# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended June 30, 2019**

**OR**

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

**For the transition period from __________ to __________**

**Commission File Number: 001-12111**

# MEDNAX, INC.
**(Exact name of registrant as specified in its charter)**

| **Florida**<br>**(State or other jurisdiction of Incorporation or organization)** | **26-3667538**<br>**(I.R.S. Employer Identification No.)** |
|---|---|
| **1301 Concord Terrace**<br>**Sunrise, Florida**<br>**(Address of principal executive offices)** | **33323**<br>**(Zip Code)** |

**(954) 384-0175**
**(Registrant's telephone number, including area code)**

**Not Applicable**
**(Former name, former address and former fiscal year, if changed since last report)**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|---|---|---|
| **Common Stock, par value $.01 per share** | **MD** | **New York Stock Exchange** |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

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

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

On July 26, 2019, the registrant had outstanding 84,212,571 shares of Common Stock, par value $.01 per share.

**MEDNAX, INC.**

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**MEDNAX, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(in thousands)**
**(Unaudited)**

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 24,482 | $ 25,491 |
| Restricted cash | 15,760 | 20,000 |
| Short-term investments | 82,835 | 21,923 |
| Accounts receivable, net | 504,190 | 506,723 |
| Prepaid expenses | 14,816 | 17,123 |
| Other current assets | 17,678 | 17,166 |
| Assets held for sale | 325,759 | 51,551 |
| Total current assets | 985,520 | 659,977 |
| Investments | — | 69,699 |
| Property and equipment, net | 92,720 | 90,434 |
| Goodwill | 4,069,564 | 4,061,439 |
| Intangible assets, net | 286,101 | 313,165 |
| Operating lease right-of-use assets | 89,857 | — |
| Other assets | 115,049 | 103,134 |
| Assets held for sale | — | 639,633 |
| Total assets | $ 5,638,811 | $ 5,937,481 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 386,408 | $ 448,567 |
| Current portion of finance lease liabilities | 206 | 253 |
| Current portion of operating lease liabilities | 24,494 | — |
| Income taxes payable | 1,656 | 30,598 |
| Liabilities held for sale | 28,282 | 23,344 |
| Total current liabilities | 441,046 | 502,762 |
| Line of credit | 351,500 | 739,500 |
| Long-term debt and finance lease liabilities, net | 1,728,418 | 1,234,781 |
| Long-term operating lease liabilities | 70,531 | — |
| Long-term professional liabilities | 215,213 | 209,060 |
| Deferred income taxes | 84,629 | 95,581 |
| Other liabilities | 22,447 | 31,828 |
| Liabilities held for sale | — | 36,085 |
| Total liabilities | 2,913,784 | 2,849,597 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred stock; $.01 par value; 1,000 shares authorized; none issued | — | — |
| Common stock; $.01 par value; 200,000 shares authorized; 84,096 and 87,820 shares issued and outstanding, respectively | 841 | 878 |
| Additional paid-in capital | 967,429 | 992,647 |
| Accumulated other comprehensive income | 38 | — |
| Retained earnings | 1,756,719 | 2,094,359 |
| Total shareholders' equity | 2,725,027 | 3,087,884 |
| Total liabilities and shareholders' equity | $ 5,638,811 | $ 5,937,481 |

*The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.*

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**MEDNAX, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**
**(in thousands, except per share data)**
**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Net revenue | $868,309 | $864,987 | $1,719,492 | $1,717,615 |
| Operating expenses: | | | | |
| Practice salaries and benefits | 608,962 | 593,047 | 1,230,501 | 1,197,004 |
| Practice supplies and other operating expenses | 28,016 | 28,329 | 53,807 | 55,730 |
| General and administrative expenses | 103,540 | 100,938 | 205,361 | 202,631 |
| Depreciation and amortization | 19,809 | 20,280 | 39,842 | 40,195 |
| Transformational and restructuring related expenses | 27,482 | — | 31,026 | — |
| Total operating expenses | 787,809 | 742,594 | 1,560,537 | 1,495,560 |
| Income from operations | 80,500 | 122,393 | 158,955 | 222,055 |
| Investment and other income | 1,222 | 1,225 | 2,869 | 2,699 |
| Interest expense | (31,080) | (21,618) | (61,803) | (41,553) |
| Equity in earnings of unconsolidated affiliates | 1,990 | 1,257 | 3,226 | 2,782 |
| Total non-operating expenses | (27,868) | (19,136) | (55,708) | (36,072) |
| Income from continuing operations before income taxes | 52,632 | 103,257 | 103,247 | 185,983 |
| Income tax provision | (17,116) | (28,482) | (26,078) | (51,202) |
| Income from continuing operations | 35,516 | 74,775 | 77,169 | 134,781 |
| (Loss) income from discontinued operations, net of tax | (43,761) | 4,637 | (328,286) | 8,059 |
| Net (loss) income | $ (8,245) | $ 79,412 | $ (251,117) | $ 142,840 |
| Per common and common equivalent share data: | | | | |
| Income from continuing operations: | | | | |
| Basic | $ 0.43 | $ 0.80 | $ 0.91 | $ 1.45 |
| Diluted | $ 0.42 | $ 0.80 | $ 0.91 | $ 1.44 |
| (Loss) income from discontinued operations: | | | | |
| Basic | $ (0.53) | $ 0.05 | $ (3.88) | $ 0.09 |
| Diluted | $ (0.52) | $ 0.05 | $ (3.86) | $ 0.09 |
| Net (loss) income: | | | | |
| Basic | $ (0.10) | $ 0.85 | $ (2.97) | $ 1.54 |
| Diluted | $ (0.10) | $ 0.85 | $ (2.95) | $ 1.53 |
| Weighted average common shares: | | | | |
| Basic | 83,234 | 92,987 | 84,623 | 92,922 |
| Diluted | 83,689 | 93,529 | 85,087 | 93,516 |

*The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.*

**MEDNAX, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**
**(in thousands)**

| | Common Stock | | | | | |
|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Additional Paid-in Capital | Accumulated Other Comprehensive (Loss) Income | Retained Earnings | Total Equity |
| **2019** | | | | | | |
| Balance at January 1, 2019 | 87,820 | $ 878 | $ 992,647 | $ — | $2,094,359 | $3,087,884 |
| Net loss | — | — | — | — | (242,872) | (242,872) |
| Unrealized holding loss on investments, net of tax | — | — | — | (194) | — | (194) |
| Common stock issued under employee stock option, employee stock purchase plan and stock purchase plan | 140 | 1 | 3,541 | — | — | 3,542 |
| Issuance of restricted stock | 978 | 10 | (10) | — | — | — |
| Forfeitures of restricted stock | (6) | — | — | — | — | — |
| Stock swaps | (20) | — | (666) | — | — | (666) |
| Stock-based compensation expense | — | — | 11,100 | — | — | 11,100 |
| Repurchased common stock | (2,525) | (25) | (28,740) | — | (50,217) | (78,982) |
| Balance at March 31, 2019 | 86,387 | $ 864 | $ 977,872 | $ (194) | $1,801,270 | $2,779,812 |
| Net loss | — | — | — | — | (8,245) | (8,245) |
| Unrealized holding gain on investments, net of tax | — | — | — | 232 | — | 232 |
| Common stock issued under employee stock option, employee stock purchase plan and stock purchase plan | 155 | 2 | 3,673 | — | — | 3,675 |
| Issuance of restricted stock | 123 | 1 | (1) | — | — | — |
| Forfeitures of restricted stock | (61) | (1) | 1 | — | — | — |
| Stock swaps | — | — | — | — | — | — |
| Stock-based compensation expense | — | — | 15,080 | — | — | 15,080 |
| Repurchased common stock | (2,508) | (25) | (29,196) | — | (36,306) | (65,527) |
| Balance at June 30, 2019 | 84,096 | $ 841 | $ 967,429 | $ 38 | $1,756,719 | $2,725,027 |
| **2018** | | | | | | |
| Balance at January 1, 2018 | 93,721 | $ 937 | $1,017,328 | $ — | $2,048,189 | $3,066,454 |
| Net income | — | — | — | — | 63,428 | 63,428 |
| Common stock issued under employee stock option, employee stock purchase plan and stock purchase plan | 97 | 1 | 4,026 | — | — | 4,027 |
| Issuance of restricted stock | 588 | 6 | (6) | — | — | — |
| Forfeitures of restricted stock | (13) | — | — | — | — | — |
| Stock swaps | (5) | — | (296) | — | — | (296) |
| Stock-based compensation expense | — | — | 9,875 | — | — | 9,875 |
| Balance at March 31, 2018 | 94,388 | $ 944 | $1,030,927 | $ — | $ 2,111,617 | $3,143,488 |
| Net income | — | — | — | — | 79,412 | 79,412 |
| Common stock issued under employee stock option, employee stock purchase plan and stock purchase plan | 214 | 2 | 8,021 | — | — | 8,023 |
| Issuance of restricted stock | 9 | — | — | — | — | — |
| Forfeitures of restricted stock | (32) | — | — | — | — | — |
| Stock swaps | (50) | — | (2,365) | — | — | (2,365) |
| Stock-based compensation expense | — | — | 10,524 | — | — | 10,524 |
| Repurchased common stock | (1,155) | (12) | (14,534) | — | (37,614) | (52,160) |
| Balance at June 30, 2018 | 93,374 | $ 934 | $1,032,573 | $ — | $2,153,415 | $3,186,922 |

