeemable non-controlling interest)	(4,946)
	$ 12,273

On December 31, 2021, the Company acquired a 75% interest in a three-clinic physical therapy practice with the practice founder retaining 25%. The purchase price for the 75% interest was approximately $3.6 million, of which $3.4 million was paid in cash and $0.2 million in the form of a note payable. The note accrues interest at 3.25% per annum and the principal and interest are payable on December 31, 2023.

On November 30, 2021, the Company acquired an approximate 70% interest in a leading provider of industrial injury prevention services. The previous owners retained the remaining interest. The purchase price for the approximate 70% equity interest, not inclusive of a $2.0 million contingent payment, was approximately $65.2 million of which $60.7 million was paid in cash and $1.0 million in the form of a note payable. The note accrues interest at 3.25% per annum and the principal and interest is payable on November 30, 2023. As part of the transaction, the Company also agreed to the potential future purchase of a separate company under the same ownership that provides physical therapy and rehabilitation services to hospitals and other ancillary providers in a distinct market area. The current owners have the right to put this transaction to the Company in approximately five years, with such right having an initial fair value of $3.5 million value on December 31, 2021, as reflected on the Company's consolidated balance sheet in Other long-term liabilities. The value of this right will be adjusted in future periods, as appropriate, with any change in value reflected in the Company's consolidated statement of income. The Company does not currently possess any of the controlling interests in this separate company, does not control this company through contract or governance rights and currently does not exercise significant influence over this separate company. Due to these reasons, and based on current accounting guidance, the Company did not consolidate the separate company through the variable interest or voting interest model. On June 30, 2022, the fair value of this put right was $3.5 million. The increase was reflected in the consolidated statement of income in the line item – Loss on revaluation of put-right liability.

On September 30, 2021, the Company acquired a company that specializes in return-to-work and ergonomic services, among other offerings. The Company acquired the company's assets at a purchase price of approximately $3.3 million (which includes the obligation to pay an amount up to $0.6 million in contingent payment consideration in conjunction with the acquisition if specified future operational objectives are met) and contributed those assets to the industrial injury services business. The initial purchase price, not inclusive of the $0.6 million contingent payment, was approximately $2.7 million, of which $2.4 million was paid in cash, and $0.3 million is in the form of a note payable. The note accrues interest at 3.25% per annum and the principal and interest are payable on September 30, 2023.

On June 30, 2021, the Company acquired a 65% interest in an eight-clinic physical therapy with the previous owners retaining 35%. The purchase price was approximately $10.7 million, of which $8.6 million was paid in cash, $1.0 million was payable based on the achievement of certain business criteria and $0.3 million is in the form of a note payable. The business criteria were met and accordingly $1.0 million was paid in July 2022. The note accrues interest at 3.25% per annum and the principal and interest are payable on June 30, 2023. Additionally, the Company has an obligation to pay an additional amount up to $0.8 million in contingent payment consideration in conjunction with the acquisition if specified future operational objectives are met. The Company recorded acquisition-date fair value of this contingent liability based on the likelihood of the contingent earn-out payment. The earn-out payment will subsequently be remeasured to fair value each reporting date.

On March 31, 2021, the Company acquired a 70% interest in a five-clinic physical therapy practice with the previous owners retaining 30%. When acquired, the practice was developing a sixth clinic which has been completed. The purchase price for the 70% interest was approximately $11.6 million, of which $11.3 million was paid in cash and $0.3 million is in the form of a note payable. The note accrues interest at 3.25% per annum and the principal and interest are payable on March 31, 2023.

The purchase price for the 2021 acquisitions has been preliminarily allocated as follows (in thousands):

	IIPS*	Physical Therapy Operations	Total
Cash paid, net of cash acquired	$ 63,193	$ 23,544	$ 86,737
Seller notes	1,250	800	2,050
Contingent payments	2,520	837	3,357
Other payable	-	1,000	1,000
Seller put right	3,522	-	3,522
Total consideration	$ 70,485	$ 26,181	$ 96,666
Estimated fair value of net tangible assets acquired:			
Total current assets	$ 5,588	$ 1,891	$ 7,479
Total non-current assets	12,620	7,014	19,634
Total liabilities	(4,842)	(8,399)	(13,241)
Net tangible assets acquired	$ 13,366	$ 506	$ 13,872
Customer and referral relationships	21,127	7,969	29,096
Non-compete agreements	500	415	915
Tradenames	5,141	2,144	7,285
Goodwill	58,257	27,103	85,360
Fair value of non-controlling interest (classified as redeemable non-controlling interest)	(27,906)	(11,956)	(39,862)
	$ 70,485	$ 26,181	$ 96,666

* Industrial injury prevention services

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 2022 and 2021 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 prices plus the fair value of the non-controlling interests for the acquisitions in 2021 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.

For the acquisitions in 2021, the values assigned to the customer and referral relationships and non-compete agreements are being amortized to expense equally over the respective estimated lives. For customer and referral relationships, the weighted-average amortization period was 13.8 years. For non-compete agreements, the weighted-average amortization period was 5.6 years at the end of the year. 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 2022 and 2021 have not been included, as the results, individually and in the aggregate, were not material to current operations.

The purchase price plus the fair value of the non-controlling interest for the acquisitions in 2022 and those acquired after June 30, 2021 was allocated to the fair value of the assets acquired, inclusive of identifiable intangible assets, i.e. tradenames, 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 on June 30, 2022 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. The purchase price allocation for the March 2021 and the June 2021 Acquisitions have been finalized. The Company continues to evaluate the components for the purchase price allocations for other acquisitions in 2021.

For the acquisitions in 2022, the values assigned to the customer and referral relationships and non-compete agreements are being amortized to expense equally over the respective estimated lives. For customer and referral relationships, the weighted-average amortization period is 12.0 years. For non-compete agreements, the weighted-average amortization period is 5.0 years. The values assigned to tradenames are tested annually for impairment.

3. REVENUE RECOGNITION

Categories

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

Net patient revenue consists of revenue 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 revenue (patient revenue less estimated contractual adjustments) is 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 revenue, which is included in other revenue in the consolidated statements of net income, is 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, revenue is 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.

Revenue from the industrial injury prevention services segment, which is included in other revenue in the consolidated statements of net income, is 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 services segment is recognized when obligations under the terms of the contract are satisfied. Revenue is 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 revenue includes services the Company provides on-site, such as schools, for physical or occupational therapy services, and fees from athletic trainers. 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 liability over the period of the agreement and recognized at the point in time, when the services are performed.

The Company determines credit losses based on the specific agings and payor classifications at each clinic. The provision for credit losses is included in clinic operating cost in the statements of net income. Patient accounts receivable, which are stated at the historical carrying amount net of contractual allowances, write-offs and provision for credit losses, 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		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Net patient revenue	$ 118,196	$ 113,238	$ 227,734	$ 212,492
Other revenue	898	918	1,770	1,464
Physical therapy operations	$ 119,094	$ 114,156	$ 229,504	$ 213,956
Management contract revenue	2,125	2,739	4,351	5,297
Industrial injury prevention services revenue	19,437	10,033	38,505	20,043
	$ 140,656	$ 126,928	$ 272,360	$ 239,296

Medicare Reimbursement

The Medicare program reimburses outpatient rehabilitation providers based on the Medicare Physician Fee Schedule ("MPFS"). For services provided in 2017 through 2019, a 0.5% increase was applied to the fee schedule payment rates before applying the mandatory budget neutrality adjustment. For services provided in 2020 through 2025 no adjustment is expected to be applied each year to the fee schedule payment rates, before applying the mandatory budget neutrality adjustment.

In the 2020 MPFS Final Rule, the Centers for Medicare and Medicaid Services ("CMS") revised coding, documentation guidelines, and increased the code values for office/outpatient evaluation and management ("E/M") codes and cuts to other codes to maintain budget neutrality of the MPFS beginning in 2021. Under the 2021 MPFS Final Rule, CMS increased the values for the E/M office visit codes and made cuts to other specialty codes to maintain budget neutrality. As a result, CMS projected a 9% decrease in fee schedule payment rates for therapy services set to take effect in 2021. However, Congress intervened with passage of the Consolidated Appropriations Act, 2021 and reimbursement for the codes applicable to physical/occupational therapy services provided by our clinics received an estimated 3.5% decrease in the aggregate in payment from Medicare in calendar year 2021 as compared to 2020.

In the 2022 MPFS Final Rule published on November 2, 2021, there was to be an approximately 3.75% reduction to Medicare payments for physical/occupational therapy services. This was due to the expiration of the additional funding to the conversion factor provided by Congress in 2021 under the Consolidated Appropriations Act, 2021. However, this reduction was addressed in the Protecting Medicare and American Farmers from Sequester Cuts Act ("2021 Act") signed into law on December 10, 2021. Based on various provisions in the 2021 Act, the Company now estimates that the Medicare rate reduction for the full year of 2022 will be approximately 0.75%. The 2021 Act did not address the 15% reduction in Medicare payments for services performed by a physical or occupational therapist assistant, which began on January 1, 2022.

In the 2023 MPFS Proposed Rule published on July 7, 2022, CMS proposed a 4.4% reduction in the Physician Fee Schedule conversion factor. In addition, the Consolidated Appropriations Act, 2021 included a reduction in Medicare payment rates of approximately 3% in 2024. These payment reductions are expected to take effect unless regulatory or Congressional action results in modifications to such rates as has occurred in 2021 and 2022.

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 suspended the 2% payment reduction to Medicare payments for dates of service from May 1, 2020, through December 31, 2020. The Consolidated Appropriations Act, 2021 further suspended the 2% payment reduction until March 31, 2021. On April 14, 2021, additional legislation was enacted that waived the 2% payment reduction for the remainder of calendar 2021. The 2021 Act, which was signed into law on December 10, 2021, included a three-month extension of the 2% sequester relief applied to all Medicare payments through March 31, 2022, followed by three months of 1% sequester relief through June 30, 2022. Sequester relief is scheduled to then end on June 30, 2022.

