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 September 30, 2019

OR

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

For the transition period from __________ to __________

Commission File Number: 001-12111

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

Florida **(State or other jurisdiction of Incorporation or organization)**	**26-3667538** **(I.R.S. Employer Identification No.)**
1301 Concord Terrace Sunrise, Florida **(Address of principal executive offices)**	**33323** **(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 October 25, 2019, the registrant had outstanding 84,298,441 shares of Common Stock, par value $.01 per share.

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

	September 30, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 28,890	$ 25,491
Restricted cash	—	20,000
Short-term investments	78,371	21,923
Accounts receivable, net	494,699	506,723
Prepaid expenses	20,937	17,123
Other current assets	19,939	17,166
Assets held for sale	322,465	51,551
Total current assets	965,301	659,977
Investments	—	69,699
Property and equipment, net	93,731	90,434
Goodwill	2,634,874	4,061,439
Intangible assets, net	279,605	313,165
Operating lease right-of-use assets	84,279	—
Deferred income tax assets	142,231	21,910
Other assets	90,640	81,224
Assets held for sale	—	639,633
Total assets	$ 4,290,661	$ 5,937,481
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 441,972	$ 448,567
Current portion of finance lease liabilities	142	253
Current portion of operating lease liabilities	23,469	—
Income taxes payable	4,763	30,598
Liabilities held for sale	30,444	23,344
Total current liabilities	500,790	502,762
Line of credit	209,800	739,500
Long-term debt and finance lease liabilities, net	1,729,377	1,234,781
Long-term operating lease liabilities	65,287	—
Long-term professional liabilities	222,933	209,060
Deferred income tax liabilities	61,207	95,581
Other liabilities	21,907	31,828
Liabilities held for sale	—	36,085
Total liabilities	2,811,301	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; 84,185 and 87,820 shares issued and outstanding, respectively	842	878
Additional paid-in capital	977,709	992,647
Retained earnings	500,809	2,094,359
Total shareholders' equity	1,479,360	3,087,884
Total liabilities and shareholders' equity	$ 4,290,661	$ 5,937,481

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net revenue	$ 888,675	$848,759	$ 2,608,167	$2,566,374
Operating expenses:				
Practice salaries and benefits	630,309	599,326	1,860,810	1,796,328
Practice supplies and other operating expenses	26,950	27,249	80,757	82,981
General and administrative expenses	102,356	95,771	307,717	298,402
Depreciation and amortization	19,608	22,205	59,450	62,399
Transformational and restructuring related expenses	19,992	—	51,018	—
Goodwill impairment	1,449,215	—	1,449,215	—
Total operating expenses	2,248,430	744,551	3,808,967	2,240,110
(Loss) income from operations	(1,359,755)	104,208	(1,200,800)	326,264
Investment and other income	1,373	1,531	4,242	4,230
Interest expense	(29,901)	(21,788)	(91,704)	(63,341)
Equity in earnings of unconsolidated affiliates	2,249	1,766	5,475	4,548
Total non-operating expenses	(26,279)	(18,491)	(81,987)	(54,563)
(Loss) income from continuing operations before income taxes	(1,386,034)	85,717	(1,282,787)	271,701
Income tax benefit (provision)	125,788	(23,550)	99,710	(74,752)
(Loss) income from continuing operations	(1,260,246)	62,167	(1,183,077)	196,949
Income (loss) from discontinued operations, net of tax	4,330	3,408	(323,956)	11,466
Net (loss) income	$(1,255,916)	$ 65,575	$(1,507,033)	$ 208,415
Per common and common equivalent share data:				
(Loss) income from continuing operations:				
Basic	$ (15.29)	$ 0.68	$ (14.11)	$ 2.14
Diluted	$ (15.29)	$ 0.68	$ (14.11)	$ 2.13
Income (loss) from discontinued operations:				
Basic	$ 0.05	$ 0.04	$ (3.86)	$ 0.12
Diluted	$ 0.05	$ 0.04	$ (3.86)	$ 0.12
Net (loss) income:				
Basic	$ (15.24)	$ 0.72	$ (17.97)	$ 2.26
Diluted	$ (15.24)	$ 0.72	$ (17.97)	$ 2.25
Weighted average common shares:				
Basic	82,441	90,984	83,846	92,239
Diluted	82,441	91,359	83,846	92,760

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 (1)	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-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
Net loss	—	—	—	—	(1,255,916)	(1,255,916)
Unrealized holding loss on investments, net of tax	—	—	—	(32)	—	(32)
Common stock issued under employee stock option, employee stock purchase plan and stock purchase plan	124	1	2,605	—	—	2,606
Issuance of restricted stock	12	—	—	—	—	—
Forfeitures of restricted stock	(27)	—	—	—	—	—
Stock-based compensation expense	—	—	8,090	—	—	8,090
Repurchased common stock	(20)	—	(415)	—	—	(415)
Balance at September 30, 2019	84,185	$ 842	$977,709	$ 6	$ 500,803	$ 1,479,360

(1) Presented within retained earnings on the consolidated balance sheet as the balance is immaterial.

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

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

	Common Stock				
	Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Total Equity
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
Net income	—	—	—	65,575	65,575
Common stock issued under employee stock option, employee stock purchase plan and stock purchase plan	108	1	3,862	—	3,863
Issuance of restricted stock	104	—	—	—	—
Forfeitures of restricted stock	(13)	—	—	—	—
Stock-based compensation expense	—	—	8,945	—	8,945
Repurchased common stock	(4,224)	(42)	(46,710)	(203,248)	(250,000)
Balance at September 30, 2018	89,349	$ 893	$ 998,670	$2,015,742	$3,015,305

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

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

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Cash flows from operating activities:		
Net (loss) income	$ (1,507,033)	$ 208,415
Loss (income) from discontinued operations	323,956	(11,466)
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	59,450	62,398
Goodwill impairment	1,449,215	—
Amortization of premiums, discounts and issuance costs	4,293	3,314
Stock-based compensation expense	28,972	28,754
Deferred income taxes	(154,689)	(18,031)
Other	(1,069)	(3,030)
Changes in assets and liabilities:		
Accounts receivable	12,024	(25,563)
Prepaid expenses and other current assets	(7,620)	(5,696)
Other long-term assets	30,528	(2,131)
Accounts payable and accrued expenses	24,479	(10,947)
Income taxes payable	(25,837)	(70,186)
Payments of contingent consideration liabilities	(764)	(686)
Long-term professional liabilities	821	(2,608)
Other liabilities	(25,880)	(2,095)
Net cash provided by operating activities - continuing operations	210,846	150,442
Net cash provided by operating activities - discontinued operations	8,170	11,889
Net cash provided by operating activities	219,016	162,331
Cash flows from investing activities:		
Acquisition payments, net of cash acquired	(31,200)	(27,035)
Purchases of investments	(13,907)	(15,884)
Proceeds from maturities or sales of investments	26,240	10,510
Purchases of property and equipment	(25,009)	(24,818)
Proceeds from sale of controlling interest in assets	—	22,764
Net cash used in investing activities - continuing operations	(43,876)	(34,463)
Net cash used in investing activities - discontinued operations	(10,646)	(13,317)
Net cash used in investing activities	(54,522)	(47,780)
Cash flows from financing activities:		
Borrowings on credit agreement	1,225,800	1,364,500
Payments on credit agreement	(1,755,500)	(1,211,000)
Proceeds from issuance of senior notes	500,000	—
Payments for financing costs	(9,194)	—
Payments of contingent consideration liabilities	(8,726)	(3,869)
Payments on finance lease obligations	(183)	(996)
Proceeds from issuance of common stock	9,157	13,253
Repurchases of common stock	(144,925)	(302,160)
Net cash used in financing activities - continuing operations	(183,571)	(140,272)
Net cash used in financing activities - discontinued operations	—	(17)
Net cash used in financing activities	(183,571)	(140,289)
Net decrease in cash and cash equivalents	(19,077)	(25,738)
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	(8,778)	(12,399)
Cash and cash equivalents of continuing operations at end of period	$ 28,890	$ 42,063

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

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 September 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 nine months ended September 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 – Goodwill 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 – Accounts Payable and Accrued Expenses for more information.

