

**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, 2016

OR

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

FOR THE TRANSITION PERIOD FROM ____ TO ____

COMMISSION FILE NUMBER 1-11151

U.S. PHYSICAL THERAPY, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

NEVADA
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

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

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

77042
(ZIP CODE)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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 4, 2016, the number of shares outstanding (issued less treasury stock) of the registrant's common stock, par value \$.01 per share, was: 12,520,226.

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ITEM 1. FINANCIAL STATEMENTS.

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

ASSETS	June 30, 2016 (unaudited)	December 31, 2015
Current assets:		
Cash and cash equivalents	\$ 20,453	\$ 15,778
Patient accounts receivable, less allowance for doubtful accounts of \$1,672 and \$1,444, respectively	39,356	36,231
Accounts receivable - other, less allowance for doubtful accounts of \$-0- and \$198, respectively	2,335	2,388
Other current assets	8,220	5,785
Total current assets	<u>70,364</u>	<u>60,182</u>
Fixed assets:		
Furniture and equipment	46,747	44,749
Leasehold improvements	25,733	25,160
Fixed assets, gross	<u>72,480</u>	<u>69,909</u>
Less accumulated depreciation and amortization	55,642	53,255
Fixed assets, net	16,838	16,654
Goodwill	191,268	171,547
Other identifiable intangible assets, net	33,909	30,296
Other assets	1,219	1,234
Total assets	<u>\$ 313,598</u>	<u>\$ 279,913</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable - trade	\$ 1,668	\$ 1,636
Accrued expenses	26,273	16,596
Current portion of notes payable	1,044	775
Total current liabilities	<u>28,985</u>	<u>19,007</u>
Notes payable	4,547	4,335
Revolving line of credit	42,500	44,000
Deferred rent	1,285	1,395
Deferred taxes	12,361	8,355
Other long-term liabilities	869	868
Total liabilities	<u>90,547</u>	<u>77,960</u>
Commitments and contingencies		
Redeemable non-controlling interests	8,641	8,843
Equity:		
U.S. Physical Therapy, Inc. shareholders' equity:		
Preferred stock, \$.01 par value, 500,000 shares authorized, no shares issued and outstanding	-	-
Common stock, \$.01 par value, 20,000,000 shares authorized, 14,734,963 and 14,635,874 shares issued, respectively	147	146
Additional paid-in capital	48,236	45,251
Retained earnings	157,161	149,016
Treasury stock at cost, 2,214,737 shares	(31,628)	(31,628)
Total U. S. Physical Therapy, Inc. shareholders' equity	<u>173,916</u>	<u>162,785</u>
Non-controlling interests	40,494	30,325
Total equity	<u>214,410</u>	<u>193,110</u>
Total liabilities and equity	<u>\$ 313,598</u>	<u>\$ 279,913</u>

See notes to consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net patient revenues	\$ 88,433	\$ 81,451	\$ 173,482	\$ 157,258
Other revenues	1,997	1,837	3,856	3,271
Net revenues	<u>90,430</u>	<u>83,288</u>	<u>177,338</u>	<u>160,529</u>
Clinic operating costs:				
Salaries and related costs	48,837	44,398	96,641	87,450
Rent, clinic supplies, contract labor and other	17,546	16,681	35,053	33,006
Provision for doubtful accounts	956	1,062	2,045	2,052
Closure costs	32	5	45	37
Total clinic operating costs	<u>67,371</u>	<u>62,146</u>	<u>133,784</u>	<u>122,545</u>
Gross margin	23,059	21,142	43,554	37,984
Corporate office costs	8,026	7,593	17,030	15,250
Operating income	15,033	13,549	26,524	22,734
Interest and other income, net	21	16	41	24
Interest expense	(320)	(245)	(628)	(510)
Income before taxes	14,734	13,320	25,937	22,248
Provision for income taxes	4,674	4,203	8,197	6,980
Net income including non-controlling interests	10,060	9,117	17,740	15,268
Less: net income attributable to non-controlling interests	(2,989)	(2,813)	(5,341)	(4,798)
Net income attributable to common shareholders	<u>\$ 7,071</u>	<u>\$ 6,304</u>	<u>\$ 12,399</u>	<u>\$ 10,470</u>
Basic earnings per share attributable to common shareholders:				
From operations prior to revaluation of redeemable non-controlling interests, net of tax	\$ 0.57	\$ 0.51	\$ 0.99	\$ 0.85
Charges to additional paid-in-capital - revaluation of redeemable non-controlling interests, net of tax	-	(0.03)	-	(0.03)
Basic	<u>\$ 0.57</u>	<u>\$ 0.48</u>	<u>\$ 0.99</u>	<u>\$ 0.82</u>
Diluted earnings per share attributable to common shareholders:				
From operations prior to revaluation of redeemable non-controlling interests, net of tax	\$ 0.57	\$ 0.51	\$ 0.99	\$ 0.85
Charges to additional paid-in-capital - revaluation of redeemable non-controlling interests, net of tax	-	(0.03)	-	(0.03)
Diluted	<u>\$ 0.57</u>	<u>\$ 0.48</u>	<u>\$ 0.99</u>	<u>\$ 0.82</u>
Shares used in computation:				
Basic and diluted	<u>12,511</u>	<u>12,409</u>	<u>12,480</u>	<u>12,362</u>
Dividends declared per common share	<u>\$ 0.17</u>	<u>\$ 0.15</u>	<u>\$ 0.34</u>	<u>\$ 0.30</u>

See notes to consolidated financial statements.

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

	Six Months Ended	
	June 30, 2016	June 30, 2015
OPERATING ACTIVITIES		
Net income including non-controlling interests	\$ 17,740	\$ 15,268
Adjustments to reconcile net income including non-controlling interests to net cash provided by operating activities:		
Depreciation and amortization	4,158	3,674
Provision for doubtful accounts	2,045	2,052
Equity-based awards compensation expense	2,484	2,206
Loss (gain) on sale of fixed assets	-	(13)
Excess tax benefit from exercise of equity-based awards	-	(430)
Deferred income tax	4,170	2,130
Other	(556)	111
Changes in operating assets and liabilities:		
Increase in patient accounts receivable	(2,449)	(2,880)
Decrease in accounts receivable - other	53	165
Increase in other assets	(2,443)	(13)
Increase (decrease) in accounts payable and accrued expenses	7,715	(3,958)
Increase in other liabilities	447	927
Net cash provided by operating activities	33,364	19,239
INVESTING ACTIVITIES		
Purchase of fixed assets	(3,453)	(2,873)
Purchase of businesses, net of cash acquired	(12,958)	(14,467)
Acquisitions of non-controlling interests (including redeemable non-controlling interests)	(1,386)	(968)
Proceeds on sale of fixed assets, net	42	72
Net cash used in investing activities	(17,755)	(18,236)
FINANCING ACTIVITIES		
Distributions to non-controlling interests (including redeemable non-controlling interests)	(5,204)	(4,906)
Cash dividends to shareholders - funded	(4,254)	(3,723)
Proceeds from revolving line of credit	93,000	51,000
Payments on revolving line of credit	(94,500)	(44,500)
Principal payments on notes payable	(533)	(608)
Tax benefit from equity-based awards	556	430
Other	1	5
Net cash used in financing activities	(10,934)	(2,302)
Net increase in cash and cash equivalents	4,675	(1,299)
Cash and cash equivalents - beginning of period	15,778	14,271
Cash and cash equivalents - end of period	\$ 20,453	\$ 12,972
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income taxes	\$ 5,513	\$ 3,835
Interest	\$ 512	\$ 460
Non-cash investing and financing transactions during the period:		
Purchase of business - seller financing portion	\$ 500	\$ 1,350
Acquisition of non-controlling interest - seller financing portion	\$ 514	\$ 627
Sale of non-controlling interests	\$ (148)	\$ -

See notes to consolidated financial statements.