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. Therapists eligible to participate in MIPS include only those therapists who are enrolled with Medicare as private practice providers, and does not include therapists in facility-based providers, such as our clinics enrolled as certified rehabilitation agencies. Less than 3% of the Company's therapist providers currently participate in MIPS. 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. For those therapist providers who actually participated in MIPS during 2019, the resulting average payment adjustment was an increase of 1%.

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. In 2013, the practice expense component for the second and subsequent therapy service furnished during the same day for the same patient was reduced by 50%.

Medicare claims for outpatient therapy services furnished by therapist assistants on or after January 1, 2020 must include a modifier indicating the service was furnished by a therapist assistant. Outpatient therapy services furnished on or after January 1, 2022, in whole or part by a therapist assistant are paid at an amount equal to 85% of the payment amount otherwise applicable for the service.

Statutes, regulations, and payment rules governing the delivery of therapy services to Medicare beneficiaries are complex and subject to interpretation. The Company believes that the Company is 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 the Company's financial statements as of June 30, 2022. 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 six months ended June 30, 2022, and 2021, respectively, net patient revenue from Medicare was approximately $74.9 million and $62.1 million, respectively.

Given the history of frequent revisions to the Medicare program and its reimbursement rates and rules, the Company may not continue to receive reimbursement rates from Medicare that sufficiently compensate us for the Company's services or, in some instances, cover the Company's operating costs. Limits on reimbursement rates or the scope of services being reimbursed could have a material adverse effect on the Company's revenue, financial condition and results of operations. Additionally, any delay or default by the federal or state governments in making Medicare and/or Medicaid reimbursement payments could materially and, adversely, affect the Company's business, financial condition and results of operations.

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 1.0% to 1.5% of net revenue. Additionally, analysis of subsequent periods' contractual write-offs on a payor basis reflects a difference within approximately 1.0% to 1.5% 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 1.0% to 1.5% on June 30, 2022.

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 Note 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		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Computation of earnings per share - USPH shareholders:				
Net income attributable to USPH shareholders	$ 11,195	$ 12,436	$ 19,994	$ 20,609
(Charges) credit to retained earnings:				
Revaluation of redeemable non-controlling interest	210	(2,549)	57	(9,819)
Tax effect at statutory rate (federal and state) of 25.55%	(54)	651	(15)	2,508
	$ 11,351	$ 10,538	$ 20,036	$ 13,298
Earnings per share (basic and diluted)	$ 0.87	$ 0.82	$ 1.55	$ 1.03
Shares used in computation:				
Basic and diluted earnings per share - weighted-average shares	12,998	12,902	12,968	12,886

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 a defined mile radius from the Therapy Practice. That is, an Employed Selling Shareholder is permitted to engage in competing businesses or activities outside the defined mileage (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 defined mileage.

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, in almost all cases, 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 or 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.

ProgressiveHealth Acquisition

On November 30, 2021, the Company acquired a majority interest in ProgressiveHealth Companies, LLC ("Progressive"), which owns a majority interest in certain subsidiaries ("Progressive Subsidiaries") that operate in the industrial injury prevention and therapy services businesses. The Progressive transaction was completed in a series of steps which are described below.

1. Prior to the acquisition, the Progressive Subsidiaries were owned by a legal entity ("Progressive Parent") controlled by its individual owners (the "Progressive Selling Shareholders"), who work in and manage the Progressive business.

2. In conjunction with the acquisition, the Selling Shareholders caused the Progressive Parent to transfer its ownership of the Progressive Subsidiaries into a newly-formed limited liability company ("Progressive NewCo"), in exchange for one hundred percent (100%) of the membership interests in NewCo. Therefore, in this step, NewCo became wholly-owned by the Selling Shareholders.

3. The Company entered into an agreement (the "Progressive Purchase Agreement") to acquire from the Selling Shareholders a majority of the membership interest in NewCo. The consideration for the acquisition is primarily payable in the form of cash at closing, a relatively small portion paid in cash after the closing contingent on certain performance criteria, and a small note in lieu of an escrow (the "Progressive Purchase Price").

4. The Company and the Selling Shareholders also executed an operating agreement (the “Progressive Operating Agreement”) for NewCo that sets forth the rights and obligations of the members of NewCo.

5. As noted above, the Company did not purchase 100% of the membership interests in NewCo and the Selling Shareholders retained a portion of the membership interest in NewCo (“Progressive Selling Shareholders’ Interest”).

6. The Company and the Selling Shareholders executed a non-compete agreement (the “Progressive Non-Compete Agreement”) which restricts the Selling Shareholders from competing for a specified period of time (the “Progressive Non-Compete Term”).

7. The Non-Compete Term commences as of the date of the Acquisition and expires on the later of:

    a. Two years after the date a Selling Shareholder no longer is involved in the management of NewCo or

    b. Seven years from the date of the acquisition.

8. The Non-Compete Agreement applies to the entire United States.

9. The Put Right (as defined below) and the Call Right (as defined below) do not have an expiration date.

The Operating Agreement contains provisions for the redemption of the Selling Shareholder’s Interest, either at the option of the Company (the “Progressive Call Right”) or at the option of the Selling Shareholder (the “Progressive Put Right”) as follows:

1. Put Right

    a. Each of the Selling Shareholders has the right to sell 30% of their respective residual interests on each of the 4th and 5th anniversaries of the acquisition closing, and then 10% on each of the 6th and 7th anniversaries

    b. In the event that any Selling Shareholder terminates his management relationship with NewCo for any reason on or after the seventh anniversary of the Closing Date, the Selling Shareholder has the Put Right, and upon the exercise of the Put Right, the Selling Shareholder’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 ceases to perform management services on behalf of NewCo, the Company thereafter shall have an irrevocable right to purchase from such Selling Shareholder his Interest, in each case 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.

Neither the Operating Agreement nor the Non-Compete Agreement contain any provision to escrow or “claw back” the equity interest in NewCo held by the Selling Shareholders, in the event of a breach of the operating agreement or non-compete terms, or the management services agreement pursuant to which the Selling Shareholders perform services on behalf of NewCo. The Company’s only recourse against the Selling Shareholder for breach of any of these agreements is to seek damages and other legal remedies under such agreements. There are no conditions in any of the arrangements with a Selling Shareholder that would result in a forfeiture of the equity interest in NewCo held by a Selling Shareholder.

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 dates indicated, the following table details the changes in the carrying amount (fair value) of the redeemable non-controlling interest (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Beginning balance	$ 158,008	$ 138,924	$ 155,262	$ 132,340
Operating results allocated to redeemable non-controlling interest partners	2,626	3,611	5,183	6,064
Distributions to redeemable non-controlling interest partners	(2,328)	(2,622)	(4,731)	(6,216)
Changes in the fair value of redeemable non-controlling interest	(210)	2,549	(57)	9,819
Purchases of redeemable non-controlling interest	(7,138)	(4,707)	(9,596)	(9,536)
Acquired interest	-	5,556	4,946	10,719
Sales of redeemable non-controlling interest - temporary equity	2,187	-	2,187	319
Notes receivable related to sales of redeemable non-controlling interest - temporary equity	(1,843)	-	(1,843)	(287)
Adjustments in notes receivable related to the the sales of redeemable non-controlling interest - temporary equity	98	26	49	115
Ending balance	$ 151,400	$ 143,337	$ 151,400	$ 143,337

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

	Six Months Ended	
	June 30, 2022	June 30, 2021
Contractual time period has lapsed but holder's employment has not terminated	$ 73,204	$ 73,915
Contractual time period has not lapsed and holder's employment has not terminated	78,196	69,422
Holder's employment has terminated and contractual time period has expired	-	-
Holder's employment has terminated and contractual time period has not expired	-	-
	$ 151,400	$ 143,337

6. GOODWILL

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

	Six Months Ended June 30, 2022	Year Ended December 31, 2021
Beginning balance	$ 434,679	$ 345,646
Goodwill acquired	12,114	89,746
Goodwill adjustments for purchase price allocation of businesses acquired in prior year	(4,032)	(713)
Ending balance	$ 442,761	$ 434,679

7. INTANGIBLE ASSETS, NET

Intangible assets, net as of June 30, 2022, and December 31, 2021 consisted of the following (in thousands):

	June 30, 2022	December 31, 2021
Tradenames	$ 39,838	$ 38,790
Customer and referral relationships, net of accumulated amortization of $20,772 and $17,762, respectively	51,047	45,643
Non-compete agreements, net of accumulated amortization of $6,717 and $6,450, respectively	1,770	1,949
	$ 92,655	$ 86,382

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 fourteen 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 June 30, 2022, and 2021 (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Customer and referral relationships	$ 1,339	$ 778	$ 3,011	$ 1,561
Non-compete agreements	120	138	267	177
	$ 1,459	$ 916	$ 3,278	$ 1,738

Based on the balance of referral relationships and non-compete agreements as of June 30, 2022, the expected amount to be amortized in 2022 and thereafter by year is as follows (in thousands):

Customer and Referral Relationships		Non-Compete Agreements	
Years Ending December 31,	**Annual Amount**	**Years Ending December 31,**	**Annual Amount**
2022 (excluding the six months ended June 30, 2022)	$ 2,745	2022 (excluding the six months ended June 30, 2022)	$ 267
2023	$ 5,393	2023	$ 477
2024	$ 5,228	2024	$ 421
2025	$ 5,084	2025	$ 355
2026	$ 4,616	2026	$ 216
Thereafter	$ 27,981	Thereafter	$ 34

8. ACCRUED EXPENSES

Accrued expenses as of June 30, 2022 and December 31, 2021 consisted of the following (in thousands):

	June 30, 2022	December 31, 2021
Salaries and related costs	$ 19,524	$ 23,569
Credit balances due to patients and payors	7,875	6,649
Group health insurance claims	2,038	1,984
Closure costs	285	498
Federal taxes payable	1,754	2,716
Contingent payments related to acquisition	1,000	1,000
Settlement of a legal matter	-	2,750
Other	8,770	6,539
Total	$ 41,246	$ 45,705

In January 2022, to avoid the legal fees and discovery costs in defending a legal matter and the uncertainty of protracted litigation, the Company entered into a settlement agreement. The Company admitted no liability or wrongdoing. Under the terms of the settlement, the Company agreed to make payments which amounted to $2.75 million, of which $2.6 million was recorded as an expense in 2021.