*The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.*

**MEDNAX, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(in thousands)**
**(Unaudited)**

| | Six Months Ended June 30, 2019 | Six Months Ended June 30, 2018 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net (loss) income | $ (251,117) | $ 142,840 |
| Loss (income) from discontinued operations | 328,286 | (8,059) |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation and amortization | 39,842 | 40,195 |
| Amortization of premiums, discounts and issuance costs | 2,934 | 2,212 |
| Stock-based compensation expense | 20,950 | 20,012 |
| Deferred income taxes | (10,953) | (21,946) |
| Other | 13,150 | (2,148) |
| Changes in assets and liabilities: | | |
| Accounts receivable | 2,533 | (28,235) |
| Prepaid expenses and other current assets | 805 | (1,775) |
| Other long-term assets | 14,036 | (283) |
| Accounts payable and accrued expenses | (57,105) | (80,667) |
| Income taxes payable | (28,942) | (39,909) |
| Payments of contingent consideration liabilities | (418) | (65) |
| Long-term professional liabilities | (3,474) | (5,863) |
| Other liabilities | (15,605) | (1,079) |
| Net cash provided by operating activities – continuing operations | 54,922 | 15,230 |
| Net cash provided by operating activities - discontinued operations | 7,913 | 6,374 |
| Net cash provided by operating activities | 62,835 | 21,604 |
| Cash flows from investing activities: | | |
| Acquisition payments, net of cash acquired | (11,450) | (25,575) |
| Purchases of investments | — | (15,884) |
| Proceeds from maturities or sales of investments | 8,180 | 5,995 |
| Purchases of property and equipment | (16,480) | (18,296) |
| Proceeds from sale of controlling interest in assets | — | 22,764 |
| Net cash used in investing activities – continuing operations | (19,750) | (30,996) |
| Net cash used in investing activities - discontinued operations | (7,553) | (7,978) |
| Net cash used in investing activities | (27,303) | (38,974) |
| Cash flows from financing activities: | | |
| Borrowings on credit agreement | 898,500 | 821,500 |
| Payments on credit agreement | (1,286,500) | (782,500) |
| Proceeds from issuance of senior notes | 500,000 | — |
| Payments for financing costs | (9,194) | — |
| Payments of contingent consideration liabilities | (5,171) | (367) |
| Payments on finance lease obligations | (98) | (623) |
| Proceeds from issuance of common stock | 6,551 | 9,389 |
| Repurchases of common stock | (144,509) | (52,160) |
| Net cash used in financing activities – continuing operations | (40,421) | (4,761) |
| Net cash used in financing activities - discontinued operations | — | (13) |
| Net cash used in financing activities | (40,421) | (4,774) |
| Net decrease in cash and cash equivalents | (4,889) | (22,144) |
| Cash, cash equivalents and restricted cash at beginning of period | 56,745 | 80,200 |
| Less cash and cash equivalents of discontinued operations at end of period | (11,614) | (12,226) |
| Cash, cash equivalents and restricted cash of continuing operations at end of period | $ 40,242 | $ 45,830 |

*The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.*

**MEDNAX, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**June 30, 2019**
**(Unaudited)**

## 1. Basis of Presentation and New Accounting Pronouncements:

The accompanying unaudited Condensed Consolidated Financial Statements of the Company and the notes thereto presented in this Form 10-Q have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission applicable to interim financial statements, and do not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. In the opinion of management, these financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results of interim periods. The financial statements include all the accounts of MEDNAX, Inc. and its consolidated subsidiaries (collectively, "MDX") together with the accounts of MDX's affiliated business corporations or professional associations, professional corporations, limited liability companies and partnerships (the "affiliated professional contractors"). Certain subsidiaries of MDX have contractual management arrangements with its affiliated professional contractors, which are separate legal entities that provide physician services in certain states and Puerto Rico. The terms "MEDNAX" and the "Company" refer collectively to MEDNAX, Inc., its subsidiaries and the affiliated professional contractors.

The Company is a party to a joint venture in which it owns a 37.5% economic interest and a second joint venture in which it owns a 49.0% economic interest. The Company accounts for these joint ventures under the equity method of accounting because the Company exercises significant influence over, but does not control, these entities.

The consolidated results of operations for the interim periods presented are not necessarily indicative of the results to be experienced for the entire fiscal year. In addition, the accompanying unaudited Condensed Consolidated Financial Statements and the notes thereto should be read in conjunction with the Consolidated Financial Statements and the notes thereto included in the Company's most recent Annual Report on Form 10-K (the "Form 10-K").

On November 1, 2018, the Company announced the initiation of a process to potentially divest the Company's management services service line to allow the Company to focus on its core physician services business. The Company determined that the criterion to classify the management services service line as assets held for sale within the Company's Consolidated Balance Sheets effective March 31, 2019 were met, and accordingly, the assets and liabilities of that service line were classified as current assets and liabilities held for sale at March 31, 2019 and continue to meet the criteria at June 30, 2019. In addition, in accordance with accounting guidance for discontinued operations, the expected divestiture of the management services service line was deemed to represent a fundamental strategic shift that will have a major effect on the Company's operations, and accordingly, the operating results of the service line were reported as discontinued operations in the Company's Consolidated Statements of Income for the three and six months ended June 30, 2019. Reclassifications have been made to certain prior period financial statements and footnote disclosures to reflect the impact of discontinued operations. See note 6 for more information.

### Recently Adopted Accounting Pronouncements

In February 2016, the accounting guidance related to leases was issued that require an entity to recognize leased assets and the rights and obligations created by those leased assets on the balance sheet and to disclose key information about the entity's leasing arrangements. This guidance became effective for the Company on January 1, 2019. The adoption of this guidance had a material impact on the Company's Consolidated Balance Sheets and related disclosures, resulting from the recognition of significant right of use assets and related liabilities, primarily related to its operating lease arrangements for space in hospitals and certain other facilities for its business and medical offices. See note 8 for more information.

## 2. Cash Equivalents and Investments:

As of June 30, 2019 and December 31, 2018, the Company's cash equivalents consisted entirely of money market funds totaling $0.4 million and $0.5 million, respectively. Investments consisted of municipal debt securities, federal home loan securities and certificates of deposit.

During the six months ended June 30, 2019, the Company changed the classification of its investments from held-to-maturity to available for sale. Although there is no stated expectation that the investments will be sold within one year, the investments are available for use, if needed, and accordingly are classified as short-term. Such investments are carried at fair value with any unrealized gains and losses reported as a component of other accumulated comprehensive income or loss.

Prior to January 1, 2019, the Company classified its investments as held-to-maturity and carried such investments at amortized cost. Investments with remaining maturities of less than one year were classified as short-term and investments classified as long-term had maturities of one year to five years.

Investments held at June 30, 2019 and December 31, 2018 are summarized as follows (in thousands):

| | June 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Short-Term | Long-Term | Short-Term | Long-Term |
| Municipal debt securities | $ 43,272 | $ — | $ 18,473 | $ 30,841 |
| Federal home loan securities | 34,397 | — | 2,000 | 34,393 |
| Certificates of deposit | 5,166 | — | 1,450 | 4,465 |
| | $ 82,835 | $ — | $ 21,923 | $ 69,699 |

## 3. Fair Value Measurements:

The accounting guidance establishes a fair value hierarchy that prioritizes valuation inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of three levels:

Level 1 – inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The following table presents information about the Company's financial instruments that are accounted for at fair value on a recurring basis at June 30, 2019 and December 31, 2018 (in thousands):

| | Fair Value Category | Fair Value | |
|---|---|---|---|
| | | June 30, 2019 | December 31, 2018 |
| Assets: | | | |
| Money market funds | Level 1 | $ 398 | $ 481 |
| Short-term investments | Level 2 | 82,835 | — (1) |
| Company-owned life insurance | Level 2 | 12,185 | 10,464 |
| Liabilities: | | | |
| Contingent consideration | Level 3 | 8,299 | 20,039 |

(1) Investments were measured at carrying value as of December 31, 2018. See table below.

The following table presents information about the Company's financial instruments that are not carried at fair value at June 30, 2019 and December 31, 2018 (in thousands):

| | June 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Assets: | | | | |
| Short-term investments | $ — (2) | $ — (2) | 21,923 | 21,858 |
| Long-term investments | — (2) | — (2) | 69,699 | 69,090 |
| Liabilities: | | | | |
| 2023 Notes | 750,000 | 738,975 | 750,000 | 736,725 |
| 2027 Notes | 1,000,000 | 983,700 | 500,000 | 482,500 |

(2) Investments were measured at fair value as of June 30, 2019. See table above.

The carrying amounts of cash equivalents, accounts receivable and accounts payable and accrued expenses approximate fair value due to the short maturities of the respective instruments. The carrying value of the line of credit approximates fair value. If the Company's line of credit was measured at fair value, it would be categorized as Level 2 in the fair value hierarchy.

**4. Accounts Receivable and Net Revenue:**

Accounts receivable, net consists of the following (in thousands):

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Gross accounts receivable | $ 1,916,850 | $ 1,993,395 |
| Allowance for contractual adjustments and uncollectibles | (1,412,660) | (1,486,672) |
| | $ 504,190 | $ 506,723 |

Patient service revenue is recognized at the time services are provided by the Company's affiliated physicians. The Company's performance obligations related to the delivery of services to patients are satisfied at the time of service. Accordingly, there are no performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period with respect to patient service revenue. Almost all of the Company's patient service revenue is reimbursed by government-sponsored healthcare programs ("GHC Programs") and third-party insurance payors. Payments for services rendered to the Company's patients are generally less than billed charges. The Company monitors its revenue and receivables from these sources and records an estimated contractual allowance to properly account for the anticipated differences between billed and reimbursed amounts.

Accordingly, patient service revenue is presented net of an estimated provision for contractual adjustments and uncollectibles. The Company estimates allowances for contractual adjustments and uncollectibles on accounts receivable based upon historical experience and other factors, including days sales outstanding ("DSO") for accounts receivable, evaluation of expected adjustments and delinquency rates, past adjustments and collection experience in relation to amounts billed, an aging of accounts receivable, current contract and reimbursement terms, changes in payor mix and other relevant information. Contractual adjustments result from the difference between the physician rates for services performed and the reimbursements by GHC Programs and third-party insurance payors for such services.

Collection of patient service revenue the Company expects to receive is normally a function of providing complete and correct billing information to the GHC Programs and third-party insurance payors within the various filing deadlines and typically occurs within 30 to 60 days of billing.

Some of the Company's hospital agreements require hospitals to pay the Company administrative fees. Some agreements provide for fees if the hospital does not generate sufficient patient volume in order to guarantee that the Company receives a specified minimum revenue level. The Company also receives fees from hospitals for administrative services performed by its affiliated physicians providing medical director or other services at the hospital.