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

U.S.Physical Therapy, Inc.										
	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>		<u>Total Shareholders' Equity</u>	<u>Non-controlling Interests</u>	<u>Total</u>	
	<u>Shares</u>	<u>Amount</u>			<u>Shares</u>	<u>Amount</u>				
(In thousands)										
Balance December 31, 2015	14,636	\$ 146	\$ 45,251	\$149,016	(2,215)	\$(31,628)	\$ 162,785	\$ 30,325	\$193,110	
Net tax benefit from equity-based awards	-	-	556	-	-	-	556	-	556	
Issuance of restricted stock	99	1	-	-	-	-	1	-	1	
Cancellation of restricted stock	-	-	-	-	-	-	-	-	-	
Compensation expense - equity-based awards	-	-	2,484	-	-	-	2,484	-	2,484	
Transfer of compensation liability for certain stock issued pursuant to long-term incentive plans	-	-	211	-	-	-	211	-	211	
Purchase of business	-	-	-	-	-	-	-	11,190	11,190	
Acquisitions of non-controlling interests, net	-	-	(266)	-	-	-	(266)	(98)	(364)	
Reclass to redeemable non-controlling interests	-	-	-	-	-	-	-	(976)	(976)	
Distributions to non-controlling interest partners	-	-	-	-	-	-	-	(4,776)	(4,776)	
Cash dividends to shareholders	-	-	-	(4,254)	-	-	(4,254)	-	(4,254)	
Net income	-	-	-	12,399	-	-	12,399	4,829	17,228	
Balance June 30, 2016	<u>14,735</u>	<u>\$ 147</u>	<u>\$ 48,236</u>	<u>\$157,161</u>	<u>(2,215)</u>	<u>\$(31,628)</u>	<u>\$ 173,916</u>	<u>\$ 40,494</u>	<u>\$214,410</u>	

See notes to consolidated financial statements.

U.S. PHYSICAL THERAPY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

(unaudited)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of U.S. Physical Therapy, Inc. and its subsidiaries (the “Company”). All significant intercompany transactions and balances have been eliminated. The Company primarily operates through subsidiary clinic partnerships, in which the Company generally owns a 1% general partnership interest in all the Clinic Partnerships, except for one partnership in which we own a 6% general partnership interest. Our limited partnership interests range from 49% to 99% in the Clinic Partnerships. The managing therapist of each clinic owns, directly or indirectly, the remaining limited partnership interest in the majority of the clinics (hereinafter referred to as “Clinic Partnerships”). To a lesser extent, the Company operates some clinics, through wholly-owned subsidiaries, under profit sharing arrangements with therapists (hereinafter referred to as “Wholly-Owned Facilities”).

The Company continues to seek to attract physical and occupational therapists who have established relationships with patients and physicians by offering therapists a competitive salary and a share of the profits of the clinic operated by that therapist. The Company has developed satellite clinic facilities of existing clinics, with the result that many Clinic Partnerships and Wholly-Owned Facilities operate more than one clinic location. In addition, the Company has acquired a controlling interest in a number of clinics through acquisitions.

During the first six months of 2016 and the year ended 2015, the Company acquired the following clinic groups:

	<u>Date</u>	<u>% Interest Acquired</u>	<u>Number of Clinics</u>
	<u>2016</u>		
February 2016 Acquisition	February 29	55%	8
	<u>2015</u>		
January 2015 Acquisition	January 31	60%	9
April 2015 Acquisition	April 30	70%	3
June 2015 Acquisition	June 30	70%	4
December 2015 Acquisition	December 31	59%	4

As of June 30, 2016, the Company operated 516 clinics in 42 states. The Company also manages physical therapy facilities for third parties, primarily physicians, with 22 third-party facilities under management as of June 30, 2016.

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

The accompanying unaudited consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions for Form 10-Q. However, the statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Management believes this report contains all necessary adjustments (consisting only of normal recurring adjustments) to present fairly, in all material respects, the Company’s financial position, results of operations and cash flows for the interim periods presented. For further information regarding the Company’s accounting policies, please read the audited financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

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

Operating results for the six months ended June 30, 2016 are not necessarily indicative of the results the Company expects for the entire year. Please also review the Risk Factors section included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Clinic Partnerships

For Clinic Partnerships, the earnings and liabilities attributable to the non-controlling interests, typically owned by the managing therapist, directly or indirectly, are recorded within the balance sheets and income statements as non-controlling interests.

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 clinic operating costs – salaries and related costs. The respective liability is included in current liabilities – accrued expenses on the balance sheets.

Significant Accounting Policies

Cash Equivalents

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

Long-Lived Assets

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

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

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

Goodwill

Goodwill represents the excess of the amount paid and fair value of the non-controlling interests over the fair value of the acquired business assets, which include certain 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, as applicable, is recognized as an adjustment to additional paid-in capital.

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

An impairment loss generally would be recognized when the carrying amount of the net assets of a reporting unit, inclusive of goodwill and other intangible assets, exceeds the estimated fair value of the reporting unit. The estimated fair value of a reporting unit is determined using two factors: (i) earnings prior to taxes, depreciation and amortization for the reporting unit multiplied by a price/earnings ratio used in the industry and (ii) a discounted cash flow analysis. A weight is assigned to each factor and the sum of each weight times the factor is considered the estimated fair value. For 2015, the factors (i.e., price/earnings ratio, discount rate and residual capitalization rate) were updated to reflect current market conditions. The evaluations of goodwill in 2015 did not result in any goodwill amounts that were deemed impaired. During the six months ended June 30, 2016, the Company has not identified any triggering events occurring after the testing date that would impact the impairment testing results obtained.

Non-controlling interests

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

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

The non-controlling interests that are reflected as redeemable non-controlling interests in the consolidated financial statements consist of those outside owners that have certain redemption rights that are currently exercisable, and that, if exercised, require that the Company purchases the non-controlling interest of the particular limited partner. At June 30, 2016, the redeemable non-controlling interests reflect the book value of certain non-controlling interests for which it is not deemed probable that the limited partner will assert the redemption rights. The redeemable non-controlling interests will be adjusted to the fair value in the reporting period in which the Company deems it probable that the limited partner will assert the redemption rights and will be adjusted each reporting period thereafter. The adjustments are charged to additional paid-in capital and are not reflected in the statements of net income. Although the adjustments are not reflected in the statements of net income, current accounting rules require that the Company reflects the charge in the earnings per share calculation.

Typically, for acquisitions, the Company agrees to purchase the individual's non-controlling interest at a predetermined multiple of earnings before interest, taxes, depreciation and amortization.

Revenue Recognition

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

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

Medicare Reimbursement

The Medicare program reimburses outpatient rehabilitation providers based on the Medicare Physician Fee Schedule (“MPFS”). The MPFS rates have historically been subject to an automatic annual update based on a formula, called the sustainable growth rate (“SGR”) formula. The use of the SGR formula would have resulted in calculated automatic reductions in rates in every year since 2002; however, for each year through September 30, 2015, Centers for Medicare & Medicaid Services (“CMS”) or Congress has taken action to prevent the implementation of SGR formula reductions. On April 16, 2015, the Medicare Access and CHIP Reauthorization Act of 2015 (“MACRA”) was signed into law, eliminating the SGR formula and the associated annual automatic rate reductions. For services provided between January 1, 2015 and June 30, 2015 a 0% payment update was applied to the Medicare physician fee schedule payment rates; for services provided between July 1, 2015 and December 31, 2015 a 0.5% increase was applied to the fee schedule payment rates; for services provided in 2016 a 0.3% decrease is being applied to the fee schedule payment rates, and for 2017 through 2019, a 0.5% increase will be applied each year to the fee schedule payment rates, unless further adjusted by CMS. In addition, the MACRA promotes the development of new payment models that focus on quality and outcomes.

