

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended 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: 001-37856

Medpace Holdings, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

32-0434904
(I.R.S. Employer
Identification No.)

5375 Medpace Way, Cincinnati, OH 45227
(Address of principal executive offices) (Zip Code)

(513) 579-9911
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock \$0.01 par value	MEDP	NASDAQ

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Class	Number of Shares Outstanding
Common Stock \$0.01 par value	36,030,398 shares outstanding as of October 25, 2019

MEDPACE HOLDINGS, INC. AND SUBSIDIARIES
FORM 10-Q
FOR QUARTERLY PERIOD ENDED SEPTEMBER 30, 2019

TABLE OF CONTENTS

<u>Item Number</u>		<u>Page</u>
	<u>PART I — FINANCIAL INFORMATION</u>	3
Item 1.	<u>Financial Statements (unaudited)</u>	3
	<u>Condensed Consolidated Balance Sheets as of September 30, 2019 and December 31, 2018</u>	3
	<u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2019 and 2018</u>	4
	<u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2019 and 2018</u>	5
	<u>Condensed Consolidated Statements of Shareholders' Equity for the three and nine months ended September 30, 2019 and 2018</u>	6
	<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and 2018</u>	7
	<u>Notes to Condensed Consolidated Financial Statements</u>	8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
Item 4.	<u>Controls and Procedures</u>	27
	<u>PART II — OTHER INFORMATION</u>	28
Item 1.	<u>Legal Proceedings</u>	28
Item 1A.	<u>Risk Factors</u>	28
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
Item 3.	<u>Defaults Upon Senior Securities</u>	29
Item 4.	<u>Mine Safety Disclosures</u>	29
Item 5.	<u>Other Information</u>	29
Item 6.	<u>Exhibits</u>	30
	<u>EXHIBIT INDEX</u>	31
	<u>SIGNATURES</u>	32

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

**MEDPACE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

(Amounts in thousands, except share amounts)

	September 30, 2019	As Of December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 79,290	\$ 23,275
Restricted cash	-	7
Accounts receivable and unbilled, net (includes \$1.1 million and \$3.8 million with related parties at September 30, 2019 and December 31, 2018, respectively)	140,189	133,449
Prepaid expenses and other current assets	30,918	21,383
Total current assets	<u>250,397</u>	<u>178,114</u>
Property and equipment, net	43,715	52,255
Operating lease right-of-use assets	52,479	-
Goodwill	662,427	660,981
Intangible assets, net	57,345	69,179
Deferred income taxes	293	713
Other assets	5,673	6,691
Total assets	<u>\$ 1,072,329</u>	<u>\$ 967,933</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable (includes \$0.1 million and \$0.3 million with related parties at September 30, 2019 and December 31, 2018, respectively)	\$ 20,684	\$ 16,737
Accrued expenses	102,535	87,493
Advanced billings (includes \$1.3 million and \$0.4 million with related parties at September 30, 2019 and December 31, 2018, respectively)	169,529	147,935
Other current liabilities	21,644	4,861
Total current liabilities	<u>314,392</u>	<u>257,026</u>
Long-term debt, net, less current portion	-	79,721
Operating lease liabilities	46,022	-
Deemed landlord liability, less current portion	-	24,484
Deferred income tax liability	5,578	439
Other long-term liabilities	14,330	16,560
Total liabilities	<u>380,322</u>	<u>378,230</u>
Commitments and contingencies (see Note 12)		
Shareholders' equity:		
Preferred stock - \$0.01 par-value; 5,000,000 shares authorized; no shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	-	-
Common stock - \$0.01 par-value; 250,000,000 shares authorized at September 30, 2019 and December 31, 2018, respectively; 36,011,725 and 35,665,910 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	360	356
Treasury stock - 200,000 shares at September 30, 2019 and December 31, 2018, respectively	(6,030)	(6,030)
Additional paid-in capital	663,044	639,381
Retained earnings (accumulated deficit)	38,296	(41,487)
Accumulated other comprehensive loss	(3,663)	(2,517)
Total shareholders' equity	<u>692,007</u>	<u>589,703</u>
Total liabilities and shareholders' equity	<u>\$ 1,072,329</u>	<u>\$ 967,933</u>

See notes to condensed consolidated financial statements.