The following table summarizes the Company's net revenue by category (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Net patient service revenue | $765,525 | $763,667 | $1,515,110 | $1,520,040 |
| Hospital contract administrative fees | 96,741 | 95,534 | 191,462 | 186,773 |
| Other revenue | 6,043 | 5,786 | 12,920 | 10,802 |
| | $868,309 | $864,987 | $1,719,492 | $1,717,615 |

The approximate percentage of net patient service revenue by type of payor was as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Contracted managed care | 70% | 70% | 70% | 70% |
| Government | 24 | 25 | 24 | 25 |
| Other third-parties | 4 | 4 | 5 | 4 |
| Private-pay patients | 2 | 1 | 1 | 1 |
| | 100% | 100% | 100% | 100% |

**5. Business Acquisitions:**

During the six months ended June 30, 2019, the Company completed the acquisition of one neonatology physician practice and two maternal-fetal medicine physician practices for total cash consideration of $11.5 million. These acquisitions expanded the Company's national network of physician practices. In connection with these acquisitions, the Company recorded goodwill of $8.1 million and other intangible assets consisting primarily of physician and hospital agreements of $3.4 million. The Company expects that the goodwill recorded during the six months ended June 30, 2019 will be deductible for tax purposes.

In addition, the Company paid $5.6 million for contingent consideration in connection with prior period acquisitions. The Company also recorded a decrease of $6.6 million related to the change in fair value of a contingent consideration agreement for which the probability of the achievement of certain performance measures was updated during the six months ended June 30, 2019. This change in fair value of contingent consideration was recorded within operating expenses.

## 6. Assets Held for Sale and Discontinued Operations:

On November 1, 2018, the Company announced the initiation of a process to potentially divest of its management services service line to allow the Company to focus on its core physician services business. The Company determined that the criterion to classify the management services service line as assets held for sale within the Company's Consolidated Balance Sheets were met at March 31, 2019 and continue to be met at June 30, 2019. Accordingly, the assets and liabilities of that service line were classified as current assets and liabilities held for sale at June 30, 2019 as the Company expects to divest of the management services organization within twelve months of March 31, 2019, although there is no assurance that any such divestiture will occur.

In addition, in accordance with accounting guidance for discontinued operations, the expected divestiture of the management services service line was deemed to represent a fundamental strategic shift that will have a major effect on the Company's operations, and accordingly, the operating results of the service line were reported as discontinued operations in the Company's Consolidated Statements of Income for the three and six months ended June 30, 2019 with prior periods recast to conform with the current period presentation.

The classification to assets held for sale impacted the net book value of the assets and liabilities expected to be transferred upon sale. The estimated fair value of the management services service line was initially determined at March 31, 2019 based on an estimated market value along with estimated broker, accounting, legal and other costs to sell. The Company deemed the carrying amount of other assets within the service line, specifically accounts receivable and property and equipment, to represent fair value and therefore recorded a non-cash charge during the first quarter of 2019 of $285.0 million against goodwill, which represented the difference between the estimated fair value of the management services service line and the carrying amount of the net assets held for sale. Recognition of the charge against goodwill resulted in a tax benefit which generated an additional $36.6 million deferred tax asset that increased the fair value of the service line. An incremental non-cash charge is then required to reduce the service line to its previously determined fair value. Accordingly, the Company recorded the incremental non-cash charge of $36.6 million for a total non-cash charge of $321.6 million during the three months ended March 31, 2019, reducing the goodwill balance of the management services service line to zero. During the three months ended June 30, 2019, an incremental non-cash charge of $50.0 million was recorded based on new information obtained during the quarter with respect to the estimated market value of the management services service line. This non-cash charge was recorded against amortizing intangible assets. Recognition of the incremental non-cash charge resulted in a tax benefit which generated an additional $16.4 million deferred tax asset that increased the fair value of the service line. An incremental non-cash charge is then required to reduce the service line to its previously determined fair value. Accordingly, the Company recorded the incremental non-cash charge of $16.4 million for a total non-cash charge of $66.4 million during the three months ended June 30, 2019. Upon completion of a divestiture, the Company could record an additional gain or loss on disposal at the time final net proceeds are determined. In addition, if a change in any facts and circumstances supporting the fair value of the management services service line occur prior to a divestiture, an additional gain or loss would be recorded at that time.

The following table is a reconciliation of the major classes of assets and liabilities classified as assets and liabilities held for sale in the accompanying Consolidated Balance Sheets representing the management services service line as of June 30, 2019 and December 31, 2018 (in thousands):

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 11,614 | $ 11,254 |
| Accounts receivable, net | 39,787 | 38,118 |
| Prepaid expenses and other assets | 2,310 | 2,505 |
| Property and equipment, net | 47,573 | 42,603 |
| Deferred income taxes | 15,569 | |
| Operating lease right-of-use asset | 4,883 | — |
| Goodwill | — | 321,556 |
| Intangible assets, net | 204,023 | 275,148 |
| | $ 325,759 | $ 691,184 |
| **Liabilities** | | |
| Accounts payable, accrued expenses and other liabilities | $ 21,390 | $ 23,770 |
| Lease liabilities | 6,892 | — |
| Deferred income taxes | — | 35,659 |
| | $ 28,282 | $ 59,429 |

The following table summarizes the results of discontinued operations for the three and six months ended June 30, 2019 and 2018 (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Net revenue | $ 53,141 | $58,242 | $ 104,363 | $114,331 |
| Operating expenses: | | | | |
| Cost of service salaries and benefits | 26,667 | 27,930 | 52,595 | 55,806 |
| Cost of service supplies and other operating expenses | 6,370 | 6,225 | 11,937 | 12,194 |
| General and administrative expenses | 11,421 | 11,562 | 22,444 | 22,788 |
| Depreciation and amortization | — | 6,237 | 7,262 | 12,486 |
| Transaction costs | 300 | — | 1,400 | — |
| Loss on classification as held for sale | 66,446 | — | 388,002 | — |
| Total operating expenses | 111,204 | 51,954 | 483,640 | 103,274 |
| (Loss) income from operations | (58,063) | 6,288 | (379,277) | 11,057 |
| Non-operating expenses, net | (17) | (11) | (33) | (19) |
| (Loss) income before income taxes | (58,080) | 6,277 | (379,310) | 11,038 |
| Income tax benefit (provision) | 14,319 | (1,640) | 51,024 | (2,979) |
| Net (loss) income | $ (43,761) | $ 4,637 | $(328,286) | $ 8,059 |

## 7. Accounts Payable and Accrued Expenses:

Accounts payable and accrued expenses consist of the following (in thousands):

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Accounts payable | $ 32,386 | $ 31,059 |
| Accrued salaries and bonuses | 151,982 | 242,888 |
| Accrued payroll taxes and benefits | 64,197 | 78,415 |
| Accrued professional liabilities | 44,837 | 34,931 |
| Accrued contingent consideration | 8,299 | 18,760 |
| Accrued interest | 34,183 | 9,477 |
| Other accrued expenses | 50,524 | 33,037 |
| | $ 386,408 | $ 448,567 |

The net decrease in accrued salaries and bonuses of $90.9 million, from December 31, 2018 to June 30, 2019, is primarily due to the payment of performance-based incentive compensation, principally to the Company’s affiliated physicians, partially offset by performance-based incentive compensation accrued during the six months ended June 30, 2019. A majority of the Company’s payments for performance-based incentive compensation is paid annually during the first quarter.

## 8. Leases:

Effective January 1, 2019, the Company adopted the new accounting guidance using the modified retrospective method of applying the new guidance at the adoption date. The Company elected practical expedients permitted under the transition provisions, which allowed the Company to carryforward historical assessments of whether contracts are or contain leases and lease classification. Beginning with January 1, 2019, the Company’s financial position is presented under the new guidance, while the prior period financial statements were not adjusted and continue to be reported in accordance with the previous guidance.

The Company primarily leases property under operating leases and has one material equipment operating lease for an aircraft. The Company’s property leases are primarily for its regional, medical and business offices, storage space and temporary housing for medical staff.

For leases with terms greater than 12 months, the Company records the related asset and obligation at the present value of the lease payment using a discount rate that reflects the Company’s estimated incremental borrowing rate. Certain of the Company’s leases include rental escalation clauses and renewal options that are factored into the determination of lease payments when appropriate. Operating leases for office equipment are not material, and therefore are excluded from the Company’s Consolidated Balance Sheet. Finance leases are not material but will continue to be reported on the Company’s Consolidated Balance Sheets with the right-of-use assets included in property and equipment, net, and the liabilities included in current portion of long-term debt and finance lease obligations.

The table below presents the operating lease-related right-of-use assets and related liabilities recorded on the Company's balance sheet and the weighted average remaining lease term and discount rate as of June 30, 2019 (dollars in thousands):

| | June 30, 2019 |
|---|---|
| **Assets:** | |
| Operating lease right-of-use assets | $ 89,857 |
| **Liabilities:** | |
| Current portion of operating lease liabilities | 24,494 |
| Long-term portion of operating lease liabilities | 70,531 |
| **Other Information:** | |
| Weighted-average remaining lease term | 4.7 years |
| Weighted average discount rate | 5.0% |

The table below presents certain information related to the lease costs for operating leases during the three and six months ended June 30, 2019 (in thousands):

| | Three Months Ended June 30, 2019 | Six Months Ended June 30, 2019 |
|---|---|---|
| Operating lease costs | $ 7,428 | $ 15,071 |
| Variable lease costs | 1,069 | 1,791 |
| Other operating lease costs | 1,325 | 2,958 |
| Total operating lease costs | $ 9,822 | $ 19,820 |

The table below presents supplemental cash flow information related to operating leases during the six months ended June 30, 2019 (in thousands):

| | June 30, 2019 |
|---|---|
| Operating cash flows for operating leases | $ 20,528 |

The table below reconciles the undiscounted cash flows for each of the first five years and total of the remaining years to the operating lease liabilities recorded on the balance sheet as of June 30, 2019 (in thousands):

| | June 30, 2019 |
|---|---|
| 2019 (excluding the six months ended June 30, 2019) | $ 11,821 |
| 2020 | 26,064 |
| 2021 | 22,013 |
| 2022 | 17,170 |
| 2023 | 12,626 |
| Thereafter | 15,383 |
| Total minimum lease payments | 105,077 |
| Less: Amount of payments representing interest | (10,052) |
| Present value of future minimum lease payments | 95,025 |
| Less: Current obligations | (24,494) |
| Long-term portion of operating leases | $ 70,531 |

## 9. Common and Common Equivalent Shares:

Basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share is calculated by dividing net income by the weighted average number of common and potential common shares outstanding during the period. Potential common shares consist of outstanding restricted stock, deferred stock and stock options and is calculated using the treasury stock method.