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

As a result of the Balanced Budget Act of 1997, the formula for determining the total amount paid by Medicare in any one year for outpatient physical therapy, occupational therapy, and/or speech-language pathology services provided to any Medicare beneficiary (i.e., the “Therapy Cap” or “Limit”) was established. Based on the statutory definitions which constrained how the Therapy Cap would be applied, there is one Limit for Physical Therapy and Speech Language Pathology Services combined, and one Limit for Occupational Therapy. For 2016, the annual Limit on outpatient therapy services is \$1,960 for Physical and Speech Language Pathology Services combined and \$1,960 for Occupational Therapy Services. Historically, these Therapy Caps applied to outpatient therapy services provided in all settings, except for services provided in departments of hospitals. However, the Protecting Access to Medicare Act of 2014, and prior legislation, extended the Therapy Caps to services furnished in hospital outpatient department settings. The application of these annual limits to hospital outpatient department settings will sunset on December 31, 2017 unless Congress extends it.

In the Deficit Reduction Act of 2005, Congress implemented an exceptions process to the annual Limit for therapy expenses for therapy services above the annual Limit. Therapy services above the annual Limit that are medically necessary satisfy an exception to the annual Limit and such claims are payable by the Medicare program. The MACRA extended the exceptions process for outpatient therapy caps through December 31, 2017. Unless Congress extends the exceptions process further, the therapy caps will apply to all outpatient therapy services beginning

January 1, 2018, except those services furnished and billed by outpatient hospital departments. For any claim above the annual Limit, the claim must contain a modifier indicating that the services are medically necessary and justified by appropriate documentation in the medical record.

Furthermore, under the Middle Class Tax Relief and Job Creation Act of 2012 (“MCTRA”), since October 1, 2012, patients who met or exceeded \$3,700 in therapy expenditures during a calendar year have been subject to a manual medical review to determine whether applicable payment criteria are satisfied. The \$3,700 threshold is applied to Physical Therapy and Speech Language Pathology Services; a separate \$3,700 threshold is applied to the Occupational Therapy. The MACRA directed CMS to modify the manual medical review process such that those reviews will no longer apply to all claims exceeding the \$3,700 threshold and instead will be determined on a targeted basis based on a variety of factors that CMS considers appropriate. The new factors apply to exception requests for which CMS did not conduct a medical review by July 15, 2015.

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

The Physician Quality Reporting System, or “PQRS,” is a CMS reporting program that uses a combination of incentive payments and payment reductions to promote reporting of quality information by “eligible professionals.” Although physical therapists, occupational therapists and qualified speech-language therapists are generally able to participate in the PQRS program, therapy professionals for whose services we bill through our certified rehabilitation agencies cannot participate because the Medicare claims processing systems currently cannot accommodate institutional providers such as certified rehabilitation agencies. Eligible professionals, such as those of our therapy professionals for whose services we bill using their individual Medicare provider numbers, who do not satisfactorily report data on quality measures will be subject to a 2% reduction in their Medicare payment in 2016 and 2017.

Statutes, regulations, and payment rules governing the delivery of therapy services to Medicare beneficiaries are complex and subject to interpretation. The Company believes that it is in compliance in all material respects with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the Company’s financial statements as of June 30, 2016. 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, 2016, net revenue from Medicare accounts for approximately \$41.1 million.

Management Contract Revenues

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

Contractual Allowances

Contractual allowances result from the differences between the rates charged for services performed and expected reimbursements by both insurance companies and government sponsored healthcare programs for such services. Medicare regulations and the various third party payors and managed care contracts are often complex and may include multiple reimbursement mechanisms payable for the services provided in Company clinics. The Company estimates contractual allowances based on its interpretation of the applicable regulations, payor contracts and historical calculations. Each month the Company estimates its contractual allowance for each clinic based on payor contracts and the historical collection experience of the clinic and applies an appropriate contractual allowance reserve percentage to the gross accounts receivable balances for each payor of the clinic. Based on the Company's historical experience, calculating the contractual allowance reserve percentage at the payor level is sufficient to allow the Company to provide the necessary detail and accuracy with its collectability estimates. However, the services authorized and provided and related reimbursement are subject to interpretation that could result in payments that differ from the Company's estimates. Payor terms are periodically revised necessitating continual review and assessment of the estimates made by management. The Company's billing system does not capture the exact change in its contractual allowance reserve estimate from period to period in order to assess the accuracy of its revenues and hence its contractual allowance reserves. Management regularly compares its cash collections to corresponding net revenues measured both in the aggregate and on a clinic-by-clinic basis. In the aggregate, the historical difference between net revenues and corresponding cash collections has generally reflected a difference within approximately 1% of net revenues. Additionally, analysis of subsequent period's contractual write-offs on a payor basis reflects a difference within approximately 1% between the actual aggregate contractual reserve percentage as compared to the estimated contractual allowance reserve percentage associated with the same period end balance. As a result, the Company believes that a change in the contractual allowance reserve estimate would not likely be more than 1% at June 30, 2016.

Income Taxes

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

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

The Company did not have any accrued interest or penalties associated with any unrecognized tax benefits nor was any interest expense recognized during the six months ended June 30, 2016 and 2015. The Company will book any interest or penalties, if required, in interest and/or other income/expense as appropriate.

Fair Value of Financial Instruments

The carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable, accounts payable and notes payable approximate their fair values due to the short-term maturity of these financial instruments. The carrying amount under the Amended Credit Agreement (as defined in Note 9) approximates its fair value. The interest rate on the Amended Credit Agreement, which is tied to the Eurodollar Rate, is set at various short-term intervals, as detailed in the Amended Credit Agreement.

Segment Reporting

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

Use of Estimates

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

Self-Insurance Program

The Company utilizes a self-insurance plan for its employee group health insurance coverage administered by a third party. Predetermined loss limits have been arranged with the insurance company to minimize the Company's maximum liability and cash outlay. Accrued expenses include the estimated incurred but unreported costs to settle unpaid claims and estimated future claims. Management believes that the current accrued amounts are sufficient to pay claims arising from self-insurance claims incurred through June 30, 2016.

Restricted Stock

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

Recently Adopted Accounting Guidance

In September 2015, the FASB issued changes to the accounting for measurement-period adjustments related to business combinations. Currently, an acquiring entity is required to retrospectively adjust the balance sheet amounts of the acquiree recognized at the acquisition date with a corresponding adjustment to goodwill during the measurement period, as well as revise comparative information for prior periods presented within financial statements as needed, including revising income effects, such as depreciation and amortization, as a result of changes made to the balance sheet amounts of the acquiree. Such adjustments are required when new information is obtained about facts and circumstances that existed as of the acquisition date that if known, would have affected the measurement of the amounts initially recognized or would have resulted in the recognition of additional assets or liabilities. The measurement period is the period after the acquisition date during which the acquirer may adjust the balance sheet amounts recognized for a business combination (generally up to one year from the date of acquisition). The changes eliminate the requirement to make such retrospective adjustments, and, instead require the acquiring entity to record these adjustments in the reporting period they are determined. Additionally, the changes require the acquiring entity to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period income by line item that would have been recorded in previous reporting periods if the adjustment to the balance sheet amounts had been recognized as of the acquisition date. These changes became effective for the Company on January 1, 2016. This change did not have a material impact on its consolidated financial statements.