9. NOTES PAYABLE AND AMENDED CREDIT AGREEMENT

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 and/or restated in August 2015, January 2016, March 2017, November 2017, January and 2021 (hereafter referred to as ("Amended Credit Agreement").

On June 17, 2022, the Company entered into the Third Amended and Restated Credit Agreement (the "Credit Agreement") among Bank of America, N.A., as administrative agent ("Administrative Agent") and the lenders from time-to-time party thereto.

Amounts outstanding under the Amended Credit Agreement and Credit Agreement (as defined above) and notes payable as of June 30, 2022 and December 31, 2021 consisted of the following (in thousands):

	June 30, 2022			December 31, 2021		
	Principal Amount	**Unamortized discount and debt issuance cost**	**Net Debt**	**Principal Amount**	**Unamortized discount and debt issuance cost**	**Net Debt**
Revolving Facilitiy	$ -	$ -	$ -	$ 114,000	$ -	$ 114,000
Term Facility	150,000	2,027	147,973	-	-	-
Other Debt	5,696	-	5,696	4,417	-	4,417
Total Debt	$ 155,696	$ 2,027	$ 153,669	$ 118,417	$ -	$ 118,417
Less: Current portion of long-term debt	5,188	408	$ 4,780	830	-	830
Total long-term debt, net of current portion	$ 150,508	$ 1,619	$ 148,889	$ 117,587	$ -	$ 117,587

The Credit Agreement, which matures on June 17, 2027, provides for loans in an aggregate principal amount of $325 million. Such loans were made available through the following facilities (collectively, the "Senior Credit Facilities"):

1) Revolving Facility: $175 million, five-year, revolving credit facility ("Revolving Facility"), which includes a $12 million sublimit for the issuance of standby letters of credit and a $15 million sublimit for swingline loans (each, a "Swingline Loan").

2) Term Facility: $150 million term loan facility (the "Term Facility"). The Term Facility amortizes in quarterly installments of: (a) 0.625% in each of the first two years, (b) 1.250% in the third and fourth year, and (c) 1.875% in the fifth year of the Credit Agreement. The remaining outstanding principal balance of all term loans is due on the maturity date.

The proceeds of the Revolving Facility shall be used by the Company for working capital and other general corporate purposes of the Company and its subsidiaries, including to fund future acquisitions and invest in growth opportunities. The proceeds of the Term Facility were used by the Company to refinance the indebtedness outstanding under the Amended Credit Agreement, to pay fees and expenses incurred in connection with the transactions involving the loan facilities, for working capital and other general corporate purposes of the Company and its subsidiaries.

The Company is permitted to increase the Revolving Facility and/or add one or more tranches of term loans in an aggregate amount not to exceed the sum of (i) $100 million *plus* (ii) an unlimited additional amount, provided that (in the case of clause (ii)), after giving effect to such increases, the pro forma Consolidated Leverage Ratio (as defined in the Credit Agreement) would not exceed 2.0:1.0, and the aggregate amount of all incremental increases under the Revolving Facility does not exceed $50,000,000.

The interest rates per annum applicable to the Senior Credit Facilities (other than in respect of Swingline Loans) will be Term SOFR (as defined in the Credit Agreement) plus an applicable margin or, at the option of the Company, an alternate base rate plus an applicable margin. Each Swingline Loan shall bear interest at the base rate plus the applicable margin. The applicable margin for Term SOFR borrowings ranges from 1.50% to 2.25%, and the applicable margin for alternate base rate borrowings ranges from 0.50% to 1.25%, in each case, based on the Consolidated Leverage Ratio of the Company and its subsidiaries. Interest is payable at the end of the selected interest period but no less frequently than quarterly and on the date of maturity.

The Company will also pay to the Administrative Agent, for the account of each lender under the Revolving Facility, a commitment fee equal to the actual daily excess of each lender's commitment over its outstanding credit exposure under the Revolving Facility ("unused fee"). Such unused fee will range between 0.25% and 0.35% per annum and is also based on the Consolidated Leverage Ratio of the Company and its subsidiaries. The Company may prepay and/or repay the revolving loans and the term loans, and/or terminate the revolving loan commitments, in whole or in part, at any time without premium or penalty, subject to certain conditions.

The Credit Agreement contains customary covenants limiting, among other things, the incurrence of additional indebtedness, the creation of liens, mergers, consolidations, liquidations and dissolutions, sales of assets, dividends and other payments in respect of equity interests, acquisitions, investments, loans and guarantees, subject, in each case, to customary exceptions, thresholds and baskets. The Credit Agreement includes certain financial covenants which include the Consolidated Fixed Charge Coverage Ratio, and the Consolidated Leverage Ratio, as defined in the Credit Agreement. The Credit Agreement also contains customary events of default.

The Company's obligations under the Credit Agreement are guaranteed by its wholly-owned material domestic subsidiaries (each, a "Guarantor"), and the obligations of the Company and any Guarantors are secured by a perfected first priority security interest in substantially all of the existing and future personal property of the Company and each Guarantor, subject to certain exceptions.

As of June 30, 2022, $150.0 million was outstanding on the Senior Credit Facilities, resulting in $175.0 million of availability. As of June 30, 2022, the Company was in compliance with all of the covenants contained in the Credit Agreement.

The Company generally enters into various notes payable as a means of financing a portion of its acquisitions and purchasing of non-controlling interests. In conjunction with these transactions in 2022 and 2021, the Company entered into notes payable in the aggregate amount of $4.9 million of which an aggregate principal payment of $0.8 million is due in 2022, $4.1 million is due in 2023. Interest accrues in the range of 3.25% to 3.50% per annum and is payable with each principal installment.

10. DERIVATIVE INSTRUMENTS

The Company is exposed to certain market risks during the ordinary course of business due to adverse changes in interest rates. The exposure to interest rate risk primarily results from the Company's variable-rate borrowing. The Company may elect to use derivative financial instruments to manage risks from fluctuations in interest rates. The Company does not purchase or hold derivatives for trading or speculative purposes. Fluctuations in interest rates can be volatile and the Company's risk management activities do not eliminate these risks.

Interest Rate Swap

In May 2022, the Company entered into an interest rate swap agreement, effective on June 30, 2022, with Bank of America, N.A, which has a $150 million notional value, and a maturity date of June 30, 2027. Beginning in July 2022, the Company receives 1-month SOFR, and pays a fixed rate of interest of 2.815% on 1-month SOFR on a quarterly basis. The total interest rate in any period will also include an applicable margin based on the Company's consolidated leverage ratio.

In connection with the swap, no cash was exchanged between the Company and the counterparty.

The Company designated its interest rate swap as a cash flow hedge and structured it to be highly effective. Consequently, unrealized gains and losses related to the fair value of the interest rate swap are recorded to accumulated other comprehensive income (loss), net of tax.

The impacts of the Company's derivative instruments on the accompanying Consolidated Statements of Comprehensive Income for the three months and six months ended June 30, 2022 are presented in the table below (in thousands):

	Three Months Ended		For the Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Unrealized loss on cash flow hedge	(531)	-	(531)	-
Tax effect at statutory rate (federal and state) of 25.55%	136	-	136	-
Other Comprehensive loss	$ (395)	$ -	$ (395)	$ -

The valuations of the Company's interest rate derivatives are measured as the present value of all expected future cash flows based on SOFR-based yield curves. The present value calculation uses discount rates that have been adjusted to reflect the credit quality of the Company and its counterparty which is a Level 2 fair value measurement.

The carrying and fair value of the Company's interest rate derivatives (included in current liabilities) were as follows:

	June 30, 2022	June 30, 2021
Interest rate swap	$ (531)	$ -

11. LEASES

The Company has operating leases for its corporate offices and operating facilities. The Company determines if an arrangement is a lease at the inception of a contract. Effective January 1, 2019, right- of-use assets and operating lease liabilities are included in the 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 term 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.

For the three and six months ended June 30, 2022, the components of lease expense were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Operating lease cost	$ 8,700	$ 7,895	$ 17,104	$ 15,624
Short-term lease cost	259	361	580	729
Variable lease cost	1,994	1,628	3,926	3,239
Total lease cost *	$ 10,953	$ 9,884	$ 21,610	$ 19,592

*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		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Cash paid for amounts included in the measurement of operating lease liabilities (in thousands)	$ 8,940	$ 8,258	$ 17,557	$ 16,370
Right-of-use assets obtained in exchange for new operating lease liabilities (in thousands)	$ 15,595	$ 12,976	$ 21,606	$ 20,873

The aggregate future lease payments for operating leases as of June 30, 2022 were as follows (in thousands):

Fiscal Year	Amount
2022 (excluding the six months ended June 30, 2022)	$ 17,829
2023	31,725
2024	25,292
2025	18,060
2026	11,613
2027 and therafter	11,135
Total lease payments	$ 115,654
Less: imputed interest	5,795
Total operating lease liabilities	$ 109,859

Average lease terms and discount rates were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Weighted-average remaining lease term - Operating leases	4.19 Years	4.11 Years	4.19 Years	4.11 Years
Weighted-average discount rate - Operating leases	2.48%	3.0%	2.48%	3.0%

12. SEGMENT INFORMATION

The Company's reportable segments include the physical therapy operations segment and the industrial injury prevention services segment. Also included in the physical therapy operations segment are revenues from management contract services and other services which include services the Company provides on-site, such as schools for athletic trainers.