The calculation of shares used in the basic and diluted net income per common share calculation for the three and six months ended June 30, 2019 and 2018 is as follows (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Weighted average number of common shares outstanding | 83,234 | 92,987 | 84,623 | 92,922 |
| Weighted average number of dilutive common share equivalents | 455 | 542 | 464 | 594 |
| Weighted average number of common and common equivalent shares outstanding | 83,689 | 93,529 | 85,087 | 93,516 |
| Antidilutive securities not included in the diluted net income per common share calculation | 923 | 392 | 713 | 197 |

## 10. Stock Incentive Plans and Stock Purchase Plans:

On May 16, 2019, the Company's shareholders approved the Company's Amended and Restated 2008 Incentive Compensation Plan (the "Amended and Restated 2008 Incentive Plan"). The amendments, among other things, increased the number of shares of common stock reserved for delivery under the under the Amended and Restated 2008 Incentive Plan from 19,500,000 shares to 27,775,000 shares, as well as extended the expiration date to ten years from the effective date of approval. The Amended and Restated 2008 Incentive Plan provides for grants of stock options, stock appreciation rights, restricted stock, deferred stock, and other stock-related awards and performance awards that may be settled in cash, stock or other property.

Under the Amended and Restated 2008 Incentive Plan, options to purchase shares of common stock may be granted at a price not less than the fair market value of the shares on the date of grant. The options must be exercised within 10 years from the date of grant and generally become exercisable on a pro rata basis over a three-year period from the date of grant. The Company issues new shares of its common stock upon exercise of its stock options. Restricted stock awards generally vest over periods of three years upon the fulfillment of specified service-based conditions and in certain instances performance-based conditions. Deferred stock awards generally vest upon the satisfaction of specified performance-based conditions and service-based conditions. The Company recognizes compensation expense related to its restricted stock and deferred stock awards ratably over the corresponding vesting periods. During the six months ended June 30, 2019, the Company granted 1,100,913 shares of restricted stock to its employees and non-employee directors under the Amended and Restated 2008 Incentive Plan. At June 30, 2019, the Company had 8.2 million shares available for future grants and awards under its Amended and Restated 2008 Incentive Plan.

Under the Company's 1996 Non-Qualified Employee Stock Purchase Plan, as amended (the "ESPP"), employees are permitted to purchase the Company's common stock at 85% of market value on January 1st, April 1st, July 1st and October 1st of each year. Under the Company's 2015 Non-Qualified Stock Purchase Plan (the "SPP"), certain eligible non-employee service providers are permitted to purchase the Company's common stock at 90% of market value on January 1st, April 1st, July 1st and October 1st of each year.

Each of the ESPP and the SPP provide for the issuance of an aggregate of 2.6 million shares of the Company's common stock less the number of shares of common stock purchased under the other plan. The Company recognizes stock-based compensation expense for the discount received by participating employees and non-employee service providers. During the six months ended June 30, 2019, 0.3 million shares in aggregate were issued under the ESPP and SPP. At June 30, 2019, the Company had approximately 1.3 million shares in aggregate reserved for issuance under the ESPP and SPP.

During the three and six months ended June 30, 2019 and 2018, the Company recognized stock-based compensation expense of $10.0 million and $21.0 million, and $10.3 million and $20.0 million, respectively.

## 11. Common Stock Repurchase Programs:

In July 2013, the Company's Board of Directors authorized the repurchase of shares of the Company's common stock up to an amount sufficient to offset the dilutive impact from the issuance of shares under the Company's equity compensation programs. The share repurchase program allows the Company to make open market purchases from time-to-time based on general economic and market conditions and trading restrictions. The repurchase program also allows for the repurchase of shares of the Company's common stock to offset the dilutive impact from the issuance of shares, if any, related to the Company's acquisition program. No shares were purchased under this program during the six months ended June 30, 2019.

In August 2018, the Company announced that its Board of Directors had authorized the repurchase of up to $500.0 million of the Company's common stock in addition to its existing share repurchase program, of which $250.0 million remained available for repurchase as of December 31, 2018. Under this program, during the six months ended June 30, 2019, the Company repurchased approximately 5.0 million shares of its common stock for $144.5 million, inclusive of 63,666 shares withheld to satisfy minimum statutory withholding obligations of $1.7 million in connection with the vesting of restricted stock during the six months ended June 30, 2019.

The Company intends to utilize various methods to effect any future share repurchases, including, among others, open market purchases and accelerated share repurchase programs. The amount and timing of repurchases will depend upon several factors, including general economic and market conditions and trading restrictions.

## 12. Commitments and Contingencies:

The Company expects that audits, inquiries and investigations from government authorities and agencies will occur in the ordinary course of business. Such audits, inquiries and investigations and their ultimate resolutions, individually or in the aggregate, could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows and the trading price of its securities. The Company has not included an accrual for these matters as of June 30, 2019 in its Condensed Consolidated Financial Statements, as the variables affecting any potential eventual liability depend on the currently unknown facts and circumstances that arise out of, and are specific to, any particular future audit, inquiry and investigation and cannot be reasonably estimated at this time.

In the ordinary course of business, the Company becomes involved in pending and threatened legal actions and proceedings, most of which involve claims of medical malpractice related to medical services provided by the Company's affiliated physicians. The Company's contracts with hospitals generally require the Company to indemnify them and their affiliates for losses resulting from the negligence of the Company's affiliated physicians. The Company may also become subject to other lawsuits which could involve large claims and significant costs. The Company believes, based upon a review of pending actions and proceedings, that the outcome of such legal actions and proceedings will not have a material adverse effect on its business, financial condition, results of operations, cash flows and the trading price of its securities. The outcome of such actions and proceedings, however, cannot be predicted with certainty and an unfavorable resolution of one or more of them could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows and the trading price of its securities.

Although the Company currently maintains liability insurance coverage intended to cover professional liability and certain other claims, the Company cannot assure that its insurance coverage will be adequate to cover liabilities arising out of claims asserted against it in the future where the outcomes of such claims are unfavorable. With respect to professional liability risk, the Company generally self-insures a portion of this risk through its wholly owned captive insurance subsidiary. Liabilities in excess of the Company's insurance coverage, including coverage for professional liability and certain other claims, could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows and the trading price of its securities.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion highlights the principal factors that have affected our financial condition and results of operations, as well as our liquidity and capital resources, for the periods described. This discussion should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and the notes thereto included in this Quarterly Report. In addition, reference is made to our audited consolidated financial statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed with the Securities and Exchange Commission on February 14, 2019 (the "2018 Form 10-K"). As used in this Quarterly Report, the terms "MEDNAX", the "Company", "we", "us" and "our" refer to the parent company, MEDNAX, Inc., a Florida corporation, and the consolidated subsidiaries through which its businesses are actually conducted (collectively, "MDX"), together with MDX's affiliated business corporations or professional associations, professional corporations, limited liability companies and partnerships ("affiliated professional contractors"). Certain subsidiaries of MDX have contracts with our affiliated professional contractors, which are separate legal entities that provide physician services in certain states and Puerto Rico. The following discussion contains forward-looking statements. Please see the Company's 2018 Form 10-K, including Item 1A, Risk Factors, for a discussion of the uncertainties, risks and assumptions associated with these forward-looking statements. In addition, please see "Caution Concerning Forward-Looking Statements" below.

### Overview

MEDNAX is a leading provider of physician services including newborn, anesthesia, maternal-fetal, radiology and teleradiology, pediatric cardiology and other pediatric subspecialty care. Our national network is comprised of affiliated physicians who provide clinical care in 39 states and Puerto Rico. Our affiliated physicians provide neonatal clinical care, primarily within hospital-based neonatal intensive care units, to babies born prematurely or with medical complications; anesthesia care to patients in connection with surgical and other procedures, as well as pain management; radiology services including diagnostic imaging and interventional radiology; and maternal-fetal and obstetrical medical care to expectant mothers experiencing complicated pregnancies primarily in areas where our affiliated neonatal physicians practice. Our network also includes other pediatric subspecialists, including those who provide pediatric intensive care, pediatric cardiology care, hospital-based pediatric care, pediatric surgical care, pediatric ear, nose and throat, pediatric ophthalmology and pediatric urology services. MEDNAX also provides teleradiology services in all 50 states, the District of Columbia and Puerto Rico through a network of affiliated radiologists. In addition to our national physician network, we provide services nationwide to healthcare facilities and physicians, including ours, through a consulting services company.

#### *Divestiture of the Management Services Organization*

On November 1, 2018, we announced the initiation of a process to potentially divest our management services service line to allow us to focus on our core physician services business. We determined that the criterion to classify the management services service line as assets and liabilities held for sale within our consolidated balance sheets were met at March 31, 2019 and continue to be met at June 30, 2019. Accordingly, the assets and liabilities of the management services service line were classified as current assets and liabilities held for sale as of March 31, 2019 and June 30, 2019. In addition, in accordance with the accounting guidance for discontinued operations, the expected divestiture of the management services service line was deemed to represent a fundamental strategic shift that will have a major effect on the Company's operations, and accordingly, the operating results of the service line were reported as discontinued operations in the consolidated statements of income for the three and six months ended June 30, 2019.

#### *Reclassifications*

Reclassifications have been made to certain prior period financial statements and footnote disclosures to conform to the current period presentation, specifically to reflect the impact of the management services organization being classified as assets held for sale and discontinued operations.

#### *2019 Acquisition Activity*

During the six months ended June 30, 2019, we completed the acquisition of one neonatology physician group practice and two maternal-fetal medicine physician group practices. Based on our experience, we expect that we can improve the results of acquired physician practices through improved managed care contracting, improved collections, identification of growth initiatives and operating and cost savings based upon the significant infrastructure that we have developed.