2. Cash Equivalents and Investments:

As of September 30, 2019 and December 31, 2018, the Company's cash equivalents consisted entirely of money market funds totaling $3.2 million and $0.5 million, respectively. Investments consisted of municipal debt securities, federal home loan securities, corporate securities, and certificates of deposit.

During the nine months ended September 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 September 30, 2019 and December 31, 2018 are summarized as follows (in thousands):

	September 30, 2019		December 31, 2018	
	Short-Term	Long-Term	Short-Term	Long-Term
Municipal debt securities	$ 36,256	$ —	$ 18,473	$ 30,841
Federal home loan securities	23,825	—	2,000	34,393
Corporate securities	13,823	—	—	—
Certificates of deposit	4,467	—	1,450	4,465
	$ 78,371	$ —	$ 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 September 30, 2019 and December 31, 2018 (in thousands):

	Fair Value Category	Fair Value September 30, 2019	Fair Value December 31, 2018
Assets:			
Money market funds	Level 1	$ 3,233	$ 481
Short-term investments	Level 2	78,371	— (1)
Company-owned life insurance	Level 2	—	10,464
Mutual funds	Level 1	15,097	—
Liabilities:			
Contingent consideration	Level 3	4,475	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 September 30, 2019 and December 31, 2018 (in thousands):

	September 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	763,125	750,000	736,725
2027 Notes	1,000,000	989,200	500,000	482,500

(2) Investments were measured at fair value as of September 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):

	September 30, 2019	December 31, 2018
Gross accounts receivable	$ 1,923,585	$ 1,993,395
Allowance for contractual adjustments and uncollectibles	(1,428,886)	(1,486,672)
	$ 494,699	$ 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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net patient service revenue	$ 784,935	$ 758,015	$ 2,300,045	$ 2,278,055
Hospital contract administrative fees	97,747	87,095	289,209	273,868
Other revenue	5,993	3,649	18,913	14,451
	$ 888,675	$ 848,759	$ 2,608,167	$ 2,566,374

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Contracted managed care	69%	70%	69%	70%
Government	25	24	24	24
Other third-parties	4	5	5	5
Private-pay patients	2	1	2	1
	100%	100%	100%	100%

5. Business Acquisitions:

During the nine months ended September 30, 2019, the Company completed the acquisition of two neonatology physician practices, two maternal-fetal medicine physician practices and two other pediatric subspecialty practices for total consideration of $31.5 million, comprised of cash consideration of $31.2 million and accrued purchase consideration of $0.3 million. These acquisitions expanded the Company's national network of physician practices. In connection with these acquisitions, the Company recorded goodwill of $22.7 million and other intangible assets consisting primarily of physician and hospital agreements of $8.8 million. The Company expects that the goodwill recorded during the nine months ended September 30, 2019 will be deductible for tax purposes.

In addition, the Company paid $9.5 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 nine months ended September 30, 2019. This change in fair value of contingent consideration was recorded within operating expenses.

6. Goodwill:

Goodwill is tested for impairment at a reporting unit level on at least an annual basis, in accordance with the subsequent measurement provisions of the accounting guidance for goodwill. Consistent with prior years, the Company performed its annual impairment test in the third quarter, specifically as of July 31, 2019. The Company changed its management structure during the third quarter to combine its two historical operating segments into a single unified physician services operating segment. However, for goodwill testing purposes, the Company determined that its reporting units would be represented by the components that underly the unified physician services operating segment. The reporting units represent the service line medical groups of Women's and Children's, anesthesiology and radiology.

The Company used a combination of income and market-based valuation approaches to determine the fair value of its reporting units. Based on the analysis performed, the Company recorded a non-cash impairment charge of $1.30 billion during the three months ended September 30, 2019, nearly all of which related to its anesthesiology reporting unit. Recognition of the non-cash charge against goodwill resulted in a tax benefit which generated an additional deferred tax asset of $147.2 million that increased the fair value of the reporting units. An incremental non-cash charge is then required to reduce the reporting units to their previously determined fair value. Accordingly, the Company recorded the incremental non-cash charge of $147.2 million for a total non-cash charge of $1.45 billion. The primary factors driving the non-cash impairment charge were (i) the change in management structure effective during the third quarter resulting in reporting units one level below the Company's single physician services operating segment, which is also its single reportable segment, (ii) the decrease in the Company's share price used in the market capitalization reconciliation and (iii) changes in the assumptions used in the valuation analysis, specifically the discount rate used in the cash flow analysis which included a company-specific risk premium. The Company's goodwill balance after the non-cash impairment charge at September 30, 2019 was $2.63 billion.

7. 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, which operates as MedData, 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 September 30, 2019. Accordingly, the assets and liabilities of that service line were classified as current assets and liabilities held for sale at September 30, 2019 as the Company expected to divest of the management services organization within twelve months of March 31, 2019. In October 2019, the Company entered into a securities purchase agreement with an affiliate of Frazier Healthcare Partners to divest of MedData, which transaction closed on October 31, 2019. See Note 15 – Subsequent Event.

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 nine months ended September 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.

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 September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
Assets		
Cash and cash equivalents	$ 8,778	$ 11,254
Accounts receivable, net	38,902	38,118
Prepaid expenses and other assets	2,070	2,505
Property and equipment, net	51,178	42,603
Deferred income taxes	13,009	—
Operating lease right-of-use asset	4,505	—
Goodwill	—	321,556
Intangible assets, net	204,023	275,148
	$ 322,465	$ 691,184
Liabilities		
Accounts payable, accrued expenses and other liabilities	$ 23,924	$ 23,770
Lease liabilities	6,520	—
Deferred income taxes	—	35,659
	$ 30,444	$ 59,429

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net revenue	$50,946	$55,236	$ 155,309	$169,567
Operating expenses:				
Cost of service salaries and benefits	26,288	26,392	78,883	82,198
Cost of service supplies and other operating expenses	5,700	5,932	17,637	18,126
General and administrative expenses	11,007	11,454	33,451	34,242
Depreciation and amortization	—	6,506	7,262	18,992
Transaction costs	1,600	—	3,000	—
Loss on classification as held for sale	—	—	388,002	—
Total operating expenses	44,595	50,284	528,235	153,558
Income (loss) from operations	6,351	4,952	(372,926)	16,009
Non-operating expenses, net	(15)	(221)	(47)	(241)
Income (loss) before income taxes	6,336	4,731	(372,973)	15,768
Income tax (provision) benefit	(2,006)	(1,323)	49,017	(4,302)
Net income (loss)	$ 4,330	$ 3,408	$(323,956)	$ 11,466

8. Accounts Payable and Accrued Expenses:

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

	September 30, 2019	December 31, 2018
Accounts payable	$ 38,329	$ 31,059
Accrued salaries and bonuses	206,047	242,888
Accrued payroll taxes and benefits	67,406	78,415
Accrued professional liabilities	43,723	34,931
Accrued contingent consideration	4,475	18,760
Accrued interest	27,986	9,477
Other accrued expenses	54,006	33,037
	$ 441,972	$ 448,567

The net decrease in accrued salaries and bonuses of $36.8 million, from December 31, 2018 to September 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 nine months ended September 30, 2019. A majority of the Company's payments for performance-based incentive compensation is paid annually during the first quarter.