The Company evaluates performance of the segments based on gross profit. The Company has provided additional information regarding its reportable segments which contributes to the understanding of the Company and provides useful information.

The following table summarizes selected financial data for the Company's reportable segments.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net operating revenue:				
Physical therapy operations	$ 121,219	$ 116,895	$ 233,855	$ 219,253
Industrial injury prevention services	19,437	10,033	38,505	20,043
Total Company	$ 140,656	$ 126,928	$ 272,360	$ 239,296
Gross profit:				
Physical therapy operations	$ 26,698	$ 31,761	$ 49,135	$ 54,935
Industrial injury prevention services	4,123	2,543	8,274	5,265
Gross profit	$ 30,821	$ 34,304	$ 57,409	$ 60,200
Total Assets:				
Physical therapy operations			$ 414,172	$ 545,449
Industrial injury prevention services			382,272	203,977
Total Company			$ 796,444	$ 749,426

13. INVESTMENT IN UNCONSOLIDATED AFFILIATE

Through one of the subsidiaries, the Company has a 49% joint venture interest in a company which provides physical therapy services for patients at hospitals. Since the Company is deemed to not have a controlling interest in the joint venture, the Company's investment is accounted for using the equity method of accounting. The investment balance of this joint venture as of June 30, 2022, is $12.3 million. For the six months ended June 30, 2022, the earnings amounted to$679 thousand and $548 thousand was distributed to the Company.

14. 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 137,363 shares (based on the closing price of $109.20 on June 30, 2022) 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 and six months ended June 30, 2022.

15. RECLASSIFICATION OF PRIOR PERIOD PRESENTATION

Certain prior period amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

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, 2021 filed with the Securities and Exchange Commission (the "SEC") on March 1, 2022 ("2021 Annual Report"); and (iii) our management's discussion and analysis of financial condition and results of operations included in our 2021 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. We also operate an industrial injury prevention services ("IIPS") business which includes onsite injury prevention and rehabilitation, performance optimization and ergonomic assessments services.

Selected Operating and Financial Data

Our reportable segments include the physical therapy operations segment and the industrial injury prevention services segment. Our physical operations consist of physical therapy and occupational therapy clinics that provide pre-and post-operative care and treatment for orthopedic-related disorders, sports-related injuries, preventive care, rehabilitation of injured workers and neurological injuries. Services provided by industrial injury prevention services segment include onsite injury prevention and rehabilitation, performance optimization and ergonomic assessments.

At June 30, 2022, we operated 608 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 33 such third-party facilities under management as of June 30, 2022.

During the 2021 year and for the six months ended June 30, 2022, we completed the acquisitions of four multi-clinic practices and two industrial injury services businesses as detailed below.

Acquisition	Date	Acquired	Clinics
March 2022 Acquisition	March 31, 2022	70%	6
December 2021 Acquisition	December 31, 2021	75%	3
November 2021 Acquisition	November 30, 2021	70%	IIPS*
September 2021 Acquisition	September 30, 2021	100%	IIPS*
June 2021 Acquisition	June 30, 2021	65%	8
March 2021 Acquisition	March 31, 2021	70%	6

*Industrial injury prevention services business

During the six months ended June 30, 2022, we closed three clinics and sold five clinics.

Employees

Our strategy is to acquire physical therapy practices, develop outpatient physical therapy clinics as satellites within existing partnerships, acquire industrial injury prevention services businesses, and to continue to support the growth of our existing businesses requires a talented workforce that can grow with us. As of June 30, 2022 we employed approximately 5,809 people nationwide, of which approximately 3,158 were full-time employees.

It is crucial that we continue to attract and retain top talent. To attract and retain talented employees, we strive to make our corporate office and all of our practices and businesses a diverse and healthy workplace, with opportunities for our employees to receive continuing education, skill development, encouragement to grow and develop their career, all supported by competitive compensation, incentives, and benefits. Our clinical professionals are all licensed and a vast majority have advanced degrees. Our operational leadership teams have long-standing relationships with local and regional universities, professional affiliations, and other applicable sources that provide our practices with a talent pipeline.

We provide competitive compensation and benefits programs to help meet our employees' needs in the practices and communities in which they serve. These programs (which can vary by practice and employment classification) include incentive compensation plans, a 401(k) plan, healthcare and insurance benefits, health savings and flexible spending accounts, paid time off, family leave, education assistance, mental health, and other employee assistance benefits.

We invest resources to develop the talent needed to support our business strategy. Resources include a multitude of training and development programs delivered internally and externally, online and instructor-led, and on-the-job learning formats.

We expect to continue adding personnel in the future as we focus on potential acquisition targets and organic growth opportunities.

RESULTS OF OPERATIONS

Summary of 2022 Second Quarter Compared to the 2021 Second Quarter Results

For the three months ended June 30, 2022 ("2022 Second Quarter"), our net income attributable to our shareholders was $11.2 million as compared to $12.4 million for the three months ended June 30, 2021 ("2021 Second Quarter"). In accordance with Generally Accepted Accounting Principles ("GAAP"), the revaluation of redeemable non-controlling interest, net of taxes, is not included in net income but charged directly to retained earnings; however, the charge for this change is included in the earnings per basic and diluted share calculation. Inclusive of the charge for revaluation of non-controlling interest, net of taxes, the amount is $11.4 million, or $0.87 per diluted share, for the 2022 Second Quarter, and $10.5 million, or $0.82 per diluted share, for the 2021 Second Quarter.

For the 2022 Second Quarter, our Operating Results, a non-GAAP measure, was $11.7 million, or $0.90 per diluted share, the second highest quarterly amount in our Company's history, as compared to $12.4 million, or $0.96 per diluted share, for the 2021 Second Quarter, the highest quarterly amount in our Company's history.

For the six months ended June 30, 2022 ("2022 Six Months"), our net income attributable to our shareholders was $20.0 million and was $20.6 million for the six months ended June 30, 2022 ("2021 Six Months"). Inclusive of the charge for revaluation of non-controlling interest, net of taxes, the amount is $20.0 million, or $1.55 per diluted share, for the 2022 Six Months, and $13.3 million, or $1.03 per diluted share, for the 2021 Six Months.

For the 2022 Six Months, our Operating Results, a non-GAAP measure, was $20.0 million, or $1.54 per diluted share, a decrease of 3.0%, as compared to $20.6 million, or $1.60 per diluted share, for the 2021 Second Quarter.

We believe providing Operating Results is useful to investors for comparing our period-to-period results and for comparing with other similar businesses since most do not have redeemable instruments and therefore have different equity structures. We use 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.

Operating Results is not a measure of financial performance under GAAP and 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.

The following tables provide detail of the diluted earnings per share computation and reconcile net income attributable to our shareholders calculated in accordance with GAAP to Operating Results (in thousands, except per share data):

	Three Months Ended June 30,	
	2022	2021
Computation of earnings per share - USPH shareholders:		
Net income attributable to USPH shareholders	$ 11,195	$ 12,436
Credit (charges) to retained earnings:		
Revaluation of redeemable non-controlling interest	210	(2,549)
Tax effect at statutory rate (federal and state) of 25.55%	(54)	651
	$ 11,351	$ 10,538
Earnings per share (basic and diluted)	$ 0.87	$ 0.82
Adjustments:		
Change in revaluation of put-right liability	617	-
Revaluation of redeemable non-controlling interest	(210)	2,549
Tax effect at statutory rate (federal and state)	(104)	(651)
Operating Results (a non-GAAP measure)	$ 11,654	$ 12,436
Basic and diluted Operating Results per share (a non-GAAP measure)	$ 0.90	$ 0.96
Shares used in computation - basic and diluted	12,998	12,902

	Six Months Ended June 30,	
	2022	2021
Computation of earnings per share - USPH shareholders:		
Net income attributable to USPH shareholders	$ 19,994	$ 20,609
Credit (charges) to retained earnings:		
Revaluation of redeemable non-controlling interest	57	(9,819)
Tax effect at statutory rate (federal and state) of 25.55%	(15)	2,508
	$ 20,036	$ 13,298
Earnings per share (basic and diluted)	$ 1.55	$ 1.03
Adjustments:		
Change in revaluation of put-right liability	14	-
Revaluation of redeemable non-controlling interest	(57)	9,819
Tax effect at statutory rate (federal and state)	11	(2,508)
Operating Results (a non-GAAP measure)	$ 20,004	$ 20,609
Basic and diluted Operating Results per share (a non-GAAP measure)	$ 1.54	$ 1.60
Shares used in computation - basic and diluted	12,968	12,886

The following table summarizes financial data by segment for the periods indicated and reconciles the data to our consolidated financial statements (in thousands):

	Three Months Ended June 30,	
	2022	2021
Net operating revenue:		
Physical therapy operations	$ 121,219	$ 116,895
Industrial injury prevention services	19,437	10,033
Total Company	$ 140,656	$ 126,928
Gross profit:		
Physical therapy operations	$ 26,698	$ 31,761
Industrial injury prevention services	4,123	2,543
Gross profit	$ 30,821	$ 34,304
Total Assets:		
Physical therapy operations	$ 414,172	$ 545,449
Industrial injury prevention services	382,272	203,977
Total Company	$ 796,444	$ 749,426

Revenue

Reported total revenue for the 2022 Second Quarter was $140.7 million, an increase of 10.8% as compared to $126.9 million for the 2021 Second Quarter. See table below for a detail of reported total revenue (in thousands):

	Three Months Ended	
	June 30, 2022	June 30, 2021
Revenue related to Mature Clinics	$ 108,582	$ 110,105
Revenue related to 2022 Clinic Additions	3,117	-
Revenue related to 2021 Clinic Additions	6,191	2,414
Revenue from clinics sold or closed in 2022	306	592
Revenue from clinics sold or closed in 2021	-	127
Net patient revenue from physical therapy operations	118,196	113,238
Other revenue	898	918
Revenue from physical therapy operations	119,094	114,156
Revenue - Management contracts	2,125	2,739
Revenue - Industrial injury prevention services	19,437	10,033
Total Revenue	$ 140,656	$ 126,928

Revenue from physical therapy operations increased $4.9 million, or 4.3%, to $119.1 million for the 2022 Second Quarter from $114.2 million for the 2021 Second Quarter. Net patient revenue related to clinics opened or acquired prior to 2021 and still in operation on June 30, 2022 ("Mature Clinics") decreased $1.5 million, or 1.4%, to $108.6 million for the 2022 Second Quarter compared to $110.1 million for the 2021 Second Quarter, due mostly to the decrease in average net patient revenue per visit. Visits for Mature Clinics (same store) for the 2022 Second Quarter decreased slightly (0.2%) as compared to the 2021 Second Quarter.