#### *Shared Services and Operational Initiatives*

We have developed a number of strategic initiatives across our organization, in both our shared services functions and our operational infrastructure, with a goal of generating improvements in our general and administrative expenses and our operational infrastructure. In our shared services departments, we are focused on improving processes, using our resources more efficiently and utilizing our scale more effectively to improve cost and service performance across our operations. Within our operational infrastructure, we have developed specific operational plans within each of our service lines and affiliated physician practices, with specific milestones and regular reporting, with the goal of generating long-term operational improvements and fostering even greater collaboration across our national medical group. We currently intend to make a series of information-technology and other investments to improve processes and performance across our enterprise, using both internal and external resources. We are targeting annualized financial improvements related to these initiatives of $40 million within general and administrative expenses and $80 million in operational improvements by the end of 2019. We achieved the goals we established for these initiatives of $60 million in improvements in 2018, comprised of $25 million within shared services and $35 million in operational improvements, and we remain committed to achieve the remaining improvements by the end of 2019, although there is no assurance that these improvements will be obtained. We believe these strategic initiatives, together with our continued plans to invest in focused, targeted and strategic organic and acquisitive growth, position us well to deliver a differentiated value proposition to our stakeholders while continuing to provide the highest quality care for our patients.

***Senior Notes***

In February 2019, we completed a private offering of $500.0 million aggregate principal amount of 6.25% senior unsecured notes due 2027 (the "Additional 2027 Notes"), which are treated as a single class together with the 6.25% senior unsecured notes due 2027 that we issued in November 2018 ("the Initial 2027 Notes"), collectively (the "2027 Notes"). Our obligations under the 2027 Notes are guaranteed on an unsecured senior basis by the same subsidiaries and affiliated professional contractors that guarantee our credit agreement (the "Credit Agreement"). We used the net proceeds of approximately $491.7 million from the issuance of the Additional 2027 Notes to repay a portion of the indebtedness outstanding under our Credit Agreement. Interest on the 2027 Notes accrues at the rate of 6.25% per annum and is payable semi-annually in arrears on January 15 and July 15.

***Common Stock Repurchase Programs***

In July 2013, our Board of Directors authorized the repurchase of shares of our common stock up to an amount sufficient to offset the dilutive impact from the issuance of shares under our equity compensation programs. The share repurchase program allows us to make open market purchases from time-to-time based on general economic and market conditions and trading restrictions. The repurchase program also allows for the repurchase of shares of our common stock to offset the dilutive impact from the issuance of shares, if any, related to our acquisition program. We did not repurchase any shares under this program during the six months ended June 30, 2019.

In August 2018, we announced that our Board of Directors had authorized the repurchase of up to $500.0 million of shares of our common stock in addition to our existing share repurchase program, of which $250.0 million remained available as of December 31, 2018. Under this share repurchase program, during the six months ended June 30, 2019, we repurchased approximately 5.0 million shares of our common stock for $144.5 million, inclusive of 63,666 shares withheld to satisfy minimum statutory withholding obligations of $1.7 million in connection with the vesting of restricted stock.

We may utilize various methods to effect any future share repurchases, including, among others, open market purchases and accelerated share repurchase programs.

***General Economic Conditions and Other Factors***

Our operations and performance depend significantly on economic conditions. During the three months ended June 30, 2019, the percentage of our patient service revenue being reimbursed under government-sponsored or funded healthcare programs (the "GHC Programs"), was slightly favorable as compared to the three months ended June 30, 2018. If, however, economic conditions in the United States deteriorate, we could experience shifts toward GHC Programs, and patient volumes could decline. Further, we could experience and have experienced shifts toward GHC Programs if changes occur in population demographics within geographic locations in which we provide services. We have also experienced, and could continue to experience, a shift toward GHC Programs, particularly in anesthesia care. Payments received from GHC Programs are substantially less for equivalent services than payments received from commercial insurance payors. In addition, due to the rising costs of managed care premiums and patient responsibility amounts, we may experience lower net revenue resulting from increased bad debt due to patients' inability to pay for certain services.

***Healthcare Reform***

The Patient Protection and Affordable Care Act (the "ACA") contains a number of provisions that have affected us and, absent amendment or repeal, may continue to affect us over the next several years. These provisions include the establishment of health insurance exchanges to facilitate the purchase of qualified health plans, expanded Medicaid eligibility, subsidized insurance premiums and additional requirements and incentives for businesses to provide healthcare benefits. Other provisions have expanded the scope and reach of the Federal Civil False Claims Act and other healthcare fraud and abuse laws. Moreover, we could be affected by potential changes to various aspects of the ACA, including subsidies, healthcare insurance marketplaces and Medicaid expansion.

The ACA remains subject to continuing legislative and administrative flux and uncertainty. In 2017, Congress unsuccessfully sought to replace substantial parts of the ACA with different mechanisms for facilitating insurance coverage in the commercial and Medicaid markets. Additionally, Centers for Medicare & Medicaid Services ("CMS") has administratively revised a number of provisions and may seek to advance additional significant changes through regulation, guidance and enforcement in the future. At the end of 2017, Congress repealed part of the ACA that required most individuals to purchase and maintain health insurance or face a tax penalty. The 2018 mid-term elections in November 2018 changed the balance of power in Congress and the results of the upcoming 2020 elections may change the direction of future health-related legislation. Several candidates for President have proposed legislation which would substantially modify the delivery of healthcare in the United States, including repealing the ACA and replacing all private insurance coverage with a government-sponsored plan such as Medicare.

If the ACA is repealed or further substantially modified, or if implementation of certain aspects of the ACA are diluted, delayed or replaced with a "Medicare for All" or single payor system, such repeal, modification or delay may impact our business, financial condition, results of operations, cash flows and the trading price of our securities. We are unable to predict the impact of any repeal, modification or delay in the implementation of the ACA, including the repeal of the individual mandate or implementation of a single payor system, on us at this time.

In addition to the potential impacts to the ACA under the current Administration and Congress, there could be more sweeping changes to GHC Programs, such as a change in the structure of Medicaid by converting it into a block grant or instituting "per capita caps," which could eliminate the guarantee that everyone who is eligible and applies for benefits would receive them and could potentially give states sweeping new authority to restrict eligibility, cut benefits and make it more difficult for people to enroll. Additionally, several states are considering and pursuing changes to their Medicaid programs, such as requiring recipients to engage in employment activities as a condition of eligibility for most adults, disenrolling recipients for failure to pay a premium, or adjusting premium amounts based on income.

As a result, we cannot predict with any assurance the ultimate effect of these laws and resulting changes to payments under GHC Programs, nor can we provide any assurance that they will not have a material adverse effect on our business, financial condition, results of operations, cash flows and the trading price of our securities. Further, any fiscal tightening impacting GHC Programs or changes to the structure of any GHC Programs could have a material adverse effect on our financial condition, results of operations, cash flows and the trading price of our securities.

***The Medicare Access and CHIP Reauthorization Act***

Medicare pays for most physician services based upon a national service-specific fee schedule. The Medicare Access and CHIP Reauthorization Act ("MACRA") provides physicians 0.5% annual increases in reimbursement through 2019 as Medicare transitions to a payment system designed to reward physicians for the quality of care provided, rather than the quantity of procedures performed. MACRA requires physicians to choose to participate in one of two payment formulas, Merit-Based Incentive Payment System ("MIPS") or Alternative Payment Models ("APMs"). Effective January 1, 2019, MIPS allows eligible physicians to receive incentive payments based on the achievement of certain quality and cost metrics, among other measures, and be reduced for those who are underperforming against those same metrics and measures. As an alternative, physicians can choose to participate in advanced APMs, and physicians who are meaningful participants in APMs will receive bonus payments from Medicare pursuant to the law. MACRA also remains subject to review and potential modification by Congress, as well as shifting regulatory requirements established by CMS. We currently anticipate that our affiliated physicians will be eligible to receive bonus payments in 2019 through participation in the MIPS, although the amounts of such bonus payments are not expected to be material. We will continue to operationalize the provisions of MACRA and assess any further changes to the law or additional regulations enacted pursuant to the law.

We cannot predict the ultimate effect that these changes will have on us, nor can we provide any assurance that its provisions will not have a material adverse effect on our business, financial condition, results of operations, cash flows and the trading price of our securities.

***Medicaid Expansion***

The ACA also allows states to expand their Medicaid programs through federal payments that fund most of the cost of increasing the Medicaid eligibility income limit from a state's historic eligibility levels to 133% of the federal poverty level. To date, 36 states and the District of Columbia have expanded Medicaid eligibility to cover this additional low-income patient population, and other states are considering expansion. All the states in which we operate, however, already cover children in the first year of life and pregnant women if their household income is at or below 133% of the federal poverty level.

***"Surprise" Billing Legislation***

"Surprise" medical bills arise when an insured patient receives care from an out-of-network provider resulting in costs that were not expected by the patient. The bill is a "surprise" either because the patient did not expect to receive care from an out-of-network provider, or because their cost-sharing responsibility is higher than the patient expected. For the past several years, state legislatures have been enacting laws that are intended to address the problems associated with surprise billing or balance billing.

More recently, Congress and President Trump have proposed bipartisan solutions to address this circumstance, either by working in tandem with, or in the absence of, applicable state laws. Any state or federal legislation on the topic of surprise billing may have an unfavorable impact on out-of network reimbursement that we receive. In addition, legislative changes in this area may impact our ability to contract with private payors at favorable reimbursement rates or remain in contract with such payors.

Although our out-of-network revenue is currently immaterial, we cannot predict the ultimate effect that these changes will have on us, nor can we provide any assurance that future legislation or regulations will not have a material adverse effect on our business, financial condition, results of operations, cash flows and the trading price of our securities.

***Medicare Sequestration***

The Budget Control Act of 2011, as amended by the American Taxpayer Relief Act of 2012, required across-the-board cuts ("sequestrations") to Medicare reimbursement rates. These annual reductions of 2%, on average, apply to mandatory and discretionary spending through 2025. Unless Congress acts in the future to modify these sequestrations, Medicare reimbursements will be reduced by 2%, on average, annually. However, this reduction in Medicare reimbursement rates is not expected to have a material adverse effect on our business, financial condition, results of operations, cash flows or the trading price of our securities.