Recently Issued Accounting Guidance

In February 2016, the FASB issued amended accounting guidance which replaced most existing lease accounting guidance under U. S. generally accepted accounting principles. Among other changes, the amended guidance requires that a right-to-use asset, which is an asset that represents the lessee's right to use, and a lease liability, which is a lessee's obligation to make lease payments arising for a lease measured on a discounted basis, be recognized on the balance sheet by lessees for those leases with a term of greater than 12 months. The amended guidance is effective for reporting periods beginning after December 15, 2018; however, early adoption is permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. Since the Company leases all but one of its clinic facilities, it is currently evaluating various lease management systems to capture the necessary information and the impact that this amended accounting guidance will have on its consolidated financial statements.

In March 2016, the FASB issued guidance to simplify some provisions in stock compensation accounting. The guidance amends how excess tax benefits, which are currently typically adjusted through additional paid-in capital but will become a component of the income tax provision/benefit in the interim period in which they occur, and a company's payments to cover tax bills for shares' recipients should be classified. This guidance allows companies to estimate the number of stock awards expected to vest and revises the withholding requirements for classifying stock awards as equity. For public business entities, this guidance is effective for fiscal years starting after December 15, 2016, including interim periods within those fiscal years. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements.

Subsequent Event

The Company has evaluated events occurring after the balance sheet date for possible disclosure as a subsequent event through the date that these consolidated financial statements were issued.

2. EARNINGS PER SHARE

The computations of basic and diluted earnings per share for the Company are as follows (in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Earnings per share attributable to common shareholders:				
Prior to revaluation of redeemable non-controlling interests, net of tax	\$ 7,071	\$ 6,304	\$ 12,399	\$ 10,470
Charges to additional paid-in-capital - revaluation of redeemable non-controlling interests, net of tax	-	(376)	-	(376)
	<u>\$ 7,071</u>	<u>\$ 5,928</u>	<u>\$ 12,399</u>	<u>\$ 10,094</u>
Basic earnings per share attributable to common shareholders:				
Prior to revaluation of redeemable non-controlling interests, net of tax	\$ 0.57	\$ 0.51	\$ 0.99	\$ 0.85
Charges to additional paid-in-capital - revaluation of redeemable non-controlling interests, net of tax	-	(0.03)	-	(0.03)
	<u>\$ 0.57</u>	<u>\$ 0.48</u>	<u>\$ 0.99</u>	<u>\$ 0.82</u>
Diluted earnings per share attributable to common shareholders:				
Prior to revaluation of redeemable non-controlling interests, net of tax	\$ 0.57	\$ 0.51	\$ 0.99	\$ 0.85
Charges to additional paid-in-capital - revaluation of redeemable non-controlling interests, net of tax	-	(0.03)	-	(0.03)
	<u>\$ 0.57</u>	<u>\$ 0.48</u>	<u>\$ 0.99</u>	<u>\$ 0.82</u>
Shares used in computation:				
Basic and diluted earnings per share - weighted-average shares	<u>12,511</u>	<u>12,409</u>	<u>12,480</u>	<u>12,362</u>

The Company's restricted stock issued is included in basic and diluted shares for the earnings per share computation from the date of grant. There are no stock options or other dilutive securities outstanding.

3. ACQUISITIONS OF BUSINESSES

On February 29, 2016, the Company acquired a 55% interest in an eight-clinic physical therapy practice. The purchase price for the 55% interest was \$13.2 million in cash and \$0.5 million in a seller note that is payable in two principal installments totaling \$250,000 each, plus accrued interest, in February 2017 and 2018. On June 1, 2016, a subsidiary of the Company acquired a single clinic therapy practice for \$50,000.

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

Cash paid, net of cash acquired	\$ 12,958
Seller notes	500
Total consideration	<u>\$ 13,458</u>
Estimated fair value of net tangible assets acquired:	
Total current assets	\$ 1,009
Total non-current assets	239
Total liabilities	(417)
Net tangible assets acquired	\$ 831
Referral relationships	1,915
Non-compete	525
Tradenname	2,164
Goodwill	19,213
Fair value of non-controlling interest	(11,190)
	<u>\$ 13,458</u>

On December 31, 2015, the Company acquired a 59% interest in a four-clinic physical therapy practice. The purchase price was \$4.6 million in cash and \$400,000 in seller notes payable that are payable in two principal installments of an aggregate of \$200,000 each, plus accrued interest, in December 2016 and 2017. On June 30, 2015, the Company acquired a 70% interest in a four-clinic physical therapy practice. The purchase price was \$3.6 million in cash and \$0.7 million in seller notes that are payable plus accrued interest, in June 2018. On April 30, 2015, the Company acquired a 70% interest in a three-clinic physical therapy practice. The purchase price was \$4.7 million in cash and \$150,000 in a seller note that is payable in two principal installments of \$75,000 each, plus accrued interest, one of which was paid in April 2016 and the other is due in April 2017. On January 31, 2015, the Company acquired a 60% interest in a nine-clinic physical therapy practice. The purchase price for the 60% interest was \$6.7 million in cash and \$0.5 million in a seller note that is payable in two principal installments of \$250,000 each, plus accrued interest, one of which was paid in January 2016 and the other is due in January 2017. In addition to the multi-clinic acquisitions, on August 31, 2015, the Company acquired a 60% interest in a single physical therapy clinic for \$150,000 in cash and \$50,000 in a seller note payable that is payable plus accrued interest in August 2016.

The purchase prices for the 2015 acquisitions have been preliminarily allocated as follows (in thousands):

Cash paid, net of cash acquired	\$ 18,965
Seller notes	1,800
Total consideration	<u>\$ 20,765</u>
Estimated fair value of net tangible assets acquired:	
Total current assets	\$ 1,969
Total non-current assets	1,070
Total liabilities	(1,040)
Net tangible assets acquired	\$ 1,999
Referral relationships	3,070
Non-compete	734
Tradenname	3,317
Goodwill	23,937
Fair value of non-controlling interest	(12,292)
	<u>\$ 20,765</u>

For the 2016 and 2015 acquisitions that occurred after June 30, 2015, the purchase price plus the fair value of the non-controlling interests was allocated to the fair value of certain assets acquired (patient accounts receivable, equipment, prepaid expenses and deposits, tradenname, non-compete agreements and referral relationships) and liabilities assumed (accounts payable and accrued employee salary and benefits) based on the preliminary estimates of the fair values at the acquisition date, with the amount exceeding the estimated fair values being recorded as goodwill. The Company is in the process of completing its formal valuation analysis. Thus, the final allocation of the purchase price will differ from the preliminary estimates used based on additional information obtained. Changes in the estimated valuation of the tangible and intangible assets acquired and the completion by the Company of the identification of any unrecorded pre-acquisition contingencies, where the liability is probable and the amount can be reasonably estimated, will likely result in adjustments to goodwill.

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

The consideration for each transaction was agreed upon through arm's length negotiations. Funding for the cash portion of the purchase price for the 2016 and 2015 acquisitions was derived from proceeds under the Amended Credit Agreement.

The results of operations of these acquisitions have been included in the Company's consolidated financial statements since acquired. Unaudited proforma consolidated financial information for acquisitions occurring in 2016 and 2015 have not been included as the results were not material to current operations.

4. ACQUISITIONS OF NON-CONTROLLING INTERESTS

During the six months ended June 30, 2016, the Company acquired additional interests in two partnerships and sold interests in two partnerships. The interests in the partnerships purchased ranged from 23% to 35%. The aggregate purchase price paid was \$388,000 in cash and \$388,000 in a seller note, that is payable in two principal installments of \$194,000 each in February 2017 and 2018. The purchase price included \$59,000 of undistributed earnings. The remaining \$716,000, less future tax benefits of \$274,000, was recognized as an adjustment to additional paid-in capital.