The average net patient revenue per visit was $103.18 for the 2022 Second Quarter as compared to $104.46 for the 2021 Second Quarter. Total patient visits increased 5.7% to 1,145,554 for the 2022 Second Quarter from 1,084,070 for the 2021 Second Quarter. Net patient revenue is based on established billing rates less allowances for patients covered by contractual programs and workers' compensation. Net patient revenue is 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.

Revenue from the industrial injury prevention services business increased 93.7% to $19.4 million for the 2022 Second Quarter as compared to $10.0 million for the 2021 Second Quarter. Excluding $6.8 million of revenue related to the IIPS acquisition in November 2021, IIPS revenue increased 25.5% in the 2022 Second Quarter as compared to the 2021 Second Quarter.

Revenue from management contracts decreased 22.4% to $2.1 million for the 2022 Second Quarter as compared to $2.7 million for the 2021 Second Quarter due to the termination of five management contracts.

Operating Cost

Total operating cost was $109.8 million for the 2022 Second Quarter, or 78.1% of total revenue, as compared to $92.6 million, or 73.0% of total revenue, for the 2021 Second Quarter. Operating cost related to Mature Clinics increased by $4.0 million or 5.0%, for the 2022 Second Quarter compared to the 2021 Second Quarter. In addition, operating cost related to the IIPS business increased by $7.8 million of which $5.7 million related to our November 2021 IIPS acquisition. Physical therapy total operating costs were $81.09 per visit in the 2022 Second Quarter as compared to $76.50 per visit in the 2021 Second Quarter, an increase of 6.0%. See table below for a detail of operating cost (in thousands):

	Three Months Ended	
	June 30, 2022	June 30, 2021
Operating cost related to Mature Clinics	$ 84,216	$ 80,205
Operating cost related to 2022 Clinic Additions	2,692	-
Operating cost related to 2021 Clinic Additions	5,996	2,063
Operating cost related to clinics sold or closed in 2022	324	555
Operating cost related to clinics sold or closed in 2021	-	107
Operating cost related to physical therapy operations	92,898	82,930
Operating cost related to management contracts	1,622	2,203
Operating cost related to industrial injury prevention services	15,315	7,491
Total operating cost	$ 109,835	$ 92,624

Each component of operating cost is discussed below:

Operating Cost—Salaries and Related Costs

Salaries and related costs, including physical therapy operations and the industrial injury prevention services business, was 56.8% of net revenue for the 2022 Second Quarter versus 54.3% for the 2021 Second Quarter. Salaries and related costs for the physical therapy operations was $66.7 million in the 2022 Second Quarter, or 56.1% of physical therapy operations revenue, as compared to $60.6 million in the 2021 Second Quarter, or 53.1% of physical therapy operations revenue. Included in salaries and related costs for the physical therapy operations for the 2022 Second Quarter was $4.9 million related to 2022 and 2021 Clinic Additions. Adjusted for the salaries and related costs for clinics closed or sold in 2022 and 2021 of $0.2 million in the Second Quarter and $0.4 million in 2021 Second Quarter, salaries and related costs related to Mature Clinics increased by $2.7 million in the 2022 Second Quarter compared to the 2021 Second Quarter. Physical therapy salaries and related costs were $58.29 per visit in the 2022 Second Quarter as compared to $55.95 per visit in the Second Quarter 2021, an increase of 4.2%. Salaries and related costs related to management contracts decreased by $0.4 million for the 2022 Second Quarter.

Salaries and related costs for the industrial injury prevention services business was $11.6 million in the 2022 Second Quarter, or 59.9% of industrial injury prevention services revenue, as compared to $6.2 million in the 2021 Second Quarter, or 62.2% of industrial injury prevention services revenue.

Operating Cost—Rent, Supplies, Contract Labor and Other

Rent, supplies, contract labor and other costs, including physical therapy operations and the IIPS business, was 20.2% of net revenue in the 2022 Second Quarter versus 17.6% in the 2021 Second Quarter. Rent, supplies, contract labor and other costs for the physical therapy operations was $24.7 million in the 2022 Second Quarter, or 20.7% of physical therapy operations revenue, as compared to $20.9 million in the 2021 Second Quarter, or 18.3% of physical therapy operations revenue. Included in rent, supplies, contract labor and other costs related to physical therapy operations for the 2022 Second Quarter was $2.7 million related to 2022 and 2021 Clinic Additions. Adjusted for the rent, supplies, contract labor and other costs for clinics related to the clinics closed or sold in 2022 and 2021 of $0.1 million in the 2022 Second Quarter and $0.2 million in the 2021 Second Quarter, rent, supplies, contract labor and other costs for Mature Clinics increased by $1.9 million in the 2022 Second Quarter compared to the 2021 Second Quarter. Rent, supplies, contract labor and other costs, related to management contracts decreased $0.1 million in the 2022 Second Quarter.

Rent, supplies, contract labor and other costs for the industrial injury prevention services business was $3.5 million in the 2022 Second Quarter, or 18.2% of industrial injury prevention services revenue, as compared to $1.2 million in the 2021 Second Quarter, or 12.5% of net industrial injury prevention services revenue.

Operating Cost—Provision for Credit Losses

The provision for credit losses as a percentage of net revenue was 1.1% in the 2022 Second Quarter and for the comparable period in 2021.

Our provision for credit losses for patient accounts receivable as a percentage of total patient accounts receivable was 5.51% on June 30, 2022, as compared to 5.64% on December 31, 2021. Our days' sales outstanding was 33 days on June 30, 2022 and 32 days on December 31, 2021.

Gross Profit

Gross profit for the 2022 Second Quarter, was $30.8 million, a decrease of $3.5 million, or approximately 10.2%, as compared to $34.3 million for the 2021 Second Quarter. The gross profit percentage was 21.9% of total revenue for the 2022 Second Quarter as compared to 27.0% for the 2021 Second Quarter. The gross profit percentage for our physical therapy operations was 22.0% for the 2022 Second Quarter as compared to 27.4% for the 2021 Second Quarter. The gross profit percentage on management contracts was 23.7% for the 2022 Second Quarter as compared to 19.6% for the 2021 Second Quarter. The gross profit percentage for the industrial injury prevention services business was 21.2% for the 2022 Second Quarter as compared to 25.3% for the 2021 Second Quarter. The IIPS margin in 2022 has been impacted by the lower margin profile of the Company's November 2021 IIPS acquisition The table below details the gross profit (in thousands):

	Three Months Ended	
	June 30, 2022	June 30, 2021
Physical therapy operations	$ 26,196	$ 31,226
Management contracts	503	536
Industrial injury prevention services	4,122	2,542
Gross profit	$ 30,821	$ 34,304

Corporate Office Costs

Corporate office costs were $10.7 million for the 2022 Second Quarter compared to $12.1 million for the 2021 Second Quarter. Corporate office costs were 7.6% of total revenue for the 2022 Second Quarter as compared to 9.5% for the 2021 Second Quarter. The decrease was primarily due to lower estimated bonus expense in the 2022 Second Quarter compared to the 2021 Second Quarter.

Operating Income

Operating income for the 2022 Second Quarter was $20.1 million and $22.2 million for the 2021 Second Quarter. Operating income as a percentage of total revenue was 14.3% for the 2022 Second Quarter as compared to 17.5% for the 2021 Second Quarter.

Loss on Revaluation of Put-Right Liability

The loss on revaluation of put-right liability was $617,000. As part of the IIPS business acquisition on November 30, 2021, we also agreed to the potential future purchase of a separate company under the same ownership that provides physical therapy and rehabilitation services to hospitals and other ancillary providers in a distinct market area. The owners have the right to put this transaction to us in approximately five years, with such right having a $3.5 million value at June 30, 2022, as reflected on our consolidated balance sheet in Other long-term liabilities. The value of this right will continue to be adjusted in future periods, as appropriate.