MEDPACE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Amounts in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue, net (includes \$4.6 million and \$5.1 million with related parties for the three months ended September 30, 2019 and 2018, respectively, and \$13.7 million and \$9.2 million with related parties for the nine months ended September 30, 2019 and 2018, respectively)	\$ 216,238	\$ 179,253	\$ 631,083	\$ 512,474
Operating expenses:				
Direct service costs, excluding depreciation and amortization	81,086	62,520	235,522	184,339
Reimbursed out-of-pocket expenses	70,984	61,476	212,563	173,587
Total direct costs	152,070	123,996	448,085	357,926
Selling, general and administrative	29,120	18,606	73,984	55,112
Depreciation	2,062	2,343	6,035	6,883
Amortization	2,995	7,390	11,834	22,171
Total operating expenses	186,247	152,335	539,938	442,092
Income from operations	29,991	26,918	91,145	70,382
Other expense, net:				
Miscellaneous (expense) income, net	(273)	482	(574)	807
Interest expense, net	(253)	(1,941)	(1,956)	(6,558)
Total other expense, net	(526)	(1,459)	(2,530)	(5,751)
Income before income taxes	29,465	25,459	88,615	64,631
Income tax provision	5,488	6,154	17,985	14,207
Net income	<u>\$ 23,977</u>	<u>\$ 19,305</u>	<u>\$ 70,630</u>	<u>\$ 50,424</u>
Net income per share attributable to common shareholders:				
Basic	\$ 0.67	\$ 0.54	\$ 1.97	\$ 1.41
Diluted	\$ 0.63	\$ 0.52	\$ 1.88	\$ 1.36
Weighted average common shares outstanding:				
Basic	35,939	35,569	35,829	35,525
Diluted	37,835	37,125	37,507	36,795

See notes to condensed consolidated financial statements.

MEDPACE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Amounts in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 23,977	\$ 19,305	\$ 70,630	\$ 50,424
Other comprehensive income				
Foreign currency translation adjustments, net of taxes	(1,286)	(64)	(1,146)	(1,445)
Comprehensive income	<u>\$ 22,691</u>	<u>\$ 19,241</u>	<u>\$ 69,484</u>	<u>\$ 48,979</u>

See notes to condensed consolidated financial statements.

MEDPACE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

(Amounts in thousands)

	Common Stock	Treasury Stock	Additional Paid-In Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE — December 31, 2017	\$ 355	\$ (6,030)	\$ 630,341	\$ (120,402)	\$ (734)	\$ 503,530
Impact to Retained Earnings from adoption of ASU 2014-09				5,730		5,730
BALANCE — January 1, 2018	355	(6,030)	630,341	(114,672)	(734)	509,260
Net income				14,551		14,551
Foreign currency translation					629	629
Stock-based compensation expense			1,467			1,467
Stock options exercised			566			566
BALANCE — March 31, 2018	\$ 355	\$ (6,030)	\$ 632,374	\$ (100,121)	\$ (105)	\$ 526,473
Net income				16,568		16,568
Foreign currency translation					(2,010)	(2,010)
Stock-based compensation expense			1,487			1,487
Stock options exercised	1		608			609
BALANCE — June 30, 2018	\$ 356	\$ (6,030)	\$ 634,469	\$ (83,553)	\$ (2,115)	\$ 543,127
Net income				19,305		19,305
Foreign currency translation					(64)	(64)
Stock-based compensation expense			1,432			1,432
Stock options exercised			635			635
BALANCE — September 30, 2018	\$ 356	\$ (6,030)	\$ 636,536	\$ (64,248)	\$ (2,179)	\$ 564,435
				(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE — December 31, 2018	\$ 356	\$ (6,030)	\$ 639,381	\$ (41,487)	\$ (2,517)	\$ 589,703
Impact to Retained Earnings from adoption of ASU 2016-02				9,153		9,153
BALANCE — January 1, 2019	356	(6,030)	639,381	(32,334)	(2,517)	598,856
Net income				19,198		19,198
Foreign currency translation					(274)	(274)
Stock-based compensation expense			3,183			3,183
Stock options exercised	1		933			934
BALANCE — March 31, 2019	\$ 357	\$ (6,030)	\$ 643,497	\$ (13,136)	\$ (2,791)	\$ 621,897
Net income				27,455		27,455
Foreign currency translation					414	414
Stock-based compensation expense			5,385			5,385
Stock options exercised	2		2,902			2,904
BALANCE — June 30, 2019	\$ 359	\$ (6,030)	\$ 651,784	\$ 14,319	\$ (2,377)	\$ 658,055
Net income				23,977		23,977
Foreign currency translation					(1,286)	(1,286)
Stock-based compensation expense			9,466			9,466
Stock options exercised	1		1,794			1,795
BALANCE — September 30, 2019	\$ 360	\$ (6,030)	\$ 663,044	\$ 38,296	\$ (3,663)	\$ 692,007

See notes to condensed consolidated financial statements.

MEDPACE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in thousands)

	Nine Months Ended September 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 70,630	\$ 50,424
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,035	6,883
Amortization	11,834	22,171
Stock-based compensation expense	18,034	4,386
Amortization of debt issuance costs and discount	954	471
Noncash lease expense	7,212	-
Deferred income tax provision	2,839	7,260
Amortization and adjustment of deferred credit	(601)	(7,515)
Other	1,768	487
Changes in assets and liabilities:		
Accounts receivable and unbilled, net	(5,982)	(12,845)
Prepaid expenses and other current assets	(9,039)	(2,542)
Accounts payable	2,818	(1,323)
Accrued expenses	15,427	21,613
Advanced billings	21,901	28,277
Lease liabilities	(6,477)	-
Other assets and liabilities, net	7,574	(605)
Net cash provided by operating activities	<u>144,927</u>	<u>117,142</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment expenditures	(12,152)	(12,575)
Other	(1,262)	(186)
Net cash used in investing activities	<u>(13,414)</u>	<u>(12,761)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from stock option exercises	5,686	1,810
Payment of debt	(80,438)	(38,156)
Payments on revolving loan	-	(70,000)
Payment of deemed landlord liability	-	(1,387)
Net cash used in financing activities	<u>(74,752)</u>	<u>(107,733)</u>
EFFECT OF EXCHANGE RATES ON CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(753)	(889)
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	56,008	(4,241)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH — Beginning of period	23,282	26,492
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH — End of period	<u>\$ 79,290</u>	<u>\$ 22,251</u>

See notes to condensed consolidated financial statements.