9. 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 September 30, 2019 (dollars in thousands):

	September 30, 2019
Assets:	
Operating lease right-of-use assets	$ 84,279
Liabilities:	
Current portion of operating lease liabilities	23,469
Long-term portion of operating lease liabilities	65,287
Other Information:	
Weighted-average remaining lease term	4.6 years
Weighted average discount rate	5.1%

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

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease costs	$ 7,521	$ 22,592
Variable lease costs	1,492	3,282
Other equipment rent	604	1,905
Other operating lease costs	883	3,841
Total operating lease costs	$ 10,500	$ 31,620

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

	September 30, 2019
Operating cash flows for operating leases	$ 31,685

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 September 30, 2019 (in thousands):

	September 30, 2019
2019 (excluding the nine months ended September 30, 2019)	$ 4,669
2020	26,668
2021	22,593
2022	17,644
2023	12,948
Thereafter	15,641
Total minimum lease payments	100,163
Less: Amount of payments representing interest	(11,407)
Present value of future minimum lease payments	88,756
Less: Current obligations	(23,469)
Long-term portion of operating leases	$ 65,287

10. Income Taxes:

The Company's net deferred tax assets were $81.0 million as of September 30, 2019, as compared to a net deferred tax liabilities of $73.7 million at December 31, 2018. The increase in the net deferred tax assets of $154.7 million during the nine months ended September 30, 2019 was primarily related to the deferred tax benefit from the Company's non-cash goodwill impairment charge recorded during the nine months ended September 30, 2019.

11. 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 nine months ended September 30, 2019 and 2018 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Weighted average number of common shares outstanding	82,441	90,984	83,846	92,239
Weighted average number of dilutive common share equivalents	—	375	—	521
Weighted average number of common and common equivalent shares outstanding (a)	82,441	91,359	84,846	92,760
Antidilutive securities not included in the diluted net income per common share calculation	962	214	796	202

(a) Due to a loss for the three months and nine months ended September 30, 2019, no incremental shares are included because the effect would be antidilutive.

12. 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 nine months ended September 30, 2019, the Company granted 1,112,773 shares of restricted stock to its employees and non-employee directors under the Amended and Restated 2008 Incentive Plan. At September 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 nine months ended September 30, 2019, 0.4 million shares in aggregate were issued under the ESPP and SPP. At September 30, 2019, the Company had approximately 1.2 million shares in aggregate reserved for issuance under the ESPP and SPP.

During the three and nine months ended September 30, 2019 and 2018, the Company recognized stock-based compensation expense of $8.0 million and $29.0 million, and $8.8 million and $28.8 million, respectively.

13. 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 nine months ended September 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 nine months ended September 30, 2019, the Company repurchased approximately 5.1 million shares of its common stock for $144.9 million, inclusive of 83,341 shares withheld to satisfy minimum statutory withholding obligations of $2.1 million in connection with the vesting of restricted stock during the nine months ended September 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.

14. 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 September 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.

15. Subsequent Event:

On October 10, 2019, the Company entered into a securities purchase agreement with an affiliate of Frazier Healthcare Partners to divest of the Company's management services organization, which operates as MedData. The transaction closed on October 31, 2019. Pursuant to the terms and conditions of the agreement, at the closing of the transaction, the Company received a cash payment of $250.0 million, subject certain net working capital and similar adjustments, as well as contingent economic consideration in an indirect holding company of the buyer, the value of which is contingent on both short and long-term performance of MedData and the maximum amount payable in respect of which is $50.0 million. Upon completion of a valuation to determine the final net proceeds, the Company could record an additional gain or loss on disposal. The Company anticipates certain cash tax benefits from the transaction in the coming quarters. The Company expects to use net proceeds from the transaction for debt repayment, share repurchases and strategic acquisitions.

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, which operates as MedData, 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 September 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 September 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 nine months ended September 30, 2019.

On October 10, 2019, we entered into a securities purchase agreement to divest of the management services organization. The transaction closed on October 31, 2019. Pursuant to the terms and conditions of the agreement, at the closing of the transaction, we received a cash payment of $250.0 million, subject certain net working capital and similar adjustments, as well as contingent economic consideration in an indirect holding company of the buyer, the value of which is contingent on both short and long-term performance of MedData and the maximum amount payable in respect of which is $50.0 million. We anticipate certain cash tax benefits from the transaction in the coming quarters. We expect to use net proceeds from the transaction for debt repayment, share repurchases and strategic acquisitions.

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 nine months ended September 30, 2019, we completed the acquisition of two neonatology physician group practices, two maternal-fetal medicine physician group practices and two other pediatric subspecialty physician 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.

Goodwill Impairment Charge

Goodwill is tested for impairment at a reporting unit level on at least an annual basis, in accordance with the subsequent measurement provisions of the accounting guidance for goodwill. Consistent with prior years, we performed our annual impairment test in the third quarter, specifically as of July 31, 2019. We used a combination of income and market-based valuation approaches to determine the fair value of our reporting units. Based on the analysis performed, we recorded a non-cash impairment charge of $1.30 billion during the three months ended September 30, 2019, nearly all of which related to our anesthesiology reporting unit. Recognition of the non-cash charge against goodwill resulted in a tax benefit which generated an additional deferred tax asset of $147.2 million that increased the fair value of the reporting units. An incremental non-cash charge is then required to reduce the reporting units to their previously determined fair value. Accordingly, we recorded the incremental non-cash charge of $147.2 million for a total non-cash charge of $1.45 billion. The primary factors driving the non-cash impairment charge were (i) a change in management structure effective during the third quarter that resulted in the determination of reporting units at one level below our single operating segment of physician services, which is also our single reportable segment, (ii) the decrease in our share price used in the market capitalization reconciliation and (iii) changes in the assumptions used in the valuation analysis, specifically the discount rate used in the cash flow analysis which included a company specific-risk premium. Our goodwill balance at September 30, 2019 after the non-cash impairment charge was $2.63 billion. We believe that the current assumptions and estimates used in our goodwill analysis are reasonable, supportable and appropriate. A 1% change in the discount rate used in the cash flow analysis would have impacted the non-cash impairment charge in the range of $75.0 million to $90.0 million.

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" and, collectively with the Additional 2027 Notes, 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 nine months ended September 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 nine months ended September 30, 2019, we repurchased approximately 5.1 million shares of our common stock for $144.9 million, inclusive of 83,341 shares withheld to satisfy minimum statutory withholding obligations of $2.1 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 September 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 September 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. Several committees of jurisdiction in the U.S. House of Representatives and in the U.S. Senate have proposed solutions to address surprise medical bills, but it is unclear whether any of the proposed solutions will become law. In addition, state legislatures and regulatory bodies continue to address and modify existing laws on the same issue. 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 (loss) 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 (loss) 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. Adjusted EBITDA and Adjusted EPS have also been adjusted for the non-cash goodwill impairment charge recorded during the third quarter of 2019. Historical periods do not include any material items that meet the current definition of transformational and restructuring related expenses or goodwill impairment, so although we are retrospectively presenting historical periods for the new definitions, we do not reflect 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 nine months ended September 30, 2019 and 2018, refer to the tables below (in thousands, except per share data).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(Loss) income from continuing operations	$(1,260,246)	$ 62,167	$(1,183,077)	$196,949
Interest expense	29,901	21,788	91,704	63,341
Income tax (benefit) provision	(125,788)	23,550	(99,710)	74,752
Depreciation and amortization	19,608	22,205	59,450	62,399
Transformational and restructuring related expenses	19,992	—	51,018	—
Goodwill impairment	1,449,215	—	1,449,215	—
Adjusted EBITDA from continuing operations	$ 132,682	$129,710	$ 368,600	$397,441

	Three Months Ended September 30,			
	2019		2018	
Weighted average diluted shares outstanding	82,441		91,359	
(Loss) income from continuing operations and diluted income from continuing operations per share	$ (1,260,246)	$ (15.29)	$ 62,167	$ 0.68
Adjustments(1):				
Amortization (net of tax of $3,283 and $3,951)	8,875	0.11	10,416	0.11
Stock-based compensation (net of tax of $2,180 and $2,403)	5,895	0.07	6,337	0.07
Transformational and restructuring related expenses (net of tax of $5,398)	14,595	0.18	—	—
Goodwill impairment (net of tax of $147,215)	1,302,000	15.79	—	—
Net impact from discrete tax events	4,367	0.05	—	—
Adjusted income and diluted EPS from continuing operations	$ 75,486	$ 0.91	$ 78,920	$ 0.86

(1) Tax rates of 27.0% and 27.5% were used to calculate the tax effects of the adjustments for the three months ended September 30, 2019 and 2018, respectively. The tax rate used for the three months ended September 30, 2019 excludes the impact of discrete tax events.