Provision for Income Taxes

The provision for income tax was $4.2 million for the 2022 Second Quarter and $4.6 million for the 2021 Second Quarter. The provision for income tax as a percentage of income before taxes less net income attributable to non-controlling interest (effective tax rate) was 27.5% for the 2022 Second Quarter and 26.9% for the 2021 Second Quarter. See table below ($ in thousands):

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

	Three Months Ended	
	June 30, 2022	June 30, 2021
Income before taxes	$ 19,495	$ 22,039
Less: net income attributable to non-controlling interest:		
Redeemable non-controlling interest - temporary equity	(2,626)	(3,611)
Non-controlling interest - permanent equity	(1,435)	(1,425)
	$ (4,061)	$ (5,036)
Income before taxes less net income attributable to non-controlling interest	$ 15,434	$ 17,003
Provision for income taxes	$ 4,239	$ 4,567
Percentage	27.5%	26.9%

Net Income Attributable to Non-controlling Interest

Net income attributable to redeemable non-controlling interest (temporary equity) was $2.6 million for the 2022 Second Quarter and $3.6 million for the 2021 Second Quarter. Net income attributable to non-controlling interest (permanent equity) was $1.4 million for the 2022 Second Quarter and million for the 2021 Second Quarter.

2022 Six Months Compared to 2021 Six Months

The following table summarizes financial data by segment for the periods indicated and reconciles the data to our consolidated financial statements (in thousands):

	Six Months Ended June 30,	
	2022	2021
Net operating revenue:		
Physical therapy operations	$ 233,855	$ 219,253
Industrial injury prevention services	38,505	20,043
Total Company	$ 272,360	$ 239,296
Gross profit:		
Physical therapy operations	$ 49,135	$ 54,935
Industrial injury prevention services	8,274	5,265
Gross profit	$ 57,409	$ 60,200
Total Assets:		
Physical therapy operations	$ 414,172	$ 545,449
Industrial injury prevention services	382,272	203,977
Total Company	$ 796,444	$ 749,426

Revenue

Reported total revenue for the 2022 Six Months was $272.4 million, an increase of 13.8% as compared to $239.3 million for the 2021 Six Months. See table below for a detail of reported total revenue (in thousands):

	For the Six Months Ended	
	June 30, 2022	June 30, 2021
Revenue related to Mature Clinics	$ 211,215	$ 208,531
Revenue related to 2022 Clinic Additions	3,312	-
Revenue related to 2021 Clinic Additions	12,346	2,465
Revenue from clinics sold or closed in 2022	861	1,104
Revenue from clinics sold or closed in 2021	-	392
Net patient revenue from physical therapy operations	227,734	212,492
Other revenue	1,770	1,464
Revenue from physical therapy operations	229,504	213,956
Revenue - Management contracts	4,351	5,297
Revenue - Industrial injury prevention services	38,505	20,043
Total Revenue	$ 272,360	$ 239,296

Revenue from physical therapy operations increased $15.5 million, or 7.3%, to $229.5 million for the 2022 Six Months from $214.0 million for the 2021 Six Months.

The average net patient revenue per visit was $103.09 for the 2022 Six Months as compared to $104.58 for the 2021 Six Months. Total patient visits increased 8.7% to 2,209,073 for the 2022 Six Months from 2,031,858 for the 2021 Six Months. Net patient revenue is based on established billing rates less allowances for patients covered by contractual programs and workers' compensation. Net patient revenue is 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.

Net patient revenue related to Mature Clinics increased $2.7 million, or 1.3%, to $211.2 million for the 2022 Six Months compared to $208.5 million for the 2021 Six Months. Visits for Mature Clinics (same store) for the 2022 Six Months increased 3.0% as compared to the 2021 Six Months. The increase in visits was partially offset by a reduction in the net patient revenue per visit.

Revenue from the industrial injury prevention services business increased 92.1% to $38.5 million for the 2022 Six Months as compared to $20.0 million for the 2021 Six Months. Excluding $13.7 million of revenue related to the IIPS acquisition in November 2021, IIPS revenue increased 24.0% in the 2022 Six Months as compared to the 2021 Six Months.

Revenue from management contract revenue decreased 17.9% to $4.4 million for the 2022 Six Months as compared to $5.3 million for the 2021 Six Months due to the termination of certain management contracts.

Operating Cost

Total operating cost was $215.0 million for the 2022 Six Months, or 78.9% of total revenue, as compared to $179.1 million, or 74.8% of total revenue, for the 2021 Six Months. Operating cost related to Mature Clinics increased by $10.1 million for the 2022 Six Months compared to the 2021 Six Months. In addition, operating cost related to the industrial injury prevention services business increased by $15.5 million of which $11.3 million related to the recent IIPS acquisition. See table below for a detail of operating cost (in thousands):

	Six Months Ended	
	June 30, 2022	June 30, 2021
Operating cost related to Mature Clinics	$ 166,468	$ 156,321
Operating cost related to 2022 Clinic Additions	3,083	-
Operating cost related to 2021 Clinic Additions	11,466	2,128
Operating cost related to clinics sold or closed in 2022	251	979
Operating cost related to clinics sold or closed in 2021	-	442
Operating cost related to physical therapy operations	181,268	159,870
Operating cost related to management contracts	3,453	4,448
Operating cost related to industrial injury prevention services	30,230	14,778
Total operating cost	$ 214,951	$ 179,096

Each component of operating cost is discussed below:

Operating Cost—Salaries and Related Costs

Salaries and related costs, including physical therapy operations and the industrial injury prevention services business, was 56.9% of net revenue for the 2022 Six Months versus 55.4% for the 2021 Six Months. Salaries and related costs for the physical therapy operations was $129.2 million in the 2022 Six Months, or 56.3% of physical therapy operations revenue, as compared to $116.2 million in the 2021 Six Months, or 54.3% of physical therapy operations revenue. Included in salaries and related costs for the physical therapy operations for the 2022 Six Months was $8.1 million related to 2022 and 2021 Clinic Additions. Adjusted for the salaries and related costs for clinics closed or sold in 2022 and 2021 of $0.1 million in the 2022 Six Months and $0.9 million in 2021 Six Months, salaries and related costs related to Mature Clinics increased by $6.6 million in the 2022 Six Months compared to the 2021 Six Months. Salaries and related costs related to management contracts decreased by $0.8 million for the 2022 Six Months.

Salaries and related costs for the industrial injury prevention services business was $22.7 million in the 2022 Six Months, or 59.0% of industrial injury prevention services revenue, as compared to $12.5 million in the 2021 Six Months, or 62.3% of industrial injury prevention services revenue.

Operating Cost—Rent, Supplies, Contract Labor and Other

Rent, supplies, contract labor and other costs, including physical therapy operations and the industrial injury prevention services business, was 20.9% of net revenue in the 2022 Six Months versus 18.3% in the 2021 Six Months. Rent, supplies, contract labor and other costs for the physical therapy operations was $49.3 million in the 2022 Six Months, or 21.5% of physical therapy operations revenue, as compared to $41.0 million in the 2021 Six Months, or 19.2% of physical therapy operations revenue. Included in rent, supplies, contract labor and other costs related to physical therapy operations for the 2022 Six Months was $4.7 million related to 2022 and 2021 Clinic Additions. Adjusted for the rent, supplies, contract labor and other costs for clinics related to the clinics closed or sold in 2022 and 2021 of $0.3 million in the 2022 Six Months and $0.5 million in the 2021 Six Months, rent, supplies, contract labor and other costs for Mature Clinics increased by $4.6 million in the 2022 Six Months compared to the 2021 Six Months. Rent, supplies, contract labor and other costs, related to management contracts decreased $0.2 million in the 2022 Six Months.

Rent, supplies, contract labor and other costs for the industrial injury prevention services business was $7.4 million in the 2022 Six Months, or 19.1% of industrial injury prevention services revenue, as compared to $2.3 million in the 2021 Six Months, or 11.4% of net industrial injury prevention services revenue.

Operating Cost—Provision for Credit Losses

The provision for credit losses as a percentage of net revenue was 1.0% in the 2022 Second Quarter and 1.1% for the comparable period in 2021.

Our provision for credit losses for patient accounts receivable as a percentage of total patient accounts receivable was 5.51% at June 30, 2022, as compared to 5.64% at December 31, 2021. Our days' sales outstanding was 33 days at June 30, 2022 and 32 days at December 31, 2021.

Gross Profit

Gross profit for the 2022 Six Months, was $57.4 million, a decrease of $2.8 million, or approximately 4.6%, as compared to $60.2 million for the 2021 Six Months. The gross profit percentage was 21.1% of total revenue for the 2022 Six Months as compared to 25.2% for the 2021 Six Months. The gross profit percentage for our physical therapy operations was 21.0% for the 2022 Six Months as compared to 25.3% for the 2021 Six Months. The gross profit percentage on management contracts was 20.6% for the 2022 Six Months as compared to 16.0% for the 2021 Six Months. The gross profit percentage for industrial injury prevention services was 21.5% for the 2022 Six Months as compared to 26.3% for the 2021 Six Months. The IIPS margin in 2022 has been impacted by the lower margin profile of our November 2021 IIPS acquisition. The table below details the gross profit (in thousands):

	Six Months Ended	
	June 30, 2022	June 30, 2021
Physical therapy operations	$ 48,236	$ 54,086
Management contracts	898	849
Industrial injury prevention services	8,275	5,265
Gross profit	$ 57,409	$ 60,200

Corporate Office Costs

Corporate office costs were $22.3 million for the 2022 Six Months compared to $22.9 million for the 2021 Six Months. Corporate office costs were 8.2% of total revenue for the 2022 Six Months as compared to 9.6% for the 2021 Six Months. The decrease was primarily due to lower estimated bonus expense in the 2022 Six Months than the 2021 Six Months.

Operating Income

Operating income for the 2022 Six Months were $35.1 million and $37.3 million for 2021 Six Months. Operating income as a percentage of total revenue was 12.9% for the 2022 Six Months as compared to 15.6% for the 2021 Six Months.

Loss on Revaluation of Put-Right Liability

The loss on revaluation of the put-right liability was $14,000. As part of the IIPS business acquisition on November 30, 2021, we also agreed to the potential future purchase of a separate company under the same ownership that provides physical therapy and rehabilitation services to hospitals and other ancillary providers in a distinct market area. The owners have the right to put this transaction to us in approximately five years, with such right having a $3.5 million value at June 30, 2022, as reflected on our consolidated balance sheet in Other long-term liabilities. The value of this right will continue to be adjusted in future periods, as appropriate.