During the six months ended June 30, 2016, the Company sold a 4% interest in one partnership and 35% in another. The sales prices included aggregate cash of \$138,000 plus notes receivable of \$148,000 with payments due monthly based on percentages of distributions and bonuses earned by the purchasers. The total sales price of \$286,000, less the tax effect of \$110,000, was charged to additional paid-in capital.

In 2015, the Company purchased additional interests in eight partnerships. The interests in the partnerships purchased ranged from 5% to 35%. The aggregate purchase price paid was \$8.7 million of which \$5.6 million was paid in cash and the Company entered into several notes payable of \$3.1 million. The notes are payable in two installments plus accrued interest (interest accrues at 3.25%). The first principal installments in an aggregate of \$1.2 million are due on December 31, 2018 and the second principal installments in an aggregate of \$1.9 million are due on January 31, 2019. The purchase prices included an aggregate of \$260,000 of undistributed earnings. The remaining \$8.4 million, less future tax benefits of \$3.3 million, was recognized as an adjustment to additional paid-in capital.

5. REDEEMABLE NON-CONTROLLING INTERESTS

In 2016, the Company purchased an additional interest in a partnership which was classified as redeemable non-controlling interest. The purchase price was \$1.2 million in cash and \$0.1 million in a seller note that is due and payable, with any accrued interest, in January 2018.

The non-controlling interests that are reflected as redeemable non-controlling interests in the consolidated financial statements consist of those owners who have certain redemption rights that are currently exercisable, and that, if exercised, require that the Company purchase the non-controlling interests of those owners. The redeemable non-controlling interests are adjusted to the fair value in the reporting period in which the Company deems it probable that the limited partner will assert the redemption rights and it will be adjusted each reporting period thereafter. The adjustments are charged to additional paid-in capital and are not reflected in the statements of net income.

For the six months ended June 30, 2016, the following table details the changes in the carrying amount of redeemable non-controlling interests:

	Six Months Ended June 30, 2016
Beginning balance	\$ 8,843
Operating results allocated to redeemable non-controlling interest partners	512
Distributions to redeemable non-controlling interest partners	(428)
Reclass of non-controlling interest	976
Payments for purchase of redeemable non-controlling interests	(1,262)
Ending balance	<u>\$ 8,641</u>

6. GOODWILL

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

	Six Months Ended June 30, 2016
Beginning balance	\$ 171,547
Goodwill acquired during the period	19,213
Goodwill adjustments for purchase price allocation of business acquired	508
Ending balance	<u>\$ 191,268</u>

7. INTANGIBLE ASSETS, NET

Intangible assets, net as of June 30, 2016 and December 31, 2015 consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Tradenames, net of accumulated amortization of \$212 and \$170, respectively	\$ 19,784	\$ 17,660
Referral relationships, net of accumulated amortization of \$4,438 and \$3,763, respectively	12,108	10,866
Non-compete agreements, net of accumulated amortization of \$3,136 and \$2,855, respectively	2,017	1,770
	<u>\$ 33,909</u>	<u>\$ 30,296</u>

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

The following table details the amount of amortization expense recorded for intangible assets for the three and six months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Tradenames	\$ 21	\$ 21	\$ 42	\$ 42
Referral relationships	352	245	675	491
Non-compete agreements	147	104	281	208
	<u>\$ 520</u>	<u>\$ 370</u>	<u>\$ 998</u>	<u>\$ 741</u>

Based on the balance of referral relationships and non-compete agreements as of June 30, 2016, the expected amount to be amortized in 2016 and thereafter by year is as follows (in thousands):

Tradename		Referral Relationships		Non-Compete Agreements	
Years	Annual Amount	Years	Annual Amount	Years	Annual Amount
2016	83	2016	1,379	2016	573
2017	84	2017	1,408	2017	546
2018	83	2018	1,362	2018	490
2019	80	2019	1,273	2019	418
		2020	1,273	2020	203
		2021	1,273	2021	65
		2022	1,224		
		2023	1,117		
		2024	997		
		2025	891		
		2026	430		
		2027	135		
		2028	19		

8. ACCRUED EXPENSES

Accrued expenses as of June 30, 2016 and December 31, 2015 consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Salaries and related costs	\$ 16,237	\$ 9,414
Group health insurance claims	2,194	2,276
Credit balances due to patients and payors	3,549	1,472
Other	4,293	3,434
Total	<u>\$ 26,273</u>	<u>\$ 16,596</u>

9. NOTES PAYABLE AND AMENDED CREDIT AGREEMENT

Amounts outstanding under the Amended Credit Agreement and notes payable as of June 30, 2016 and December 31, 2015 consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Credit Agreement average effective interest rate of 2.3% inclusive of unused fee	\$ 42,500	\$ 44,000
Various notes payable with \$1,044 plus accrued interest due in the next year interest accrues in the range of 3.25% through 3.5% per annum	5,591	5,110
	<u>48,091</u>	<u>49,110</u>
Less current portion	<u>(1,044)</u>	<u>(775)</u>
Long term portion	<u>\$ 47,047</u>	<u>\$ 48,335</u>

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

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

On June 30, 2016, \$42.5 million was outstanding on the Amended Credit Agreement resulting in \$82.5 million of availability. As of June 30, 2016, the Company was in compliance with all of the covenants thereunder.

The Company generally enters into various notes payable as a means of financing a portion of its acquisitions and purchases of non-controlling interests. In conjunction with the acquisitions in 2016 and the purchases of a non-controlling interests, the Company entered into notes payable in the aggregate amount of \$1.0 million of which an aggregate principal payment of \$444,000 is due in 2017 and \$570,000 in 2018. Interest accrues 3.5% per annum and is payable with each principal installment. In conjunction with the acquisitions in 2015 and the purchases of a non-controlling interest, the Company entered into notes payable in the aggregate amount of \$4.9 million of which an aggregate principal payment of \$575,000 was due in 2016 (of which \$325,000 was paid prior to June 30, 2016), \$525,000 in 2017, \$1.9 million in 2018 and \$1.9 million in 2019. Interest accrues in the range of 3.25% to 3.5% per annum and is payable with each principal installment.

Aggregate annual payments of principal required pursuant to the Amended Credit Agreement and the above notes payable subsequent to June 30, 2016 are as follows (in thousands):

During the twelve months ended June 30, 2017	\$ 1,044
During the twelve months ended June 30, 2018	1,470
During the twelve months ended June 30, 2019	45,577
	<u>\$ 48,091</u>

10. 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 249,128 shares (based on the closing price of \$60.21 on June 30, 2016) 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 six months ended June 30, 2016.

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, 2015 filed with the Securities and Exchange Commission (the “SEC”) on March 4, 2016; and (iii) our management’s discussion and analysis of financial condition and results of operations included in our 2015 Form 10-K. This discussion includes forward-looking statements that are subject to risk and uncertainties. This discussion includes forward-looking statements that are subject to risk and uncertainties. Actual results may differ substantially from the statements we make in this section due to a number of factors that are discussed in “Forward-Looking Statements” herein and “Part I – Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2015.

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

EXECUTIVE SUMMARY

Our Business

We operate outpatient physical therapy clinics that provide preventive and post-operative care for a variety of orthopedic-related disorders and sports-related injuries, treatment for neurologically-related injuries and rehabilitation of injured workers. As of June 30, 2016, we operated 516 clinics in 42 states.

We also manage physical therapy facilities for third parties, primarily physicians, with 22 third-party facilities under management as of June 30, 2016.