	Nine Months Ended September 30,			
	2019		2018	
Weighted average diluted shares outstanding	83,846		92,760	
(Loss) income from continuing operations and diluted income from continuing operations per share	$(1,183,077)	$(14.11)	$ 196,949	$ 2.13
Adjustments(1):				
Amortization (net of tax of $10,166 and $11,134)	27,251	0.32	29,354	0.32
Stock-based compensation (net of tax of $7,885 and $7,907)	21,140	0.25	20,846	0.22
Transformational and restructuring related expenses (net of tax of 13,860)	37,158	0.44	—	—
Goodwill impairment (net of tax of $147,215)	1,302,000	15.53	—	—
Net impact from discrete tax events	1,976	0.02	—	—
Adjusted income and diluted EPS from continuing operations	$ 206,448	$ 2.45	$ 247,149	$ 2.67

(1) Tax rates of 27.2% and 27.5% were used to calculate the tax effects of the adjustments for the nine months ended September 30, 2019 and 2018, respectively. The tax rate used for the nine months ended September 30, 2019 excludes the impact of discrete tax events.

Results of Operations

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

Our net revenue attributable to continuing operations was $888.7 million for the three months ended September 30, 2019, as compared to $848.8 million for the same period in 2018. The increase in revenue of $39.9 million, or 4.7%, was attributable to an increase in same-unit net revenue and revenue from 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 $34.8 million, or 4.2%. The increase in same-unit net revenue was comprised of a net increase of $26.6 million, or 3.2%, from patient service volumes and a net increase of $8.2 million, or 1.0%, related to net reimbursement-related factors. The increase in revenue from patient service volumes was related to increases across almost all our service lines driven by growth in anesthesiology, neonatology and other pediatric services, including newborn nursery, and radiology. The net increase in revenue related to net reimbursement-related factors was primarily due to modest increases from managed care contracting, an increase in administrative fees received from our hospital partners and an increase in revenue caused by the slight decrease in the percentage of our patients enrolled in GHC programs.

Practice salaries and benefits attributable to continuing operations increased $31.0 million, or 5.2%, to $630.3 million for the three months ended September 30, 2019, as compared to $599.3 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 and growth at our existing units as well as increases in malpractice expense due to unfavorable trends in claims experience. Of the $31.0 million increase, $15.3 million was related to salaries and $15.7 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 $26.9 million for the three months ended September 30, 2019, as compared to $27.2 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 $102.4 million for the three months ended September 30, 2019, as compared to $95.8 million for the same period in 2018. General and administrative expenses for the three months ended September 30, 2019 included the benefit from cost improvements as part of our shared services initiative that was offset by an increase in legal expenses for ongoing litigation matters. General and administrative expenses as a percentage of net revenue was 11.5% for the three months ended September 30, 2019, as compared to 11.3% for the same period in 2018.

Transformational and restructuring related expenses attributable to continuing operations were $20.0 million for the three months ended September 30, 2019, primarily related to external consulting costs for various process improvement and restructuring initiatives.

Goodwill impairment charge attributable to continuing operations was $1.45 billion for the three months ended September 30, 2019, nearly all of which related to our anesthesiology service line. See Note 6 to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for additional information.

Depreciation and amortization expense attributable to continuing operations decreased $2.6 million, or 11.7%, to $19.6 million for the three months ended September 30, 2019, as compared to $22.2 million for the same period in 2018, primarily related to a decrease in amortization expense underlying various finite lived intangible assets due to the expiration of amortization periods.

Loss from operations attributable to continuing operations was $1.36 billion for the three months ended September 30, 2019, as compared to income from operations attributable to continuing operations of $104.2 million for the same period in 2018. Our operating margin was (153.0)% for the three months ended September 30, 2019, as compared to 12.3% for the same period in 2018. The decrease in our operating margin was primarily due to the non-cash goodwill impairment charge recorded during the three months ended September 30, 2019 as well as higher operating expense growth, including transformation and restructuring expenses, combined with lower revenue growth. Excluding the non-cash goodwill impairment charge and the transformation and restructuring expenses, our income from operations attributable to continuing operations was $109.5 million, and our operating margin was 12.3%. We believe excluding the impacts from the non-cash goodwill impairment charge and transformational and restructuring activity provides a more comparable view of our operating income and operating margin from continuing operations.

Net non-operating expenses attributable to continuing operations were $26.3 million for the three months ended September 30, 2019, as compared to $18.5 million for the same period in 2018. The net increase of $7.8 million, or 42.2%, 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 9.1% and 27.5% for the three months ended September 30, 2019 and 2018, respectively. Excluding the income tax impacts from the non-cash goodwill impairment charge and other discrete tax items, our effective income tax rate was 27.0% for the three months ended September 30, 2019. We believe excluding the impacts on our effective income tax rate related to the non-cash impairment charge and other discrete tax items provides a more comparable view of our effective income tax rate.

Loss from continuing operations was $1.26 billion for the three months ended September 30, 2019, as compared to income from continuing operations of $62.2 million for the same period in 2018. Adjusted EBITDA from continuing operations was $132.7 million for the three months ended September 30, 2019, as compared to $129.7 million for the same period in 2018.

Diluted loss from continuing operations per common and common equivalent share was $15.29 on weighted average shares outstanding of 82.4 million for the three months ended September 30, 2019, as compared to diluted income from continuing operations of $0.68 on weighted average shares outstanding of 91.4 million for the same period in 2018. Adjusted EPS from continuing operations was $0.91 for the three months ended September 30, 2019, as compared to $0.86 for the same period in 2018. The decrease of 8.9 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.

Income from discontinued operations was $4.3 million for the three months ended September 30, 2019, as compared to $3.4 million for the same period in 2018. Diluted income from discontinued operations per common and common equivalent share was $0.05 for the three months ended September 30, 2019, as compared to $0.04 for the same period in 2018.

Consolidated net loss was $1.26 billion for the three months ended September 30, 2019, as compared to consolidated net income of $65.6 million for the same period in 2018. Diluted net loss per common and common equivalent share was $15.24 for the three months ended September 30, 2019, as compared to diluted net income per common and common equivalent share of $0.72 for the same period in 2018.

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

Our net revenue attributable to continuing operations was $2.61 billion for the nine months ended September 30, 2019, as compared to $2.57 billion for the same period in 2018. The increase in revenue of $41.8 million, or 1.6%, 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 $55.0 million, or 2.2%. The increase in same-unit net revenue was comprised of a net increase of $29.4 million, or 1.2%, from net reimbursement-related factors and a net increase of $25.6 million, or 1.0%, related to patient service volumes. The net increase in revenue related to net reimbursement-related factors was primarily due to favorable rate impacts from our radiology services, an increase in administrative fees received from our hospital partners and an increase in revenue caused by the slight decrease in the percentage of our patients enrolled in GHC programs. The increase in revenue from patient service volumes was primarily related to growth across almost all of our services, driven by growth in neonatology and other pediatric services, including newborn nursery, and anesthesiology services.