***Non-GAAP Measures***

In our analysis of our results of operations, we use certain non-GAAP financial measures. Prior to January 1, 2019, we reported earnings before interest, taxes and depreciation and amortization ("EBITDA"). During 2019, we have incurred and anticipate we will continue to incur certain expenses related to transformational and restructuring related expenses that are expected to be project-based and periodic in

nature. In addition, we have reported our management services as assets held for sale and discontinued operations beginning with the first quarter of 2019. Accordingly, beginning with the first quarter of 2019, we began reporting Adjusted EBITDA from continuing operations, defined as income from continuing operations before interest, taxes, depreciation and amortization, and transformational and restructuring related expenses. Adjusted earnings per common share ("Adjusted EPS") from continuing operations has also been further adjusted for these items and beginning with the first quarter of 2019 consists of diluted income from continuing operations per common and common equivalent share adjusted for amortization expense, stock-based compensation expense and transformational and restructuring related expenses. Adjusted EPS from continuing operations is being further adjusted to reflect the impacts from discrete tax events. Historical periods do not include any material items that meet the definition of transformational and restructuring related expenses, so although we are retrospectively presenting historical periods for the new definitions, we do not expect any adjustments for these items.

We believe these measures, in addition to income from operations, net income and diluted net income per common and common equivalent share, provide investors with useful supplemental information to compare and understand our underlying business trends and performance across reporting periods on a consistent basis. These measures should be considered a supplement to, and not a substitute for, financial performance measures determined in accordance with GAAP. In addition, since these non-GAAP measures are not determined in accordance with GAAP, they are susceptible to varying calculations and may not be comparable to other similarly titled measures of other companies.

For a reconciliation of each of Adjusted EBITDA from continuing operations and Adjusted EPS from continuing operations to the most directly comparable GAAP measures for the three and six months ended June 30, 2019 and 2018, refer to the tables below (in thousands, except per share data).

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Income from continuing operations | $ 35,516 | $ 74,775 | $ 77,169 | $134,781 |
| Interest expense | 31,080 | 21,618 | 61,803 | 41,553 |
| Income tax provision | 17,116 | 28,482 | 26,078 | 51,202 |
| Depreciation and amortization | 19,809 | 20,280 | 39,842 | 40,195 |
| Transformational and restructuring related expenses | 27,482 | — | 31,026 | — |
| Adjusted EBITDA from continuing operations | $131,003 | $145,155 | $235,918 | $267,731 |

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| Weighted average diluted shares outstanding | 83,689 | | 93,529 | |
| Income from continuing operations and diluted income from continuing operations per share | $ 35,516 | $ 0.42 | $ 74,775 | $ 0.80 |
| Adjustments[(1)]: | | | | |
| Amortization (net of tax of $3,434 and $3,621) | 9,052 | 0.11 | 9,546 | 0.10 |
| Stock-based compensation (net of tax of $2,739 and $2,840) | 7,222 | 0.09 | 7,487 | 0.08 |
| Transformational and restructuring related expenses (net of tax of $7,558) | 19,924 | 0.24 | — | — |
| Net impact from discrete tax events | 2,400 | 0.03 | — | — |
| Adjusted income and diluted EPS from continuing operations | $ 74,114 | $ 0.89 | $ 91,808 | $ 0.98 |

(1) Tax rate of 27.5% was used to calculate the tax effects of the adjustments for the three months ended June 30, 2019 and 2018, respectively. The tax rate used for the three months ended June 30, 2019 excludes the impact of discrete tax events.

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| Weighted average diluted shares outstanding | 85,087 | | 93,516 | |
| Income from continuing operations and diluted income from continuing operations per share | $ 77,169 | $ 0.91 | $ 134,781 | $ 1.44 |
| Adjustments[(1)]: | | | | |
| Amortization (net of tax of $6,883 and $7,183) | 18,376 | 0.22 | 18,938 | 0.20 |
| Stock-based compensation (net of tax of $5,709 and $5,503) | 15,241 | 0.18 | 14,509 | 0.16 |
| Transformational and restructuring related expenses (net of tax of $8,455) | 22,571 | 0.26 | — | — |
| Net impact from discrete tax events | (2,391) | (0.03) | — | — |
| Adjusted income and diluted EPS from continuing operations | $ 130,966 | $ 1.54 | $ 168,228 | $ 1.80 |

(1) Tax rates of 27.3% and 27.5% were used to calculate the tax effects of the adjustments for the six months ended June 30, 2019 and 2018, respectively. The tax rate used for the six months ended June 30, 2019 excludes the impact of discrete tax events.

**Results of Operations**

***Three Months Ended June 30, 2019 as Compared to Three Months Ended June 30, 2018***

Our net revenue attributable to continuing operations was $868.3 million for the three months ended June 30, 2019, as compared to $865.0 million for the same period in 2018. The increase in revenue of $3.3 million, or 0.4%, was attributable to an increase in same-unit net revenue and revenue from acquisitions, partially offset by a decline in revenue from the non-renewal of certain contracts. Same units are those units at which we provided services for the entire current period and the entire comparable period. Same-unit net revenue grew by $13.0 million, or 1.6%. The increase in same-unit net revenue was comprised of a net increase of $8.9 million, or 1.1%, from patient service volumes and a net increase of $4.1 million, or 0.5%, related to net reimbursement-related factors. The increase in revenue from patient service volumes was related to increases across almost all of our service lines. The net increase in revenue related to net reimbursement-related factors was primarily due to modest improvements in managed care contracting.

Practice salaries and benefits attributable to continuing operations increased $16.0 million, or 2.7%, to $609.0 million for the three months ended June 30, 2019, as compared to $593.0 million for the same period in 2018. This increase was primarily attributable to increased costs associated with physicians and other staff to support organic-growth initiatives, acquisition-related growth and growth at our existing units, of which $7.8 million was related to salaries and $8.2 million was related to benefits and incentive compensation. We anticipate that we will continue to experience a higher rate of growth in clinician compensation expense at our existing units over historic averages, which could adversely affect our business, financial condition, results of operations, cash flows and the trading price of our securities.

Practice supplies and other operating expenses attributable to continuing operations decreased $0.3 million, or 1.1%, to $28.0 million for the three months ended June 30, 2019, as compared to $28.3 million for the same period in 2018. The decrease was primarily attributable to decreases in practice supply, rent and other costs.

General and administrative expenses attributable to continuing operations primarily include all billing and collection functions and all other salaries, benefits, supplies and operating expenses not specifically related to the day-to-day operations of our physician practices and services. General and administrative expenses were $103.5 million for the three months ended June 30, 2019, as compared to $100.9 million for the same period in 2018. General and administrative expenses for the three months ended June 30, 2019 included $3.5 million in cost improvements as part of our shared services initiative. General and administrative expenses as a percentage of net revenue was 11.9% for the three months ended June 30, 2019, as compared to 11.7% for the same period in 2018.

Transformational and restructuring related expenses attributable to continuing operations were $27.5 million for the three months ended June 30, 2019, of which $15.4 million related to severance benefits for eliminated positions as well as costs associated with contract terminations and $12.1 million related to external consulting costs for various process improvement and restructuring initiatives.

Depreciation and amortization expense attributable to continuing operations was $19.8 million for the three months ended June 30, 2019, as compared to $20.3 million for the same period in 2018.

Income from operations attributable to continuing operations decreased $41.9 million, or 34.2%, to $80.5 million for the three months ended June 30, 2019, as compared to $122.4 million for the same period in 2018. Our operating margin was 9.3% for the three months ended June 30, 2019, as compared to 14.1% for the same period in 2018. The decrease of 488 basis points was primarily due to higher operating expense growth combined with lower revenue growth.

Net non-operating expenses attributable to continuing operations were $27.9 million for the three months ended June 30, 2019, as compared to $19.1 million for the same period in 2018. The net increase of $8.8 million, or 46.1%, was primarily related to an increase in interest expense related to a higher average interest rate on our outstanding debt, driven by the incremental senior notes issuances completed in late 2018 and early 2019.

Our effective income tax rate attributable to continuing operations was 32.5% and 27.6% for the three months ended June 30, 2019 and 2018, respectively.

Income from continuing operations was $35.5 million for the three months ended June 30, 2019, as compared to $74.8 million for the same period in 2018. Adjusted EBITDA from continuing operations was $131.0 million for the three months ended June 30, 2019, as compared to $145.2 million for the same period in 2018.

Diluted income from continuing operations per common and common equivalent share was $0.42 on weighted average shares outstanding of 83.7 million for the three months ended June 30, 2019, as compared to $0.80 on weighted average shares outstanding of 93.5 million for the same period in 2018. Adjusted EPS from continuing operations was $0.89 for the three months ended June 30, 2019, as compared to $0.98 for the same period in 2018. The decrease of 9.8 million in our weighted average shares outstanding is primarily due to the impact of shares repurchased under a 2018 accelerated share repurchase program and through open market repurchase activity in 2018 and 2019.

Loss from discontinued operations was $43.8 million for the three months ended June 30, 2019, reflecting an incremental non-cash impairment charge recorded during the three months ended June 30, 2019, as compared to income from discontinued operations of $4.6 million for the same period in 2018. Diluted loss from discontinued operations per common and common equivalent share was $0.52 on weighted average shares outstanding of 83.7 million for the three months ended June 30, 2019, as compared to $0.05 on weighted average shares outstanding of 93.5 million for the same period in 2018.

Consolidated net loss was $8.2 million for the three months ended June 30, 2019, as compared to net income of $79.4 million for the same period in 2018. Diluted net loss per common and common equivalent share was $0.10 on weighted average shares outstanding of 83.7 million for the three months ended June 30, 2019, as compared to diluted net income per common and common equivalent share of $0.85 on weighted average shares outstanding of 93.5 million for the same period in 2018.