Provision for Income Taxes

The provision for income tax was $7.7 million for the 2022 Six Months and $7.5 million for the 2021 Six Months. The provision for income tax as a percentage of income before taxes less net income attributable to non-controlling interest (effective tax rate) was 27.9% for the 2022 Six Months and 26.7% for the 2021 Six Months. See table below detailing calculation of the provision for income taxes as a percentage of income before taxes less net income attributable to non-controlling interest ($ in thousands):

	Six Months Ended	
	June 30, 2022	June 30, 2021
Income before taxes	$ 34,975	$ 36,869
Less: net income attributable to non-controlling interest:		
Redeemable non-controlling interest - temporary equity	(5,183)	(6,064)
Non-controlling interest - permanent equity	(2,061)	(2,685)
	$ (7,244)	$ (8,749)
Income before taxes less net income attributable to non-controlling interest	$ 27,731	$ 28,120
Provision for income taxes	$ 7,737	$ 7,511
Percentage	27.9%	26.7%

Net Income Attributable to Non-controlling Interest

Net income attributable to redeemable non-controlling interest (temporary equity) was $5.2 million for the 2022 Six Months and $6.1 million for the 2021 Six Months. Net income attributable to non-controlling interest (permanent equity) was $2.1 million for the 2022 Six Months and $2.7 million for the 2021 Six Months.

Other Comprehensive Loss

Concurrently with the Credit Agreement (as defined below), we entered into an interest rate swap agreement in May 2022, which has a $150 million notional value, a maturity date of June 30, 2027 and was effective on June 30, 2022. Beginning in July 2022, we pay a fixed rate of interest of 2.815% on 1-month SOFR on a quarterly basis. The total interest rate in any period will also include an applicable margin based on our consolidated leverage ratio. Currently, our interest rate including the applicable margin is 4.665%. Unrealized gains and losses related to the fair value of the interest rate swap are recorded to accumulated other comprehensive income (loss), net of tax. The fair value of the interest rate swap at June 30, 2022, was $0.5 million, which has been included within current liabilities in the accompanying Consolidated Balance Sheet. The impact of the interest rate swap on the accompanying Consolidated Statement of Comprehensive Income for the three and six months ended June 30, 2022 was an unrealized loss of $0.4 million, net of tax.

LIQUIDITY AND CAPITAL RESOURCES

We believe that our business has sufficient cash to allow us to meet our short-term cash requirements. At June 30, 2022 and December 31, 2021, we had $48.6 million and $28.6 million, respectively, in cash. We believe that our cash and cash equivalents and availability under our Credit Facilities are sufficient to fund the working capital needs of our operating subsidiaries through at least June 30, 2023.

Cash and cash equivalents increased by $20.4 million from December 31, 2021 to June 30, 2022. During the 2022 Six Months, $27.5 million was provided by operations and $211.0 million from proceeds on our Amended Credit Agreement (described below). The major uses of cash for investing and financing activities included: payments on our Revolving Facility ($175.0 million), distributions to non-controlling interests inclusive of those classified as redeemable non-controlling interest ($7.2 million), dividends paid to shareholders ($10.7 million), purchase of business and non-controlling interest ($20.4 million), and purchase of fixed assets ($4.6 million).

On June 17, 2022, we entered into the Third Amended and Restated Credit Agreement (the “Credit Agreement”) among Bank of America, N.A., as administrative agent (“Administrative Agent”) and the lenders from time-to-time party thereto.

The Credit Agreement, which matures on June 17, 2027, provides for loans in an aggregate principal amount of $325 million. Such loans will be available through the following facilities (collectively, the “Senior Credit Facilities”):

1) Revolving Facility: $175 million, five-year, revolving credit facility (“Revolving Facility”), which includes a $12 million sublimit for the issuance of standby letters of credit and a $15 million sublimit for swingline loans (each, a “Swingline Loan”).

2) Term Facility: $150 million term loan facility (the “Term Facility”). The Term Facility amortizes in quarterly installments of: (a) 0.625% in each of the first two years, (b) 1.250% in the third and fourth year, and (c) 1.875% in the fifth year of the Credit Agreement. The remaining outstanding principal balance of all term loans is due on the maturity date.

The proceeds of the Revolving Facility shall be used by us for working capital and other general corporate purposes of the Company and its subsidiaries, including to fund future acquisitions and invest in growth opportunities. The proceeds of the Term Facility were used by us to refinance the indebtedness outstanding under the Second Amended and Restated Credit Agreement, to pay fees and expenses incurred in connection with the loan facilities transactions, for working capital and other general corporate purposes of our Company and its subsidiaries.

We will be permitted to increase the Revolving Facility and/or add one or more tranches of term loans in an aggregate amount not to exceed the sum of (i) $100 million *plus* (ii) an unlimited additional amount, provided that (in the case of clause (ii)), after giving effect to such increases, the pro forma Consolidated Leverage Ratio (as defined in the Credit Agreement) would not exceed 2.0:1.0, and the aggregate amount of all incremental increases under the Revolving Facility does not exceed $50,000,000.

The interest rates per annum applicable to the Senior Credit Facilities (other than in respect of Swingline Loans) will be Term SOFR as defined in the agreement plus an applicable margin or, at our option, an alternate base rate plus an applicable margin. Currently, our interest rate including the applicable margin is 4.665%. Interest is payable at the end of the selected interest period but no less frequently than quarterly and on the date of maturity.

We will also pay to the Administrative Agent, for the account of each lender under the Revolving Facility, a commitment fee equal to the actual daily excess of each lender’s commitment over its outstanding credit exposure under the Revolving Facility (“unused fee”). The Company may prepay and/or repay the revolving loans and the term loans, and/or terminate the revolving loan commitments, in whole or in part, at any time without premium or penalty, subject to certain conditions.

The Credit Agreement contains customary covenants limiting, among other things, the incurrence of additional indebtedness, the creation of liens, mergers, consolidations, liquidations and dissolutions, sales of assets, dividends and other payments in respect of equity interests, acquisitions, investments, loans and guarantees, subject, in each case, to customary exceptions, thresholds and baskets. The Credit Agreement includes certain financial covenants which include the Consolidated Fixed Charge Coverage Ratio and the Consolidated Leverage Ratio, as defined in the Credit Agreement. The Credit Agreement also contains customary events of default.

Our obligations under the Credit Agreement are guaranteed by its wholly-owned material domestic subsidiaries (each, a “Guarantor”), and the obligations of the Company and any Guarantors are secured by a perfected first priority security interest in substantially all of the existing and future personal property of the Company and each Guarantor, subject to certain exceptions.

On June 30, 2022, $150.0 million was outstanding on the Term Loan and the Revolving Facility remains available resulting in $175.0 million of availability. As of June 30, 2022, we were in compliance with all of the covenants thereunder.

On March 31, 2022, we acquired a 70% interest in a six-clinic physical therapy practice. The practice’s owners retained 30% of the equity interests. The purchase price for the 70% equity interest was approximately $11.5 million, of which $11.2 million was paid in cash and $0.3 million is in the form of a note payable. The note accrues interest at 3.5% per annum and the principal and interest are payable on March 31, 2024.

On December 31, 2021, we acquired a 75% interest in a three-clinic physical therapy practice with the practice founder retaining 25%. The purchase price for the 75% interest was approximately $3.7 million, of which $3.5 million was paid in cash and $0.2 million in the form of a note payable. The note accrues interest at 3.25% per annum and the principal and interest are payable on December 31, 2023.

On November 30, 2021, we acquired an approximate 70% interest in a leading provider of industrial injury prevention services. The previous owners retained the remaining interest. The initial purchase price for the 70% equity interest, not inclusive of the $2.0 million contingent payment in conjunction with the acquisition if specified future operational objectives are met, was approximately $63.2 million, of which $62.2 million was paid in cash, and $1.0 million is in the form of a note payable. The note accrues interest at 3.25% and the principal and interest is payable on November 30, 2023. The business generates approximately $27.0 million in annual revenue at a margin of approximately 20%. As part of the transaction, we also agreed to the future purchase of a separate company under the same ownership that provides physical therapy and rehabilitation services to hospitals and other ancillary providers in a distinct market area. The current owners have the right to put this transaction to us in approximately five years, with such put right having an initial $3.5 million fair value on June 30, 2022, as reflected on the Company's consolidated balance sheet in Other long-term liabilities. The value of this right will be adjusted in future periods, as appropriate, with any change in fair value reflected in the Company's consolidated statement of income.

On September 30, 2021, the Company acquired a company that specializes in return-to-work and ergonomic services, among other offerings. The business generates more than $2.0 million in annual revenue. We acquired the company's assets at a purchase price of approximately $3.3 million (which includes the obligation to pay an amount up to $0.6 million in contingent payment consideration in conjunction with the acquisition if specified future operational objectives are met) and contributed those assets to industrial injury prevention services subsidiary. The initial purchase price, not inclusive of the $0.6 million contingent payment, was approximately $2.7 million, of which $2.4 million was paid in cash, and $0.3 million is in the form of a note payable. The note accrues interest at 3.25% per annum and the principal and interest are payable on September 30, 2023.

On June 30, 2021, the Company acquired a 65% interest in an eight-clinic physical therapy practice with the practice founders retaining 35%. The purchase price was approximately $10.3 million, of which $9.0 million was paid in cash, $1.0 million was payable based on the achievement of certain business criteria and $0.3 million is in the form of a note payable. The business criteria were met and accordingly $1.0 million was paid in July 2022. The note accrues interest at 3.25% per annum and the principal and interest are payable on June 30, 2023. Additionally, the Company has an obligation to pay an additional amount up to $0.8 million in contingent payment consideration in conjunction with the acquisition if specified future operational objectives are met. The Company recorded acquisition-date fair value of this contingent liability based on the likelihood of the contingent earn-out payment. The earn-out payment will subsequently be remeasured to fair value each reporting date.