Practice salaries and benefits attributable to continuing operations increased $64.5 million, or 3.6%, to $1.86 billion for the nine months ended September 30, 2019, as compared to $1.80 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 $30.0 million was related to salaries and $34.5 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 $2.2 million, or 2.7%, to $80.8 million for the nine months ended September 30, 2019, as compared to $83.0 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 $307.7 million for the nine months ended September 30, 2019, as compared to $298.4 million for the same period in 2018. General and administrative expenses as a percentage of net revenue was 11.8% for the nine months ended September 30, 2019, as compared to 11.6% for the same period in 2018.

Transformational and restructuring related expenses attributable to continuing operations were $51.0 million for the nine months ended September 30, 2019 of which $33.2 million related to external consulting costs for various process improvement and restructuring initiatives and $17.8 million related to severance benefits for eliminated positions as well as costs associated with contract terminations.

Goodwill impairment charge attributable to continuing operations was $1.45 billion for the nine months ended September 30, 2019, nearly all of which related to our anesthesiology service line. See Note 6 to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for additional information.

Depreciation and amortization expense attributable to continuing operations decreased $2.9 million, or 4.7%, to $59.5 million for the nine months ended September 30, 2019, as compared to $62.4 million for the same period in 2018, primarily related to a decrease in amortization expense underlying various finite lived intangible assets due to the expiration of amortization periods.

Loss from operations attributable to continuing operations was $1.20 billion for the nine months ended September 30, 2019, as compared to income from operations attributable to continuing operations of $326.3 million for the same period in 2018. Our operating margin was (46.0)% for the nine months ended September 30, 2019, as compared to 12.7% for the same period in 2018. The decrease in our operating margin was primarily due to the non-cash goodwill impairment charge recorded during the three months ended September 30, 2019 as well as higher operating expense growth, including transformation and restructuring expenses, combined with lower revenue growth. Excluding the non-cash goodwill impairment charge and the transformation and restructuring expenses, our income from operations attributable to continuing operations was $299.4 million, and our operating margin was 11.5%. We believe excluding the impacts from the non-cash goodwill impairment charge and transformational and restructuring activity provides a more comparable view of our operating income and operating margin from continuing operations.

Net non-operating expenses attributable to continuing operations were $82.0 million for the nine months ended September 30, 2019, as compared to $54.6 million for the same period in 2018. The net increase of $27.4 million, or 50.3%, 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 7.8% and 27.5% for the nine months ended September 30, 2019 and 2018, respectively. Excluding the income tax impacts from the non-cash goodwill impairment charge and other discrete tax items, our effective income tax rate was 27.2% for the nine months ended September 30, 2019. We believe excluding the impacts on our effective income tax rate related to the non-cash impairment charge and other discrete tax items provides a more comparable view of our effective income tax rate.

Loss from continuing operations was $1.18 billion for the nine months ended September 30, 2019, as compared to income from continuing operations of $196.9 million for the same period in 2018. Adjusted EBITDA from continuing operations was $368.6 million for the nine months ended September 30, 2019, as compared to $397.4 million for the same period in 2018.

Diluted loss from continuing operations per common and common equivalent share was $14.11 on weighted average shares outstanding of 83.8 million for the nine months ended September 30, 2019, as compared to diluted income from continuing operations of $2.13 on weighted average shares outstanding of 92.8 million for the same period in 2018. Adjusted EPS from continuing operations was $2.45 for the nine months ended September 30, 2019, as compared to $2.67 for the same period in 2018. The decrease of 8.9 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 $324.0 million for the nine months ended September 30, 2019, reflecting the loss on the initial classification as assets held for sale and an incremental impairment charge recorded during the nine months ended September 30, 2019, as compared to income from discontinued operations of $11.5 million for the same period in 2018. Diluted loss from discontinued operations per common and common equivalent share was $3.86 for the nine months ended September 30, 2019, as compared to diluted income from discontinued operations per common and common equivalent share of $0.12 for the same period in 2018.

Net loss was $1.51 billion for the nine months ended September 30, 2019, as compared to net income of $208.4 million for the same period in 2018. Diluted net loss per common and common equivalent share was $17.97 for the nine months ended September 30, 2019, as compared to diluted net income per common and common equivalent share of $2.25 for the same period in 2018.

Liquidity and Capital Resources

As of September 30, 2019, we had $28.9 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 $172.5 million at September 30, 2019, an increase of $43.5 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):

	Nine Months Ended September 30,	
	2019	2018
Operating activities	$ 210,846	$ 150,442
Investing activities	(43,876)	(34,463)
Financing activities	(183,571)	(140,272)

Operating Activities from Continuing Operations

During the nine months ended September 30, 2019, our net cash provided by operating activities for continuing operations was $210.8 million, compared to $150.4 million for the same period in 2018. The net increase in cash provided of $60.4 million was primarily due to an increase in cash flow from accounts payable and accrued expenses, income taxes payable and accounts receivable, partially offset by a decrease in cash flow from lower earnings.

During the nine months ended September 30, 2019, cash flow from accounts receivable for continuing operations was $12.0 million, as compared to cash used of $25.6 million for the same period in 2018. The increase in cash flow from accounts receivable for the nine months ended September 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 51.2 days at September 30, 2019 as compared to 52.5 days at December 31, 2018.

Investing Activities from Continuing Operations

During the nine months ended September 30, 2019, our net cash used in investing activities for continuing operations of $43.9 million included acquisition payments of $31.2 million and capital expenditures of $25.0 million, partially offset by net proceeds of $12.3 million related to the maturity and purchase of investments.

Financing Activities from Continuing Operations

During the nine months ended September 30, 2019, our net cash used in financing activities for continuing operations of $183.6 million consisted primarily of repurchases of $144.9 million of our common stock, partially offset by net borrowings on our Credit Agreement of $30.0 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 September 30, 2019, we had an outstanding principal balance of $209.8 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 $990.0 million at September 30, 2019.

In February 2019, we completed a private offering of Additional 2027 Notes. At September 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 September 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 September 30, 2019 was $266.6 million, of which $43.7 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 $29.8 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 September 30, 2019, the outstanding principal balance on our Credit Agreement was $209.8 million, and considering this outstanding balance, a 1% change in interest rates would result in an impact to income before income taxes of approximately $2.1 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 September 30, 2019.

Changes in Internal Controls Over Financial Reporting

No changes in our internal control over financial reporting occurred during the three months ended September 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 was seeking unspecified damages, interest, attorneys' fees and other costs. We filed a motion to dismiss in April 2019, which was granted in October 2019; however, the plaintiff filed a second amended complaint on October 25, 2019. We continue to 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.

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 September 30, 2019, we repurchased 19,675 shares of our common stock that were withheld to satisfy minimum statutory withholding obligations in connection with the vesting of restricted stock.

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)
July 1 – July 31, 2019	—	$ —	—	(a)
August 1 – August 31, 2019	—	—	—	(a)
September 1 – September 30, 2019	19,675(b)	21.08	—	(a)
Total	19,675	$ 21.08	—	(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 was 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 September 30, 2019.