During the six months of 2016 and the year ended 2015, we acquired the following clinic groups:

	<u>Date</u>	<u>% Interest Acquired</u>	<u>Number of Clinics</u>
	<u>2016</u>		
February 2016 Acquisition	February 29	55%	8
	<u>2015</u>		
January 2015 Acquisition	January 31	60%	9
April 2015 Acquisition	April 30	70%	3
June 2015 Acquisition	June 30	70%	4
December 2015 Acquisition	December 31	59%	4

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

On January 31, 2015, we acquired a 60% interest in a nine-clinic physical therapy practice. The purchase price for the 60% interest was \$6.7 million in cash and \$0.5 million in a seller note that is payable in two principal installments totaling \$250,000 each, plus accrued interest, one of which was paid in January 2016 and the other is due in January 2017. On April 30, 2015, we acquired a 70% interest in a three-clinic physical therapy practice. The purchase price was \$4.7 million in cash and \$150,000 in a seller note that is payable in two principal installments of \$75,000 each, plus accrued interest, one of which was paid in April 2016 and the other is due in April 2017. On June 30, 2015, we acquired a 70% interest in a four-clinic physical therapy practice. The purchase price was \$3.6 million in cash and \$0.7 million in seller notes that are payable plus accrued interest, in June 2018. On December 31, 2015,

we acquired a 59% interest in a four-clinic physical therapy practice. The purchase price was \$4.6 million in cash and \$400,000 in seller notes payable that are payable in two principal installments of an aggregate of \$200,000 each, plus accrued interest, in December 2016 and 2017. In addition to the multi-clinic acquisitions, on August 31, 2015, we acquired a 60% interest in a single physical therapy clinic for \$150,000 in cash and \$50,000 in a seller note payable that is payable plus accrued interest in August 2016. The results of operations of the acquired clinics have been included in our consolidated financial statements since the date of their acquisition.

Selected Operating and Financial Data

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

	<u>For the Three Months Ended</u>		<u>For the Six Months Ended</u>	
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Number of clinics, at the end of period	516	501	516	501
Working Days	64	64	128	127
Average visits per day per clinic	25.6	24.4	25.2	23.6
Total patient visits	840,020	776,867	1,648,301	1,489,722
Net patient revenue per visit	\$ 105.27	\$ 104.85	\$ 105.25	\$ 105.56

RESULTS OF OPERATIONS

Three Months Ended June 30, 2016 Compared to the Three Months Ended June 30, 2015

- Net revenues increased to \$90.4 million for the three months ended June 30, 2016 (“2016 Second Quarter”) from \$83.3 million for the three months ended June 30, 2015 (“2015 Second Quarter”) primarily due to an increase in visits of 63,100 from 776,900 for the 2015 Second Quarter to 840,000 for the 2016 Second Quarter and increase in the average net patient revenue per visit for the 2016 Second Quarter to \$105.27 from \$104.85 in the 2015 Second Quarter.
- Net income attributable to our common shareholders from operations prior to revaluation of redeemable non-controlling interests, net of tax (“operating results”) for the 2016 Second Quarter was \$7.1 million versus \$6.3 million for the 2015 Second Quarter. Operating results was \$0.57 per diluted share for the 2016 period and \$0.51 for the 2015 period. Total diluted shares were 12.5 million for the 2016 Second Quarter and 12.4 million for the 2015 Second Quarter.

Net Patient Revenues

- Net patient revenues increased to \$88.4 million for the 2016 Second Quarter from \$81.5 million for the 2015 Second Quarter, an increase of \$6.9 million, or 8.6%, due to visits of 44,700 from clinics opened or acquired between July 1, 2015 and June 30, 2016 (“New Clinics”) and an increase in visits of 18,400 from clinics opened or acquired prior to July 1, 2015 (“Mature Clinics”) and a slight increase in the net patient revenue per visit of \$0.42.
- Net patient revenues related to New Clinics amounted to \$5.4 million for the 2016 Second Quarter. Net patient revenues for Mature Clinics increased by \$1.5 million for the 2016 Second Quarter as compared to the 2015 Second Quarter.

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

Other Revenues

Other revenues increased \$0.2 million in the 2016 Second Quarter to \$2.0 million from \$1.8 million in the 2015 Second Quarter due to an increase in the number of physical therapy facilities managed for third parties.

Clinic Operating Costs

Clinic operating costs were \$67.4 million, or 74.5% of net revenues, for the 2016 Second Quarter and \$62.1 million, or 74.6% of net revenues, for the 2015 Second Quarter. The increase was primarily attributable to \$4.3 million in operating costs of New Clinics and by an increase in operating costs of \$1.0 million for Mature Clinics. Each component of clinic operating costs is discussed below:

Clinic Operating Costs—Salaries and Related Costs

Salaries and related costs increased to \$48.8 million for the 2016 Second Quarter from \$44.4 million for the 2015 Second Quarter, an increase of \$4.4 million, or 10.0%. Salaries and related costs for New Clinics amounted to \$3.1 million for the 2016 Second Quarter. Salaries and related costs for Mature Clinics increased by \$1.3 million for the 2016 Second Quarter as compared to the 2015 Second Quarter. Salaries and related costs as a percentage of net revenues were 54.0% for the 2016 Second Quarter and 53.3% for the 2015 Second Quarter.

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

Rent, clinic supplies, contract labor and other were \$17.5 million for the 2016 Second Quarter and \$16.7 million for the 2015 Second Quarter. For New Clinics, rent, clinic supplies, contract labor and other amounted to \$1.2 million for the 2016 Second Quarter. For Mature Clinics, rent, clinic supplies, contract labor and other decreased by \$0.4 million in the 2016 Second Quarter compared to the 2015 Second Quarter. Rent, clinic supplies, contract labor and other as a percentage of net revenues was 19.4% for the 2016 Second Quarter and 20.0% for the 2015 Second Quarter.

Clinic Operating Costs—Provision for Doubtful Accounts

The provision for doubtful accounts was \$1.0 million for the 2016 Second Quarter and \$1.1 million for the 2015 Second Quarter. The provision for doubtful accounts for patient accounts receivable as a percentage of net patient revenues was 1.1% for the 2016 Second Quarter and 1.3% for the 2015 Second Quarter.

Our provision for doubtful accounts for patient accounts receivable as a percentage of total patient accounts receivable was 4.1% at June 30, 2016, as compared to 3.8% at December 31, 2015. Our day's sales outstanding were 38 days at June 30, 2016 and 36 days at December 31, 2015.

Corporate Office Costs

Corporate office costs, consisting primarily of salaries and benefits of corporate office personnel, rent, insurance costs, depreciation and amortization, travel, legal, accounting, professional, and recruiting fees, were \$8.0 million for the 2016 Second Quarter and \$7.6 million for the 2015 Second Quarter. As a percentage of net revenues, corporate office costs were 8.9% for the 2016 Second Quarter and 9.1% for the 2015 Second Quarter.

Interest Expense

Interest expense increased to \$320,000 in the 2016 Second Quarter compared to \$245,000 in the 2015 Second Quarter due to a higher average balance outstanding under our Amended Credit Agreement. At June 30, 2016, \$42.5 million was outstanding under our Amended Credit Agreement. See “—Liquidity and Capital Resources” below for a discussion of the terms of our Amended Credit Agreement.

Provision for Income Taxes

The provision for income taxes was \$4.7 million for the 2016 Second Quarter and \$4.2 million for the 2015 Second Quarter. During the 2016 and 2015 Second Quarters, we accrued state and federal income taxes at an effective tax rate (provision for taxes divided by the difference between income before taxes and net income attributable to non-controlling interests) of 39.8% and 40.0%, respectively.