On March 31, 2021, the Company acquired a 70% interest in a five-clinic physical therapy practice with the practice founders retaining 30%. When acquired, the practice was developing a sixth clinic which has been completed. The purchase price for the 70% interest was approximately $12.0 million, of which $11.7 million was paid in cash and $0.3 million is in the form of a note payable. The note accrues interest at 3.25% per annum and the principal and interest are payable on March 31, 2023.

On March 27, 2020, in response to the COVID-19 pandemic, the federal government approved the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The CARES Act provided waivers, reimbursement, grants and other funds to assist health care providers during the COVID-19 pandemic, including $100.0 billion in appropriations for the Public Health and Social Services Emergency Fund, also referred to as the Provider Relief Fund, to be used for preventing, preparing, and responding to the coronavirus, and for reimbursing eligible health care providers for lost revenues and health care related expenses that are attributable to COVID-19.

The CARES Act allowed for qualified healthcare providers to receive advanced payments under the Medicare Accelerated and Advance Payment Program ("MAAPP Funds") during the COVID-19 pandemic. Under this program, healthcare providers could 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. The Company recorded the $14.1 million in advance payments received as a liability. During the 2021 First Quarter, the Company repaid the MAAPP Funds of $14.1 million rather than applying them to future services performed.

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

We make reasonable and appropriate efforts to collect accounts receivable, including applicable deductible and co-payment amounts, in a consistent manner for all payor types. Claims are submitted to payors daily, weekly or monthly in accordance with our policy or payor's requirements. When possible, we submit our claims electronically. The collection process is time consuming and typically involves the submission of claims to multiple payors whose payment of claims may be dependent upon the payment of another payor. Claims under litigation and vehicular incidents can take a year or longer to collect. Medicare and other payor claims relating to new clinics awaiting payor credentialing 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 June 30, 2022 relate to certain of the acquisitions of businesses and purchases of redeemable non-controlling interest that occurred in 2018 through June 2022. 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 June 30, 2022, the balance on these notes payable was $5.7 million. In addition, we assumed leases with remaining terms of 1 month to 6 years for the operating facilities.

In conjunction with the above-mentioned acquisitions, in the event that a limited minority partner's employment ceases at any time after a specified date that is 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 June 30, 2022, we have accrued $7.9 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 June 30, 2022, there are currently an additional estimated 137,363 shares (based on the closing price of $109.20 on June 30, 2022) 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 six months ended June 30, 2022.

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 and its variants, for which the total financial magnitude cannot be currently estimated;
- 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;
- 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;
- 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;
- 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;
- the impact of COVID-19 related vaccination and/or testing mandates at the federal, state and/or local level, which could have an adverse impact on staffing, revenue, costs and the results of operations;
- changes as the result of government enacted national healthcare reform;
- 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;

- revenue and earnings expectations;
- legal actions, which could subject us to increased operating costs and uninsured liabilities;
- general economic conditions, including but not limited to inflationary and recessionary periods;
- availability and cost of qualified physical therapists;
- personnel productivity and retaining key personnel;
- competitive environment in the industrial injury prevention services business, which could result in the termination or nonrenewal 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 interest (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 clients for which we perform management and other services, as a breach or termination of those contractual arrangements by such clients could cause operating results to be less than expected;
- maintaining adequate internal controls;
- maintaining necessary insurance coverage;
- availability, terms, and use of capital; and
- weather and other seasonal factors.

In addition to the above, see Risk Factors in Part 2 - Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021 and the additional risk factor below:

Our debt and financial obligations could adversely affect our financial condition, our ability to obtain future financing, and our ability to operate our business.

We have outstanding debt obligations that could adversely affect our financial condition and limit our ability to successfully implement our business strategy. Furthermore, from time to time, we may need additional financing to support our business and pursue our business strategy, including strategic acquisitions. Our ability to obtain additional financing, if and when required, will depend on investor demand, our operating performance, the condition of the capital markets, and other factors. We cannot assure that additional financing will be available to us on favorable terms when required, or at all.
Our loan agreements contain certain restrictions and requirements that among other things:

- require us to maintain a quarterly fixed charge coverage ratio and minimum working capital ratio;
- limit our ability to obtain additional financing in the future for working capital, capital expenditures and acquisitions, to fund growth or for general corporate purposes;
- limit our future ability to refinance our indebtedness on terms acceptable to us or at all;
- limit our flexibility in planning for or reacting to changes in our business and market conditions or in funding our strategic growth plan; and
- impose on us financial and operational restrictions.

Our ability to meet our debt service obligations will depend on our future performance, which will be affected by the other risk factors described in our Annual Report on Form 10-K filed on March 1, 2022. If we do not generate enough cash flow to pay our debt service obligations, we may be required to refinance all or part of our existing debt, sell our assets, borrow more money or raise equity. There is no guarantee that we will be able to take any of these actions on a timely basis, on terms satisfactory to us, or at all.

If we fail to satisfy our debt service obligations or the other restrictions and requirements in our loan agreements, we could be in default. Unless cured or waived, a default would permit lenders to accelerate the maturity of the debt under the credit agreement and to foreclose upon the collateral securing the debt.

Our outstanding loans bear interest at variable rates. In response to the variable rates, we entered into entered into an interest rate swap agreement. See above for further discussion of this swap agreement.

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.

The Company is exposed to certain market risks during the ordinary course of business due to adverse changes in interest rates. The exposure to interest rate risk primarily results from the Company’s variable-rate borrowing. The Company may elect to use derivative financial instruments to manage risks from fluctuations in interest rates. The Company does not purchase or hold derivatives for trading or speculative purposes. Fluctuations in interest rates can be volatile and the Company’s risk management activities do not eliminate these risks.

In May 2022, we entered into an interest rate swap agreement, effective on June 30, 2022, which has a $150 million notional value, and a maturity date of June 30, 2027. Beginning in July 2022, we receive 1-month SOFR, and pay a fixed rate of interest of 2.815% plus an additional margin on a quarterly basis. The total interest rate in any period will also include an applicable margin based on our Consolidated Leverage Ratio.

We designated the interest rate swap as a cash flow hedge and structured it to be highly effective. Consequently, unrealized gains and losses related to the fair value of the interest rate swap are recorded to accumulated other comprehensive income (loss), net of tax.

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.

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 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.

ITEM 1A. RISK FACTORS.

Our debt and financial obligations could adversely affect our financial condition, our ability to obtain future financing, and our ability to operate our business.

We have outstanding debt obligations that could adversely affect our financial condition and limit our ability to successfully implement our business strategy. Furthermore, from time to time, we may need additional financing to support our business and pursue our business strategy, including strategic acquisitions. Our ability to obtain additional financing, if and when required, will depend on investor demand, our operating performance, the condition of the capital markets, and other factors. We cannot provide assurances that additional financing will be available to us on favorable terms when required, or at all.

Our loan agreements contain certain restrictions and requirements that among other things:
- require us to maintain a quarterly fixed charge coverage ratio and minimum working capital ratio;
- limit our ability to obtain additional financing in the future for working capital, capital expenditures and acquisitions, to fund growth or for general corporate purposes;
- limit our future ability to refinance our indebtedness on terms acceptable to us or at all;
- limit our flexibility in planning for or reacting to changes in our business and market conditions or in funding our strategic growth plan; and
- impose on us financial and operational restrictions.

Our ability to meet our debt service obligations will depend on our future performance, which will be affected by the other risk factors described in our Annual Report on Form 10-K filed on March 1, 2022. If we do not generate enough cash flow to pay our debt service obligations, we may be required to refinance all or part of our existing debt, sell our assets, borrow more money or raise equity. There is no guarantee that we will be able to take any of these actions on a timely basis, on terms satisfactory to us, or at all.

If we fail to satisfy our debt service obligations or the other restrictions and requirements in our loan agreements, we could be in default. Unless cured or waived, a default would permit lenders to accelerate the maturity of the debt under the credit agreement and to foreclose upon the collateral securing the debt.

Our outstanding loans bear interest at variable rates. In response to the variable rates, we entered into entered into an interest rate swap agreement. See above for further discussion of this swap agreement.

ITEM 6. EXHIBITS.

Exhibit Number	Description
10.1+	Third Amended and Restated Credit Agreement dated as of June 17, 2022 among the Company, as the borrower, and Bank of America, N.A., as Administrative Agent, Regions Capital Markets as Syndication Agent, BofA Securities Inc. and Regions Capital Markets as Joint Load Arrangers, BofA Securities Inc., as Sole Bookrunner and the lenders named therein. [incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 10-Q filed with the SEC on June 21, 2022.]
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.
32*	Certification Pursuant to 18 U.S.C 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

SIGNATURES

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

U.S. PHYSICAL THERAPY, INC.

Date: August 8, 2022

By: /s/ CAREY HENDRICKSON
Carey Hendrickson
Chief Financial Officer
(Principal financial and accounting officer)

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: August 8, 2022

EXHIBIT 31.2
CERTIFICATION

I, Carey Hendrickson, 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/ CAREY HENDRICKSON
Carey Hendrickson
Chief Financial Officer
(Principal financial and accounting officer)

Date: August 8, 2022

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 three and six months ended June 30, 2022, 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, and Carey Hendrickson, Chief Financial Officer 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.

August 8, 2022

/s/ CHRISTOPHER J. READING
Christopher J. Reading
Chief Executive Officer

/s/ CAREY HENDRICKSON
Carey Hendrickson
Chief Financial Officer

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.