(b) Represents shares withheld to satisfy minimum statutory withholding obligations of $0.4 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 5. Other Information

On October 10, 2019, we entered into a securities purchase agreement with an affiliate of Frazier Healthcare Partners to divest of our management services organization, which operates as MedData. The transaction closed on October 31, 2019. Pursuant to the terms and conditions of the agreement, at the closing of the transaction, we received a cash payment of $250.0 million, subject certain net working capital and similar adjustments, as well as contingent economic consideration in an indirect holding company of the buyer, the value of which is contingent on both short and long-term performance of MedData and the maximum amount payable in respect of which is $50.0 million. We anticipate certain cash tax benefits from the transaction in the coming quarters. We expect to use net proceeds from the transaction for debt repayment, share repurchases and strategic acquisitions.

Item 6. Exhibits

Exhibit No.	Description
10.1+	Second Amendment to Employment Agreement, dated July 1, 2019, by and between MEDNAX Services, Inc. and Roger J. Medel, M.D.
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.
99.1+	Pro Forma Financial Statements with Respect to Disposition of MedData.
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.
104+	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

+ 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: November 1, 2019	By: /s/ Roger J. Medel, M.D. Roger J. Medel, M.D. Chief Executive Officer (Principal Executive Officer)
Date: November 1, 2019	By: /s/ Stephen D. Farber Stephen D. Farber Chief Financial Officer (Principal Financial Officer)
Date: November 1, 2019	By: /s/ John C. Pepia John C. Pepia Chief Accounting Officer (Principal Accounting Officer)

Exhibit 10.1

**SECOND AMENDMENT TO
EMPLOYMENT AGREEMENT**

THIS SECOND AMENDMENT TO EMPLOYMENT AGREEMENT (this "**Amendment**") is made and entered into by and between **MEDNAX SERVICES, INC.**, a Florida corporation ("**Employer**"), and **ROGER J. MEDEL, M.D.** ("**Employee**"), effective as of the 1st day of July, 2019.

RECITALS

WHEREAS, Employer and Employee are the parties to that certain Employment Agreement, effective as of August 7, 2011, as amended by that certain First Amendment to Employment Agreement between Employer and Employee dated October 4, 2017 (as amended, the "**Employment Agreement**"); and

WHEREAS, Employee has requested and Employer has agreed to amend the Employment Agreement as provided herein, and effective as of the date hereof, to effectively reduce Employee's annual salary from a gross annual salary of $1,000,000.00 to a net annual salary of $1.00; and

WHEREAS, Employer and Employee agree that the reduction in salary herein shall not constitute "Good Reason," as defined in the Employment Agreement, and shall not trigger any severance obligations on the part of Employer.

NOW, THEREFORE, in consideration of the premises and mutual covenants set forth herein, the parties agree as follows:

1. All capitalized terms used but not otherwise defined in this Amendment have the meanings provided in the Employment Agreement.

2. Section 2.1 of the Employment Agreement is hereby deleted in its entirety and replaced with the following:

"2.1. *Base Salary*.

(a) Employee's annual base salary will be a net amount of $1.00 per year after applicable taxes (including taxes on imputed income), withholdings and deductions (the "Base Salary"), beginning July 1, 2019, and continuing during the Employment Period; provided, however, that at all times Employee shall be paid a minimum gross annual salary of $23,660.00 per year, subject to such increase as required under applicable law in order for Employee to be exempt from overtime under the Fair Labor Standards Act, and further subject to applicable withholdings and deductions and the additional amount set forth in Section 2.1(b).

(b) Notwithstanding Section 2.1(a), Employer shall provide Employee with an additional amount of gross annual salary, if any, equal to applicable withholding and employment taxes and deductions due with respect to taxable perquisites or Employer provided group health and welfare benefits such that the after tax amount paid to the Employee shall be $1.00 as set forth in Section 2.1(a); *provided*, *however*, that for purposes of clarity, Employee is and will remain responsible for payment of Employee's portion of any and all taxes incurred on any Performance Bonus (as defined below) as well as any equity awards issued to Employee, neither of which will factor into the calculation of Employee's net annual salary under Section 2.1(a) or for purposes of the additional gross annual salary payment in this Section 2.1(b). Any determination regarding the amount of gross annual salary to be paid to Employee pursuant to this Section 2.1(b) shall be made by Employer in consultation with such accounting and tax professionals as Employer considers necessary (with all costs related thereto paid by Employer).

(c) The Compensation Committee of the Mednax Board (the "Compensation Committee") shall review the amount of Employee's Base Salary on an annual basis no later than ninety (90) days after the beginning of Employer's fiscal year. During the term of the Agreement, the Compensation Committee may approve increases to Employee's Base Salary, which will then become the Base Salary for purposes of this Agreement; *provided*, *however*, that Employee's Base Salary shall not exceed the Prior Base Salary."

3. Section 2.2 of the Employment Agreement is hereby deleted in its entirety and replaced with the following:

"2.2. *Performance Bonus*. During the Employment Period, Employee shall be eligible for an annual bonus (the "Performance Bonus") in accordance with incentive programs approved or revised during the term of this Agreement by the Compensation Committee, which programs shall contemplate a target bonus payment in the gross amount of at least One Hundred Fifty Percent (150%) up to a maximum bonus opportunity of Three Hundred Percent (300%) of the Prior Base Salary, in any case less applicable withholdings and deductions, upon the fulfillment of reasonable performance objectives set by the Compensation Committee. The Compensation Committee may adjust the target and maximum bonus at its discretion during the term of this Agreement but not below the levels set forth in the preceding sentence. Each Performance Bonus shall be paid in the calendar year immediately following the calendar year in which it is earned as soon as practicable after the audited financial statements for Employer for the year for which the bonus is earned have been released; provided, however, that if calculation of Employee's Performance Bonus within such time is not administratively practicable due to events beyond the control of Employer, then Employer may delay payment of the Performance Bonus provided that the payment is made during the first taxable year of Employee in which the calculation of the amount of the payment is administratively practicable."

4. Section 3.2 of the Employment Agreement will be amended by adding the following sentence at the end of the current Section 3.2:

"For purposes of any Employer benefit plans that base benefit levels or contributions on Employee's base salary, such benefit levels or contributions shall be based on the Prior Base Salary."

5. Section 5.2 of the Employment Agreement is hereby deleted in its entirety and replaced with the following:

"5.2. *Disability*. In the event of Employee's Disability, Employer shall pay Employee a gross aggregate amount equivalent to the Prior Base Salary, payable in substantially equal monthly installments, less applicable withholdings and deductions, over a period of twelve (12) months following the date of Employee's Disability, plus any amount due under Sections 5.10 and 5.11 hereof. Amounts payable under this Section 5.2 are not intended to be in lieu of benefits under any long-term disability plan. Employer may maintain and revise during the term of this Agreement, and Employee's entitlement to benefits under such plan, if any, shall be determined solely by the plan's terms."

6. Section 5.4 of the Employment Agreement is hereby deleted in its entirety and replaced with the following:

"5.4. *Termination by Employer Without Cause*. If Employer terminates Employee's employment in accordance with Section 4.4, then Employer shall pay Employee's Base Salary through the termination date specified in Section 4.4 at the rate in effect at such termination date, plus any amount due under Sections 5.10 and 5.11 hereof. In addition, Employer shall pay Employee a gross aggregate amount equivalent to two (2) times the Prior Base Salary, payable in substantially equal monthly installments over a period of twenty-four (24) months following the termination date under the same conditions, less normal and standard deductions under federal and state laws. Employee will also receive on the first and second anniversaries of such termination date a payment equal to the greater of:

(a) Employee's most recent performance bonus paid prior to such termination date, or

(b) The average of his earned performance bonus (expressed as a percentage of the Prior Base Salary) for the previous three years preceding such termination date, multiplied by the Prior Base Salary."