Non-controlling Interests

Net income attributable to non-controlling interests was \$3.0 million for the 2016 Second Quarter and \$2.8 million for the 2015 Second Quarter. As a percentage of operating income before corporate office costs, net income attributable to non-controlling interests was 13.0% for the 2016 Second Quarter and 13.3% for the 2015 Second Quarter.

Six Months Ended June 30, 2016 Compared to the Six Months Ended June 30, 2015

- Net revenues increased to \$177.3 million for the six months ended June 30, 2016 (“2016 First Six Months”) from \$160.5 million for the six months ended June 30, 2015 (“2015 First Six Months”) primarily due to an increase in visits of 158,600 from 1,489,700 for the 2015 First Six Months to 1,648,300 for the 2016 First Six Months and offset by a slight decrease in the average net patient revenue per visit for the 2016 First Six Months to \$105.25 from \$105.56 in the 2015 First Six Months.
- Operating results for the 2016 First Six Months were \$12.4 million versus \$10.5 million for the 2015 First Six Months. Operating results were \$0.99 per diluted share for the 2016 period and \$0.85 for the 2015 period. Total diluted shares were 12.5 million for the 2016 First Six Months and 12.4 million for the 2015 First Six Months.

Net Patient Revenues

- Net patient revenues increased to \$173.5 million for the 2016 First Six Months from \$157.3 million for the 2015 First Six Months, an increase of \$16.2 million, or 10.3%, due to visits of 71,300 from New Clinics and an increase in visits of 87,300 from Mature Clinics offset by a slight decrease in the net patient revenue per visit of \$0.31.
- Net patient revenues related to New Clinics amounted to \$8.7 million for the 2016 First Six Months. Net patient revenues for Mature Clinics increased by \$7.5 million for the 2016 First Six Months as compared to the 2015 First Six Months.

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

Other Revenues

Other revenues increased \$0.6 million in the 2016 First Six Months to \$3.9 million from \$3.3 million in the 2015 First Six Months due to an increase in the number of physical therapy facilities managed for third parties.

Clinic Operating Costs

Clinic operating costs were \$133.8 million, or 75.4% of net revenues, for the 2016 First Six Months and \$122.5 million, or 76.3% of net revenues, for the 2015 First Six Months. The increase was primarily attributable to \$7.0 million in operating costs of New Clinics and by an increase in operating costs of \$4.3 million for Mature Clinics. Each component of clinic operating costs is discussed below:

Clinic Operating Costs—Salaries and Related Costs

Salaries and related costs increased to \$96.6 million for the 2016 First Six Months from \$87.5 million for the 2015 First Six Months, an increase of \$9.1 million, or 10.5%. Salaries and related costs for New Clinics amounted to \$5.0 million for the 2016 First Six Months. Salaries and related costs for Mature Clinics increased by \$4.1 million for the 2016 First Six Months as compared to the 2015 First Six Months. Salaries and related costs as a percentage of net revenues were 54.5% for both periods.

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

Rent, clinic supplies, contract labor and other were \$35.1 million for the 2016 First Six Months and \$33.0 million for the 2015 First Six Months. For New Clinics, rent, clinic supplies, contract labor and other amounted to \$2.0 million for the 2016 First Six Months. For Mature Clinics, rent, clinic supplies, contract labor and other increased by \$0.1 million in the 2016 First Six Months compared to the 2015 First Six Months. Rent, clinic supplies, contract labor and other as a percentage of net revenues was 19.8% for the 2016 First Six Months and 20.6% for the 2015 First Six Months.

Clinic Operating Costs—Provision for Doubtful Accounts

The provision for doubtful accounts was \$2.0 million for the 2016 First Six Months and \$2.1 million for the 2015 First Six Months. The provision for doubtful accounts for patient accounts receivable as a percentage of net patient revenues was 1.2% for the 2016 First Six Months and 1.3% for the 2015 First Six Months.

Our provision for doubtful accounts for patient accounts receivable as a percentage of total patient accounts receivable was 4.1% at June 30, 2016, as compared to 3.8% at December 31, 2015. Our day's sales outstanding were 38 days at June 30, 2016 and 36 days at December 31, 2015.

Corporate Office Costs

Corporate office costs, consisting primarily of salaries and benefits of corporate office personnel, rent, insurance costs, depreciation and amortization, travel, legal, accounting, professional, and recruiting fees, were \$17.0 million for the 2016 First Six Months and \$15.3 million for the 2015 First Six Months. As a percentage of net revenues, corporate office costs were 9.6% for the 2016 First Six Months and 9.5% for the 2015 First Six Months.

Interest Expense

Interest expense increased to \$628,000 in the 2016 First Six Months compared to \$510,000 in the 2015 First Six Months due to a higher average balance outstanding under our Amended Credit Agreement. At June 30, 2016, \$42.5 million was outstanding under our Amended Credit Agreement. See “—Liquidity and Capital Resources” below for a discussion of the terms of our Amended Credit Agreement.

Provision for Income Taxes

The provision for income taxes was \$8.2 million for the 2016 First Six Months and \$7.0 million for the 2015 First Six Months. During the 2016 and 2015 First Six Months, we accrued state and federal income taxes at an effective tax rate (provision for taxes divided by the difference between income before taxes and net income attributable to non-controlling interests) of 39.8% and 40.0%, respectively.

Non-controlling Interests

Net income attributable to non-controlling interests was \$5.3 million for the 2016 First Six Months and \$4.8 million for the 2015 First Six Months. As a percentage of operating income before corporate office costs, net income attributable to non-controlling interests was 12.3% for the 2016 First Six Months and 12.6% for the 2015 First Six Months.

LIQUIDITY AND CAPITAL RESOURCES

We believe that our business is generating sufficient cash flow from operations to allow us to meet our short-term and long-term cash requirements, other than those with respect to future acquisitions. At June 30, 2016 and December 31, 2015, we had \$20.5 million and \$15.8 million, respectively, in cash. Although the start-up costs associated with opening new clinics and our planned capital expenditures are significant, we believe that our cash and unused availability under our revolving credit agreement are sufficient to fund the working capital needs of our operating subsidiaries, future clinic development and acquisitions and investments through at least June 2017. Significant acquisitions would likely require additional financing.

Effective December 5, 2013, we entered into an Amended and Restated Credit Agreement with a commitment for a \$125.0 million revolving credit facility with a maturity date of November 30, 2018. This agreement was amended in August 2015 and January 2016 and is hereinafter referred to as the “Amended Credit Agreement”. The Amended Credit Agreement is unsecured and has loan covenants, including requirements that we comply with a consolidated fixed charge coverage ratio and consolidated leverage ratio. Proceeds from the Amended Credit Agreement may be used for working capital, acquisitions, purchases of our common stock, dividend payments to our common shareholders, capital expenditures and other corporate purposes. The pricing grid is based on our consolidated leverage ratio with the applicable spread over LIBOR ranging from 1.5% to 2.5% or the applicable spread over the Base Rate ranging from 0.1% to 1%. Fees under the Amended Credit Agreement include an unused commitment fee ranging from 0.1% to 0.25% depending on our consolidated leverage ratio and the amount of funds outstanding under the Amended Credit Agreement. On June 30, 2016, \$42.5 million was outstanding on the revolving credit facility resulting in \$82.5 million of availability, and we were in compliance with all of the covenants thereunder.

The increase in cash and cash equivalents of \$4.7 million from December 31, 2015 to June 30, 2016 was due primarily to \$33.4 million provided by operations and \$1.5 million of net proceeds from our Amended Credit Agreement. The major uses of cash for investing and financing activities included: purchase of businesses (\$13.0 million), distributions to non-controlling interests (\$5.2 million), funding of cash dividends to our shareholders (\$4.3 million), purchases of fixed assets (\$3.5 million), acquisitions of non-controlling interests (\$1.4 million), and payments on notes payable (\$0.5 million).