***Six Months Ended June 30, 2019 as Compared to Six Months Ended June 30, 2018***

Our net revenue attributable to continuing operations was $1.72 billion for the six months ended June 30, 2019 and 2018, reflecting a slight increase in revenue of $1.9 million, or 0.1%. The increase in revenue was attributable to an increase in same-unit net revenue, partially offset by a decline in revenue from the non-renewal of certain contracts and acquisitions. Same units are those units at which we provided services for the entire current period and the entire comparable period. Same-unit net revenue grew by $20.5 million, or 1.2%. The increase in same-unit net revenue was comprised of a net increase of $12.6 million, or 0.7%, from net reimbursement-related factors and a net increase of $7.9 million, or 0.5%, related to patient service volumes. The net increase in revenue related to net reimbursement-related factors was primarily due to modest improvements in managed care contracting and favorable rate impacts from our radiology services. The increase in revenue from patient service volumes was primarily related to growth in our neonatology and other pediatric services, partially offset by a decline in our anesthesiology services.

Practice salaries and benefits attributable to continuing operations increased $33.5 million, or 2.8%, to $1.23 billion for the six months ended June 30, 2019, as compared to $1.20 billion for the same period in 2018. This increase was primarily attributable to increased costs associated with physicians and other staff to support organic-growth initiatives, acquisition-related growth and growth at our existing units, of which $14.7 million was related to salaries and $18.8 million was related to benefits and incentive compensation. We anticipate that we will continue to experience a higher rate of growth in clinician compensation expense at our existing units over historic averages, which could adversely affect our business, financial condition, results of operations, cash flows and the trading price of our securities.

Practice supplies and other operating expenses attributable to continuing operations decreased $1.9 million, or 3.5%, to $53.8 million for the six months ended June 30, 2019, as compared to $55.7 million for the same period in 2018. The decrease was primarily attributable to decreases in practice supply, rent and other costs.

General and administrative expenses attributable to continuing operations primarily include all billing and collection functions and all other salaries, benefits, supplies and operating expenses not specifically related to the day-to-day operations of our physician practices and services. General and administrative expenses were $205.4 million for the six months ended June 30, 2019, as compared to $202.6 million for the same period in 2018. General and administrative expenses for the six months ended June 30, 2019 included $6.0 million in cost improvements as part of our shared services initiative. General and administrative expenses as a percentage of net revenue was 11.9% for the six months ended June 30, 2019, as compared to 11.8% for the same period in 2018.

Transformational and restructuring related expenses attributable to continuing operations were $31.0 million for the six months ended June 30, 2019 of which $16.3 million related to severance benefits for eliminated positions as well as costs associated with contract terminations and $14.7 million related to external consulting costs for various process improvement and restructuring initiatives.

Depreciation and amortization expense attributable to continuing operations was $39.8 million for the six months ended June 30, 2019, as compared to $40.2 million for the same period in 2018.

Income from operations attributable to continuing operations decreased $63.1 million, or 28.4%, to $159.0 million for the six months ended June 30, 2019, as compared to $222.1 million for the same period in 2018. Our operating margin was 9.2% for the six months ended June 30, 2019, as compared to 12.9% for the same period in 2018. The decrease of 369 basis points was primarily due to higher operating expense growth combined with lower revenue growth.

Net non-operating expenses attributable to continuing operations were $55.7 million for the six months ended June 30, 2019, as compared to $36.1 million for the same period in 2018. The net increase of $19.6 million, or 54.3%, was primarily related to an increase in interest expense related to a higher average interest rate on our outstanding debt, driven by the incremental senior notes issuances completed in late 2018 and early 2019 and the write off of approximately $1.5 million in deferred debt costs from the amendment of our Credit Agreement during the three months ended March 31, 2019.

Our effective income tax rate attributable to continuing operations was 25.3% and 27.5% for the six months ended June 30, 2019 and 2018, respectively.

Income from continuing operations was $77.2 million for the six months ended June 30, 2019, as compared to $134.8 million for the same period in 2018. Adjusted EBITDA from continuing operations was $235.9 million for the six months ended June 30, 2019, as compared to $267.7 million for the same period in 2018.

Diluted income from continuing operations per common and common equivalent share was $0.91 on weighted average shares outstanding of 85.1 million for the six months ended June 30, 2019, as compared to $1.44 weighted average shares outstanding of 93.5 million for the same period in 2018. Adjusted EPS from continuing operations was $1.54 for the six months ended June 30, 2019, as compared to $1.80 for the same period in 2018. The decrease of 8.4 million in our weighted average shares outstanding is primarily due to the impact of shares repurchased under a 2018 accelerated share repurchase program and through open market repurchase activity in 2018 and 2019.

Loss from discontinued operations was $328.3 million for the six months ended June 30, 2019, reflecting the loss on the initial classification as assets held for sale and an incremental impairment charge recorded during the six months ended June 30, 2019, as compared to income from discontinued operations of $8.1 million for the same period in 2018. Diluted loss from discontinued operations per common and common equivalent share was $3.86 on weighted average shares outstanding of 85.1 million for the six months ended June 30, 2019, as compared to diluted income from discontinued operations per common and common equivalent share of $0.09 on weighted average shares outstanding of 93.5 million for the same period in 2018.

Net loss was $251.1 million for the six months ended June 30, 2019, as compared to net income of $142.8 million for the same period in 2018. Diluted net loss per common and common equivalent share was $2.95 on weighted average shares outstanding of 85.1 million for the six months ended June 30, 2019, as compared to diluted net income per common and common equivalent share of $1.53 on weighted average shares outstanding of 93.5 million for the same period in 2018.

**Liquidity and Capital Resources**

As of June 30, 2019, we had $24.5 million of cash and cash equivalents attributable to our continuing operations as compared to $25.5 million at December 31, 2018. Additionally, we had working capital attributable to our continuing operations of $247.0 million at June 30, 2019, an increase of $118.0 million from working capital of $129.0 million at December 31, 2018. The net increase in working capital is primarily due to net borrowings on our Credit Agreement and reclassification of investments to available for sale, partially offset by the use of funds for repurchases of our common stock.

***Cash Flows from Continuing Operations***

Cash provided by (used in) operating, investing and financing activities from continuing operations is summarized as follows (in thousands):

| | Six Months Ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| Operating activities | $ 54,922 | $ 15,230 |
| Investing activities | (19,750) | (30,996) |
| Financing activities | (40,421) | (4,761) |

***Operating Activities from Continuing Operations***

During the six months ended June 30, 2019, our net cash provided by operating activities for continuing operations was $54.9 million, compared to $15.2 million for the same period in 2018. The net increase in cash provided of $39.7 million was primarily due to an increase in cash flow from accounts receivable, accounts payable and accrued expenses and income taxes payable, partially offset by a decrease in cash flow from lower earnings.

During the six months ended June 30, 2019, cash flow from accounts receivable for continuing operations was $2.5 million, as compared to cash used of $28.2 million for the same period in 2018. The increase in cash flow from accounts receivable for the six months ended June 30, 2019 was primarily due to decreases in ending accounts receivable balances at existing units due to timing of cash collections.

Days sales outstanding (“DSO”) is one of the key factors that we use to evaluate the condition of our accounts receivable and the related allowances for contractual adjustments and uncollectibles. DSO reflects the timeliness of cash collections on billed revenue and the level of reserves on outstanding accounts receivable. Our DSO for continuing operations was 52.8 days at June 30, 2019 as compared to 52.5 days at December 31, 2018.

***Investing Activities from Continuing Operations***

During the six months ended June 30, 2019, our net cash used in investing activities for continuing operations of $19.8 million included acquisition payments of $11.5 million and capital expenditures of $16.5 million, partially offset by proceeds of $8.2 million related to the maturity of investments.

***Financing Activities from Continuing Operations***

During the six months ended June 30, 2019, our net cash used in financing activities for continuing operations of $40.4 million consisted primarily of repurchases of $144.5 million of our common stock, partially offset by net borrowings on our Credit Agreement of $112.0 million.

***Liquidity***

On March 28, 2019, we amended and restated our Credit Agreement to reduce the size of the revolving credit facility, extend the maturity and make other technical and conforming changes. As amended and restated, the Credit Agreement provides for a $1.2 billion unsecured revolving credit facility and includes a $37.5 million sub-facility for the issuance of letters of credit. The Credit Agreement matures on March 28, 2024 and is guaranteed by substantially all of our subsidiaries and affiliated professional associations and corporations. At our

option, borrowings under the Credit Agreement will bear interest at (i) the alternate base rate (defined as the higher of (a) the prime rate, (b) the Federal Funds Rate plus 1/2 of 1.00% and (c) LIBOR for an interest period of one month plus 1.00%) plus an applicable margin rate ranging from 0.125% to 0.750% based on our consolidated leverage ratio or (ii) the LIBOR rate plus an applicable margin rate ranging from 1.125% to 1.750% based on our consolidated leverage ratio. The Credit Agreement also calls for other customary fees and charges, including an unused commitment fee ranging from 0.150% to 0.200% of the unused lending commitments, based on our consolidated leverage ratio. The Credit Agreement contains customary covenants and restrictions, including covenants that require us to maintain a minimum interest charge ratio, not to exceed a specified consolidated leverage ratio and to comply with laws, and restrictions on the ability to pay dividends and make certain other distributions, as specified therein. Failure to comply with these covenants would constitute an event of default under the Credit Agreement, notwithstanding the ability of the company to meet its debt service obligations. The Credit Agreement also includes various customary remedies for the lenders following an event of default, including the acceleration of repayment of outstanding amounts under the Credit Agreement.

At June 30, 2019, we had an outstanding principal balance of $351.5 million on our Credit Agreement. We also had outstanding letters of credit of $0.2 million which reduced the amount available on our Credit Agreement to $848.3 million at June 30, 2019.

In February 2019, we completed a private offering of Additional 2027 Notes. At June 30, 2019, the outstanding balance on the 2027 Notes was $1.0 billion. We also had an outstanding principal balance of $750.0 million on our 5.25% senior unsecured notes due 2023 (the “2023 Notes”). Our obligations under the 2023 Notes and the 2027 Notes are guaranteed on an unsecured senior basis by the same subsidiaries and affiliated professional contractors that guarantee our Credit Agreement. Interest on the 2023 Notes accrues at the rate of 5.25% per annum, or $39.4 million, and is payable semi-annually in arrears on June 1 and December 1. Interest on the 2027 Notes accrues at the rate of 6.25% per annum, or $62.5 million, and is payable semi-annually in arrears on January 15 and July 15.