7. Section 5.7 of the Employment Agreement is hereby deleted in its entirety and replaced with the following:

"5.7. *Termination by Employee for Good Reason.* If Employee's employment under this Agreement is terminated in accordance with Section 4.7, then Employer shall pay Employee's Base Salary through the termination date specified pursuant to Section 4.7 at the rate in effect at such termination date, plus any amounts as may be due under Sections 5.10 and 5.11 hereof. In addition, Employer shall pay Employee a gross aggregate amount equivalent to two (2) times the Prior Base Salary, payable in substantially equal monthly installments over a period of twenty-four (24) months following the termination date under the same conditions, less normal and standard deductions under federal and state laws. Employee will also receive on the first and second anniversaries of such termination date a payment equal to the greater of:

(a) Employee's most recent performance bonus paid prior to such termination date, or

(b) The average of his earned performance bonus (expressed as percentage of the Prior Base Salary) for the previous three years preceding such termination date, multiplied by the Prior Base Salary."

8. Section 5.8 of the Employment Agreement is hereby deleted in its entirety and replaced with the following:

"5.8. *Termination of Employee in Connection With Change in Control of Employer.* If Employee's employment under this Agreement is terminated in accordance with Section 4.8, then Employer shall pay Employee's Base Salary through the termination date specified pursuant to Section 4.8 at the rate in effect at such termination date, plus any amounts as may be due under Section 5.10 hereof. In addition, Employee will receive the following severance payments from Employer:

(a) A gross aggregate amount equivalent to three (3) times the Prior Base Salary, payable in substantially equal monthly installments over a period of thirty-six (36) months following the termination date under the same conditions, less normal and standard deductions under federal and state laws.

(b) Within 90 days following such termination date, Employee will receive a lump sum payment in an amount equal to three (3) times the greater of (1) his most recent performance bonus paid prior to such termination date, or (2) the average of his earned performance bonus (expressed as a percentage of the Prior Base Salary) for the three years preceding such termination date, multiplied by the Prior Base Salary."

9. The final sentence of Section 5.12 of the Employment Agreement is hereby deleted and replaced with the following:

"For services during the Transition Period, Employee shall be compensated at a daily rate of equal to the Prior Base Salary divided by 365."

10. Employee acknowledges and agrees that the changes set forth in this Amendment are by mutual agreement of Employee and Employer and nothing contained herein and no changes contemplated hereby constitute "Good Reason," as defined in the Employment Agreement.

11. Except as specifically amended hereby, the Employment Agreement is and remains unmodified and in full force and effect and is hereby ratified and confirmed.

12. This Amendment shall be governed by and construed in accordance with the terms and conditions of the Employment Agreement, including the governing law and dispute resolution provisions thereof.

13. This Amendment may be executed in counterparts and both of such counterparts shall for all purposes be deemed to be an original, and such counterparts shall constitute one and the same instrument. The Amendment may be executed by facsimile or other electronic signature.

[Remainder of page intentionally left blank; signatures follow on next page]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the date set forth below each party's signature below and to be effective as of the date first above written.

EMPLOYER:

MEDNAX SERVICES, INC.

By: *\/s/ Enrique J. Sosa, Ph.D.*
Name: Enrique J. Sosa Ph.D.
Title: Chairman, Compensation Committee, of MEDNAX, Inc.

Date: July 1, 2019

EMPLOYEE:

\/s/ Roger J. Medel, M.D.
Roger J. Medel, M.D.

Date: July 1, 2019

[Signature Page to Second Amendment to Employment Agreement]

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: November 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: November 1, 2019

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

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 September 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.

November 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)

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

Overview

On October 31, 2019, pursuant to the previously disclosed Securities Purchase Agreement, dated as of October 10, 2019, by and between MEDNAX Services, Inc., a Florida corporation ("MEDNAX Services"), and wholly-owned subsidiary MEDNAX, Inc., a Florida corporation (the "Company"), and FH MD Buyer, Inc., a Delaware corporation ("Buyer") and affiliate of Frazier Healthcare Partners, the Company completed the divestiture of MedData Holding Co., a Delaware corporation ("MedData Holding"), and MedDirect Holding Co., a Delaware corporation ("MedDirect Holding" and together with MedData Holdings, the "Purchased Companies"). The Purchased Companies constitute the Company's management services service line, which operates as MedData. The purchase consideration was comprised of $250 million in cash paid at closing, subject to certain net working capital assumptions, as well as economic consideration in an indirect holding company of Buyer, the value of which is contingent on both short and long-term performance of MedData. The maximum amount payable in respect of such economic consideration is $50 million. The fair value of this contingent consideration is not estimable at this time as the valuation of such consideration is currently in process.

The divestiture of MedData is considered a significant disposition for the Company. As a result, the Company prepared the accompanying unaudited pro forma condensed consolidated financial information in accordance with Article 11 of Regulation S-X.

The Company presented its operations for MedData as discontinued operations in its condensed consolidated financial statements included in the Company's Form 10-Q for the three and nine months ended September 30, 2019. The accompanying unaudited pro forma condensed consolidated statements of operations for the nine months ended September 30, 2019 and for the years ended December 31, 2018, 2017, and 2016 give effect to the divestiture of MedData as if it occurred on January 1, 2016. The accompanying unaudited pro forma condensed consolidated balance sheet gives effect to the divestiture of MedData as if it occurred on September 30, 2019, the end of the most recent period for which a balance sheet is required.

The accompanying unaudited pro forma condensed consolidated financial information should be read in conjunction with (i) the audited consolidated financial statements and accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, and (ii) the unaudited condensed consolidated financial statements and accompanying notes and "Management's Discussion and Analysis of Financial Conditions and Results of Operations" included in the Company's Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2019.

The accompanying unaudited pro forma condensed consolidated financial information is presented based on assumptions, adjustments, and currently available information described in the accompanying notes and is intended for informational purposes only. The unaudited pro forma condensed consolidated financial information is not necessarily indicative of what the Company's results of operations or financial condition would have been had the divestiture of MedData been completed on the dates assumed. In addition, it is not necessarily indicative of the Company's future results of operations or financial condition.

MEDNAX, INC.
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2019
(in thousands)

	As Reported	Pro Forma Adjustments	Pro Forma
ASSETS			
Current assets:			
Cash and cash equivalents	$ 28,890	25,200(a)	$ 54,090
Short-term investments	78,371	—	78,371
Accounts receivable, net	494,699	—	494,699
Prepaid expenses	20,937	—	20,937
Other current assets	19,939	—	19,939
Assets held for sale	322,465	(322,465)(b)	—
Total current assets	965,301	(297,265)	668,036
Property and equipment, net	93,731	—	93,731
Goodwill	2,634,874	—	2,634,874
Intangible assets, net	279,605	—	279,605
Operating lease right-of-use assets	84,279	—	84,279
Other assets	232,871	—	232,871
Total assets	$4,290,661	(297,265)	$3,993,396
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accrued expenses	$ 441,972	—	$ 441,972
Current portion of lease liabilities	23,611	—	23,611
Income taxes payable	4,763	—	4,763
Liabilities held for sale	30,444	(30,444)(b)	—
Total current liabilities	500,790	(30,444)	470,346
Line of credit	209,800	(209,800)(a)	—
Long-term debt and finance lease liabilities, net	1,729,377	—	1,729,377
Long-term operating lease liabilities	65,287	—	65,287
Long-term professional liabilities	222,933	—	222,933
Deferred income taxes	61,207	—	61,207
Other liabilities	21,907	—	21,907
Total liabilities	2,811,301	(240,244)	2,571,057
Commitments and contingencies			
Total equity	1,479,360	(57,021)(c)	1,422,339
Total liabilities and equity	$4,290,661	(297,265)	$3,993,396

See notes to unaudited Pro Forma Condensed Consolidated Financial Statements.