On February 29, 2016, we acquired a 55% interest in an eight-clinic physical therapy practice. The purchase price for the 55% interest was \$13.2 million in cash and \$0.5 million in a seller note that is payable in two principal installments totaling \$250,000 each, plus accrued interest, in February 2017 and 2018.

On December 31, 2015, we acquired a 59% interest in a four-clinic physical therapy practice. The purchase price was \$4.6 million in cash and \$0.4 million in seller notes payable that are payable in two principal installments of an aggregate of \$200,000 each, plus accrued interest, in December 2016 and 2017. On June 30, 2015, we acquired a 70% interest in a four-clinic physical therapy practice. The purchase price was \$3.6 million in cash and \$0.7 million in seller notes that are payable plus accrued interest, in June 2018. On April 30, 2015, we acquired a 70% interest in a three-clinic physical therapy practice. The purchase price was \$4.7 million in cash and \$150,000 in a seller note that is payable in two principal installments of \$75,000 each, plus accrued interest, one of which was paid in April 2016 and the other one is due in April 2017. On January 31, 2015, we acquired a 60% interest in a nine-clinic physical therapy practice. The purchase price for the 60% interest was \$6.7 million in cash and \$0.5 million in a seller note that is payable in two principal installments of \$250,000 each, plus accrued interest, one of which was paid in January 2016 and the other one is due in January 2017. In addition to the multi-clinic acquisitions, on August 31, 2015, we acquired a 60% interest in a single physical therapy clinic for \$150,000 in cash and \$50,000 in a seller note payable that is payable plus accrued interest in August 2016.

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

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

We generally enter into various notes payable as a means of financing our acquisitions. Our present outstanding notes payable relate to certain of the acquisitions of businesses and purchases of non-controlling interests that occurred in 2014 through June 2016. For those acquisitions, we entered into several notes payables aggregating \$6.4 million. Typically, the notes are payable in equal annual installments of principal over two years plus any accrued and unpaid interest. Interest accrues at various interest rates ranging from 3.25% to 3.5% per annum, subject to adjustment. At June 30, 2016, the balance on these notes payable was \$5.6 million. In addition, we assumed leases with remaining terms of 1 month to 6 years for the operating facilities.

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

As of June 30, 2016, we have accrued \$2.1 million related to credit balances due to patients and payors. This amount is expected to be paid in the next twelve months.

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

There is no expiration date for the share repurchase program. As of June 30, 2016, there are currently an additional estimated 249,128 shares (based on the closing price of \$60.21 on June 30, 2016) 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, 2016.

FACTORS AFFECTING FUTURE RESULTS

The risks related to our business and operations include:

- changes as the result of government enacted national healthcare reform;
- changes in Medicare guidelines and reimbursement or failure of our clinics to maintain their Medicare certification status;
- revenue we receive from Medicare and Medicaid being subject to potential retroactive reduction;
- business and regulatory conditions including federal and state regulations;
- governmental and other third party payor investigations and audits;
- compliance with federal and state laws and regulations relating to the privacy of individually identifiable patient information, and associated fines and penalties for failure to comply;
- possible legal actions, which could subject us to increased costs and uninsured liabilities;
- changes in reimbursement rates or payment methods from third party payors including government agencies and deductibles and co-pays owed by patients;
- revenue and earnings expectations;
- general economic conditions;
- availability and cost of qualified physical therapists;
- personnel productivity and retaining key personnel;
- competitive, economic or reimbursement conditions in our markets which may require us to reorganize or close certain clinics and thereby incur losses and/or closure costs including the possible write-down or write-off of goodwill and other intangible assets;
- acquisitions including the purchase of non-controlling interests (minority interests) and the successful integration of the operations of the acquired businesses;
- maintaining adequate internal controls;
- maintaining adequate insurance coverage;
- availability, terms, and use of capital; and
- weather and other seasonal factors.

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

Forward-Looking Statements

We make statements in this report that are considered to be forward-looking within the meaning under Section 21E of the Securities Exchange Act of 1934, as (the “Exchange Act”). These statements contain forward-looking information relating to our financial condition, results of operations, plans, objectives, future performance and business. 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:

- changes as the result of government enacted national healthcare reform;
- changes in Medicare guidelines and reimbursement or failure of our clinics to maintain their Medicare certification status;
- revenue we receive from Medicare and Medicaid being subject to potential retroactive reduction;
- business and regulatory conditions including federal and state regulations;
- governmental and other third party payor investigations and audits;
- compliance with federal and state laws and regulations relating to the privacy of individually identifiable patient information, and associated fines and penalties for failure to comply;
- possible legal actions, which could subject us to increased costs and uninsured liabilities;
- changes in reimbursement rates or payment methods from third party payors including government agencies and deductibles and co-pays owed by patients;
- revenue and earnings expectations;
- general economic conditions;
- availability and cost of qualified physical therapists;
- personnel productivity and retaining key personnel;
- competitive, economic or reimbursement conditions in our markets which may require us to reorganize or close certain clinics and thereby incur losses and/or closure costs including the possible write-down or write-off of goodwill and other intangible assets;
- acquisitions, purchase of non-controlling interests (minority interests) and the successful integration of the operations of the acquired businesses;
- maintaining adequate internal controls;
- maintaining necessary insurance coverage;
- availability, terms, and use of capital; and
- weather and other seasonal factors.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We do not maintain any derivative instruments, interest rate swap arrangements, hedging contracts, futures contracts or the like. Our primary market risk exposure is the changes in interest rates obtainable on our Amended Credit Agreement. The interest on our Amended Credit Agreement is based on a variable rate. At June 30, 2016, \$42.5 million was outstanding under our Amended Credit Agreement. Based on the balance of the Amended Credit Agreement at June 30, 2016, any change in the interest rate of 1% would yield a decrease or increase in annual interest expense of \$425,000.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 6. EXHIBITS.

<u>Exhibit Number</u>	<u>Description</u>
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
31.3*	Rule 13a-14(a)/15d-14(a) Certification of Corporate Controller.
32*	Certification Pursuant to 18 U.S.C 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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 5, 2016

By: /s/ LAWRENCE W. MCAFEE

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

By: /s/ JON C. BATES

Jon C. Bates
Vice President/Corporate Controller

INDEX OF EXHIBITS

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101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

EXHIBIT 31.1
CERTIFICATION

I, Christopher Reading, certify that:

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

/s/ CHRISTOPHER READING

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

Date: August 5, 2016

EXHIBIT 31.2
CERTIFICATION

I, Lawrance W. McAfee, certify that:

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

/s/ LAWRENCE W. MCAFEE

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

Date: August 5, 2016

EXHIBIT 31.3
CERTIFICATION

I, Jon C. Bates, certify that:

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

/s/ JON C. BATES

Jon C. Bates

Vice President/Corporate Controller

Date: August 5, 2016

EXHIBIT 32
CERTIFICATION OF PERIODIC REPORT

In connection with the Quarterly Report of U.S. Physical Therapy, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher J. Reading, President and Chief Executive Officer of the Company, Lawrance W. McAfee, Chief Financial Officer of the Company, and Jon C. Bates, Vice President and Corporate Controller of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

August 5, 2016

/s/ CHRISTOPHER J. READING

Christopher J. Reading
Chief Executive Officer

/s/ LAWRANCE W. MCAFEE

Lawrance W. McAfee
Chief Financial Officer

/s/ JON C. BATES

Jon C. Bates
Vice President/Corporate Controller

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