The indenture under which the 2023 Notes and the 2027 Notes are issued, among other things, limits our ability to (1) incur liens and (2) enter into sale and lease-back transactions, and also limits our ability to merge or dispose of all or substantially all of our assets, in all cases, subject to a number of customary exceptions. Although we are not required to make mandatory redemption or sinking fund payments with respect to the 2023 Notes and the 2027 Notes, upon the occurrence of a change in control of MEDNAX, we may be required to repurchase the 2023 Notes and the 2027 Notes at a purchase price equal to 101% of the aggregate principal amount of the 2023 Notes and the 2027 Notes repurchased plus accrued and unpaid interest.

At June 30, 2019, we believe we were in compliance, in all material respects, with the financial covenants and other restrictions applicable to us under the Credit Agreement and the 2023 Notes and the 2027 Notes. We believe we will be in compliance with these covenants throughout 2019.

We maintain professional liability insurance policies with third-party insurers, subject to self-insured retention, exclusions and other restrictions. We self-insure our liabilities to pay self-insured retention amounts under our professional liability insurance coverage through a wholly owned captive insurance subsidiary. We record liabilities for self-insured amounts and claims incurred but not reported based on an actuarial valuation using historical loss information, claim emergence patterns and various actuarial assumptions. Our total liability related to professional liability risks at June 30, 2019 was $260.0 million, of which $44.8 million is classified as a current liability within accounts payable and accrued expenses in the Consolidated Balance Sheet. In addition, there is a corresponding insurance receivable of $26.3 million recorded as a component of other assets for certain professional liability claims that are covered by insurance policies.

We anticipate that funds generated from operations, together with our current cash on hand and funds available under our Credit Agreement, will be sufficient to finance our working capital requirements, fund anticipated acquisitions and capital expenditures, fund expenses related to our transformational and restructuring activities, fund our share repurchase programs and meet our contractual obligations for at least the next 12 months from the date of issuance of this Form 10-Q.

**Caution Concerning Forward-Looking Statements**

Certain information included or incorporated by reference in this Quarterly Report may be deemed to be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements may include, but are not limited to, statements relating to our objectives, plans and strategies, and all statements, other than statements of historical facts, that address activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future are forward-looking statements. These statements are often characterized by terminology such as “believe,” “hope,” “may,” “anticipate,” “should,” “intend,” “plan,” “will,” “expect,” “estimate,” “project,” “positioned,” “strategy” and similar expressions, and are based on assumptions and assessments made by our management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. Any forward-looking statements in this Quarterly Report are made as of the date hereof, and we undertake no duty to update or revise any such statements, whether as a result of new information, future events or otherwise. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. Important factors that could cause actual results, developments and business decisions to differ materially from forward-looking statements are described in the 2018 Form 10-K, including the section entitled “Risk Factors.”

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are subject to market risk primarily from exposure to changes in interest rates based on our financing, investing and cash management activities. We intend to manage interest rate risk through the use of a combination of fixed rate and variable rate debt. We borrow under our Credit Agreement at various interest rate options based on the Alternate Base Rate or LIBOR rate depending on certain financial ratios. At June 30, 2019, the outstanding principal balance on our Credit Agreement was $351.5 million, and considering this outstanding balance, a 1% change in interest rates would result in an impact to income before income taxes of approximately $3.5 million per year.

## Item 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to provide reasonable assurance that information required to be disclosed by the Company in reports it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2019.

### Changes in Internal Controls Over Financial Reporting

No changes in our internal control over financial reporting occurred during the three months ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings

We expect that audits, inquiries and investigations from government authorities and agencies will occur in the ordinary course of business. Such audits, inquiries and investigations and their ultimate resolutions, individually or in the aggregate, could have a material adverse effect on our business, financial condition, results of operations, cash flows and the trading price of our securities.

In the ordinary course of our business, we become involved in pending and threatened legal actions and proceedings, most of which involve claims of medical malpractice related to medical services provided by our affiliated physicians. Our contracts with hospitals generally require us to indemnify them and their affiliates for losses resulting from the negligence of our affiliated physicians and other clinicians. We may also become subject to other lawsuits that could involve large claims and significant defense costs. We believe, based upon a review of pending actions and proceedings, that the outcome of such legal actions and proceedings will not have a material adverse effect on our business, financial condition, results of operations, cash flows or the trading price of our securities. The outcome of such actions and proceedings, however, cannot be predicted with certainty and an unfavorable resolution of one or more of them could have a material adverse effect on our business, financial condition, results of operations, cash flows and the trading price of our securities.

Although we currently maintain liability insurance coverage intended to cover professional liability and certain other claims, we cannot assure that our insurance coverage will be adequate to cover liabilities arising out of claims asserted against us in the future where the outcomes of such claims are unfavorable to us. With respect to professional liability risk, we self-insure a significant portion of this risk through our wholly owned captive insurance subsidiary. Liabilities in excess of our insurance coverage, including coverage for professional liability and certain other claims, could have a material adverse effect on our business, financial condition, results of operations, cash flows and the trading price of our securities.

On July 10, 2018, a securities class action lawsuit was filed against our company and certain of our officers and a director in the U.S. District Court for the Southern District of Florida (Case No. 0:18-cv-61572-WPD) that purports to state a claim for alleged violations of Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 thereunder, based on statements made by the defendants primarily concerning our anesthesiology business. The complaint seeks unspecified damages, interest, attorneys' fees and other costs. We believe this lawsuit to be without merit and intend to vigorously defend against it. The lawsuit is in the early stages and, at this time, no assessment can be made as to its likely outcome or whether the outcome will be material to us. A lead plaintiff has been chosen and has filed an amended complaint, and we have filed a motion to dismiss, which is pending.

Additionally, on March 20, 2019, a separate derivative action was filed by plaintiff Beverly Jackson on behalf of MEDNAX, Inc. against MEDNAX, Inc. and certain of its officers and directors in the Seventeenth Judicial Circuit in and for Broward County, Florida (Case Number CACE-19-006253). The plaintiff purports to bring suit derivatively on behalf of our company against certain of our officers and directors for breach of fiduciary duties and unjust enrichment. The derivative complaint repeats many of the allegations in the securities class action described above. The derivative complaint seeks unspecified damages, restitution, attorneys' fees and costs and governance relief. We believe this action to be without merit and intend to vigorously defend against it. The action is in the early stages and, at this time, no assessment can be made as to its likely outcome or whether the outcome will be material to us.

### Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in our 2018 Form 10-K.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended June 30, 2019, we repurchased 2.5 million shares of our common stock in connection with a share repurchase program that was approved by our board of directors in August 2018.

| Period | Total Number of Shares Repurchased (a) | Average Price Paid per Share | Total Number of Shares Purchased as part of the Repurchase Program | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Repurchase Programs (a) |
|---|---|---|---|---|
| April 1 – April 30, 2019 | 817,950 | $ 26.21 | 817,950 | (a) |
| May 1 – May 31, 2019 | 1,585,527 | 26.03 | 1,585,527 | (a) |
| June 1 – June 30, 2019 | 104,830(b) | 24.87 | 60,495 | (a) |
| Total | 2,508,307 | $ 26.04 | 2,463,972 | (a) |

(a) We have two active repurchase programs. Our July 2013 program allows us to repurchase shares of our common stock up to an amount sufficient to offset the dilutive impact from the issuance of shares under our equity compensation programs, which is estimated to be approximately 1.3 million shares for 2019. Our August 2018 repurchase program allowed us to repurchase up to an additional $500.0 million of shares of our common stock, of which we repurchased $392.8 million as of June 30, 2019, inclusive of the shares indicated in the table above.

(b) Includes 63,666 shares withheld to satisfy minimum statutory withholding obligations of $1.7 million in connection with the vesting of restricted stock.

The amount and timing of any future repurchases will depend upon several factors, including general economic and market conditions and trading restrictions.

## Item 6. Exhibits

| Exhibit No. | Description |
| --- | --- |
| 10.1 | MEDNAX, Inc. Amended and Restated 2008 Incentive Compensation Plan (incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement on Schedule 14A, filed with the SEC on March 29, 2019). |
| 31.1+ | Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2+ | Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.1+ | Interactive Data File |
| 101.INS+ | XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH+ | XBRL Schema Document. |
| 101.CAL+ | XBRL Calculation Linkbase Document. |
| 101.DEF+ | XBRL Definition Linkbase Document. |
| 101.LAB+ | XBRL Label Linkbase Document. |
| 101.PRE+ | XBRL Presentation Linkbase Document. |

+ Filed herewith.
* Furnished herewith.

**SIGNATURES**

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

| | **MEDNAX, INC.** |
|---|---|
| Date: August 1, 2019 | By: /s/ Roger J. Medel, M.D.<br>Roger J. Medel, M.D.<br>Chief Executive Officer<br>(Principal Executive Officer) |
| Date: August 1, 2019 | By: /s/ Stephen D. Farber<br>Stephen D. Farber<br>Chief Financial Officer<br>(Principal Financial Officer) |
| Date: August 1, 2019 | By: /s/ John C. Pepia<br>John C. Pepia<br>Chief Accounting Officer<br>(Principal Accounting Officer) |

**Exhibit 31.1**

**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Roger J. Medel, M.D., certify that:

1. I have reviewed this quarterly report on Form 10-Q of MEDNAX, 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 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 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.

Date: August 1, 2019

By: /s/ Roger J. Medel, M.D.
Roger J. Medel, M.D.
Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

## CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stephen D. Farber, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MEDNAX, 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 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 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.

Date: August 1, 2019

By: /s/ Stephen D. Farber
Stephen D. Farber
Chief Financial Officer
(Principal Financial Officer)

**Exhibit 32.1**

**Certification Pursuant to 18 U.S.C Section 1350**
**(Adopted by Section 906 of the Sarbanes-Oxley Act of 2002)**

In connection with the Quarterly Report of MEDNAX, Inc. on Form 10-Q for the quarter ended June 30, 2019 (the "Report"), each of the undersigned hereby certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that (i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of MEDNAX, Inc.

A signed original of this written statement required by Section 906 has been provided to MEDNAX, Inc. and will be retained by MEDNAX, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

August 1, 2019

By: /s/ Roger J. Medel, M.D.
Roger J. Medel, M.D.
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Stephen D. Farber
Stephen D. Farber
Chief Financial Officer
(Principal Financial Officer)