MEDNAX, INC.
UNAUDTED PRO FORMA CONSDENSED CONSOLIDATED STATEMENT OF OPERATIONS
Nine Months Ended September 30, 2019
(in thousands, except per share data)

	As Reported	Pro Forma Adjustments	Pro Forma
Net revenue	$ 2,608,167	—	$ 2,608,167
Operating expenses:			
Practice salaries and benefits	1,860,810	—	1,860,810
Practice supplies and other operating expenses	80,757	—	80,757
General and administrative expenses	307,717	—	307,717
Depreciation and amortization	59,450	—	59,450
Transformational and restructuring related expenses	51,018	—	51,018
Goodwill impairment	1,449,215	—	1,449,215
Total operating expenses	3,808,967	—	3,808,967
(Loss) income from operations	(1,200,800)	—	(1,200,800)
Investment and other income	4,242	—	4,242
Interest expense	(91,704)	5,680(d)	(86,024)
Equity in earnings of unconsolidated affiliates	5,475	—	5,475
Total non-operating expenses	(81,987)	5,680	(76,307)
(Loss) income from continuing operations before income taxes	(1,282,787)	5,680	(1,277,107)
Income tax benefit (provision)	99,710	(1,545)(d)	98,165
(Loss) income from continuing operations	(1,183,077)	4,135	(1,178,942)
Income (loss) from discontinued operations, net of tax	(323,956)	323,956(e)	—
Net (loss) income	$(1,507,033)	328,091	$(1,178,942)
Per common and common equivalent share data:			
(Loss) income from continuing operations:			
Basic	$ (14.11)	$ 0.05	$ (14.06)
Diluted	$ (14.11)	$ 0.05	$ (14.06)
Income (loss) from discontinued operations:			
Basic	$ 3.86)	$ 3.86	$ —
Diluted	$ (3.86)	$ 3.86	$ —
Net (loss) income:			
Basic	$ (17.97)	$ 3.91	$ (14.06)
Diluted	$ (17.97)	$ 3.91	$ (14.06)
Weighted average common shares:			
Basic	83,846		83,846
Diluted	83,846		83,846

MEDNAX, INC.
UNAUDTED PRO FORMA CONSDENSED CONSOLIDATED STATEMENT OF OPERATIONS
Year Ended December 31, 2018
(in thousands, except per share data)

	As Reported	Pro Forma Adjustments (f)	Pro Forma
Net revenue	$3,647,123	$ (192,313)	$3,454,810
Operating expenses:			
Practice salaries and benefits	2,535,588	(109,212)	2,426,376
Practice supplies and other operating expenses	122,028	(13,177)	108,851
General and administrative expenses	432,378	(28,444)	403,934
Depreciation and amortization	111,281	(27,449)	83,832
Total operating expenses	3,201,275	(178,282)	3,022,993
Income from operations	445,848	(14,031)	431,817
Investment and other income	4,935	276	5,211
Interest expense	(88,769)	7,876(d)	(80,893)
Equity in earnings of unconsolidated affiliates	6,825	—	6,825
Total non-operating expenses	(77,009)	8,152	(68,857)
Income before income taxes	368,839	(5,879)	362,960
Income tax provision	(100,210)	1,609(g)(d)	(98,601)
Net income	$ 268,629	$ (4,270)	$ 264,359
Per common and common equivalent share data:			
Net income:			
Basic	2.95	$ (0.05)	$ 2.90
Diluted	2.93	$ (0.04)	$ 2.89
Weighted average common shares:			
Basic	91,104		91,104
Diluted	91,606		91,606

MEDNAX, INC.
UNAUDTED PRO FORMA CONSDENSED CONSOLIDATED STATEMENT OF OPERATIONS
Year Ended December 31, 2017
(in thousands, except per share data)

	As Reported	Pro Forma Adjustments (f)	Pro Forma
Net revenue	$3,458,312	$ (204,921)	$3,253,391
Operating expenses:			
Practice salaries and benefits	2,337,734	(110,399)	2,227,335
Practice supplies and other operating expenses	120,518	(14,074)	106,444
General and administrative expenses	417,105	(31,241)	385,864
Depreciation and amortization	102,879	(24,023)	78,856
Total operating expenses	2,978,236	(179,737)	2,798,499
Income from operations	480,076	(25,184)	454,892
Investment and other income	3,953	432	4,385
Interest expense	(74,559)	3	(74,556)
Equity in earnings of unconsolidated affiliates	952	—	952
Total non-operating expenses	(69,654)	435	(69,219)
Income before income taxes	410,422	(24,749)	385,673
Income tax provision	(90,050)	9,819(g)	(80,231)
Net income	$ 320,372	$ (14,930)	$ 305,442
Per common and common equivalent share data:			
Net income:			
Basic	3.47	$ (0.16)	$ 3.31
Diluted	3.45	$ (0.16)	$ 3.29
Weighted average common shares:			
Basic	92,431		92,431
Diluted	92,958		92,958

MEDNAX, INC.
UNAUDTED PRO FORMA CONSDENSED CONSOLIDATED STATEMENT OF OPERATIONS
Year Ended December 31, 2016
(in thousands, except per share data)

	As Reported	Pro Forma Adjustments (f)	Pro Forma
Net revenue	$3,183,159	$ (141,349)	$3,041,810
Operating expenses:			
Practice salaries and benefits	2,031,220	(73,579)	1,957,641
Practice supplies and other operating expenses	118,416	(10,606)	107,810
General and administrative expenses	372,572	(25,004)	347,568
Depreciation and amortization	89,264	(15,083)	74,181
Total operating expenses	2,611,472	(124,272)	2,487,200
Income from operations	571,687	(17,077)	554,610
Investment and other income	2,019	258	2,277
Interest expense	(63,092)	41	(63,051)
Equity in earnings of unconsolidated affiliates	3,185	—	3,185
Total non-operating expenses	(57,888)	299	(57,589)
Income before income taxes	513,799	(16,778)	497,021
Income tax provision	(189,203)	6,601(g)	(182,602)
Net income	324,596	(10,177)	314,419
Net loss attributable to noncontrolling interests	318	—	318
Net income attributable to MEDNAX, Inc.	$ 324,914	$ (10,177)	$ 314,737
Per common and common equivalent share data:			
Net income attributable to MEDNAX, Inc.:			
Basic	$ 3.52	$ (0.11)	$ 3.41
Diluted	$ 3.49	$ (0.11)	$ 3.38
Weighted average common shares:			
Basic	92,422		92,422
Diluted	93,109		93,109

MEDNAX, INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(a) Adjustment reflects the assets and liabilities of the MedData business, which were previously classified as held for sale.

(b) Adjustment reflects the use of cash proceeds from the sale of the MedData business, net of transaction expenses, to repay debt, to the extent debt was outstanding, with the remaining amount as excess cash. The Company did not include a pro forma asset for the contingent consideration payable to the Company as the fair value of such contingent consideration was not able to be estimated on the date of sale as the valuation of such contingent consideration was not yet complete.

(c) Adjustment reflects the estimated loss on the sale of the MedData business. Any change to the estimated loss on sale will be recorded upon completion of the valuation of the contingent consideration referred to in (b).

(d) Adjustment reflects the estimated decrease in interest expense from the use of net cash proceeds from the sale of the MedData business to repay debt and the related income tax impacts from such decrease in interest expense.

(e) Adjustment reflects the historical loss from discontinued operations, net of tax, associated with the MedData business.

(f) Adjustment reflects the discontinued operations of the MedData business, except as otherwise noted.

(g) Adjustment reflects the tax effects of the MedData business divestiture to achieve the pro forma tax for the continuing operations of MEDNAX, Inc.