MEDPACE HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
September 30, 2019

(1) Basis of Presentation

Description of Business

Medpace Holdings, Inc. together with its subsidiaries (“Medpace” or the “Company”), a Delaware corporation, is a global provider of clinical research-based drug and medical device development services. The Company partners with pharmaceutical, biotechnology, and medical device companies in the development and execution of clinical trials. The Company’s drug development services focus on full service Phase I-IV clinical development services and include development plan design, project management, regulatory affairs, clinical monitoring, data management and analysis, pharmacovigilance new drug application submissions, post-marketing clinical support, laboratory services, clinical human pharmacology, imaging services, and electrocardiography reading support for clinical trials.

The Company’s operations are principally based in North America, Europe, and Asia.

Unaudited Interim Financial Information

The interim condensed consolidated financial statements include the accounts of the Company, are prepared in conformity with U.S. generally accepted accounting principles (“GAAP”), and are unaudited. In the opinion of the Company’s management, all adjustments of a normal recurring nature necessary for a fair presentation have been reflected. Certain financial information that is normally included in annual financial statements prepared in accordance with GAAP, but that is not required for interim reporting purposes, has been omitted. The preparation of the interim condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results and outcomes could differ from management’s estimates and assumptions. As such, the information included in this quarterly report on Form 10-Q should be read in conjunction with the Company’s audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

(2) Summary of Significant Accounting Policies

Our significant accounting policies are detailed in Note 3 “Summary of Significant Accounting Policies” of our Annual Report on Form 10-K for the year ended December 31, 2018. Significant changes to our accounting policies as a result of adopting Accounting Standards Codification Topic 842 (“ASC 842”) are discussed below:

Lease Recognition

The Company enters into contracts to lease facilities and equipment to be used in its operations. At contract inception, the Company determines whether a contract contains a lease within the scope of Accounting Standard Codification Topic 842, Leases (“ASC 842”), and determines the appropriate classification of the lease as either operating or finance.

Contracts containing operating leases are recorded on the condensed consolidated balance sheets within Operating lease right-of-use (“ROU”) assets, Other current liabilities, and Operating lease liabilities. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future lease payments over the lease term as of the lease commencement date. In addition operating ROU assets also include lease payments made and exclude lease incentives and initial direct costs incurred. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term within Total direct costs and Selling, general, and administrative expenses. Variable lease costs are primarily related to adjustments for inflation, common area maintenance and property tax and are recognized within Total direct costs and Selling, general and administrative expenses.

Contracts containing finance leases are recognized initially in the same manner as Operating lease ROU assets and liabilities, however are recorded on the condensed consolidated balance sheets within Property and equipment, net, Other current liabilities, and Other long-term liabilities. Finance lease assets are subsequently amortized on a straight line basis over the lease term within Depreciation expense, while the lease liability is accreted within Interest expense, net utilizing the discount rate determined at lease commencement and reduced by periodic lease payments over the lease term. Currently, the Company does not have any finance leases.

The discount rate utilized in determining the present value of future payments for both operating and finance leases, unless implicit in the lease contract, is determined based on the Company's collateralized incremental borrowing rate based on the information available at lease commencement.

Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option as determined at lease commencement.

Many of our lease agreements have both lease and non-lease components, which the Company has elected to treat as a single lease component for recognition purposes.

The Company may enter into short-term leases (leases with a lease term of less than 1 year), which it has elected not to capitalize as assets and liabilities on the condensed consolidated balance sheets, but instead recognizes lease payments within Total direct costs and Selling, general, and administrative expenses on a straight line basis over the lease term.

Recently Adopted Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09 "Revenue from Contracts with Customers," ("ASC 606") to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards. The new standard became effective for the Company in the first quarter 2018.

The cumulative effect adjustment was recorded as a reduction to the opening balance of Accumulated deficit in the condensed consolidated balance sheets in the amount of \$5.7 million, with offsetting amounts of \$23.9 million to Accounts receivable and unbilled, net, \$(1.6) million to Deferred income taxes, \$35.1 million to Accrued expenses, \$(57.4) million to Pre-funded study costs and \$38.9 million to Advanced billings, respectively. The amounts recorded to Accounts receivable and unbilled, net, Deferred income taxes, Accrued expenses, Pre-funded study costs, and Advanced billings reflect differences between revenue recognized and billings to customers by project as well as costs incurred but not settled as of the implementation date. The above disclosed cumulative effect adjustments have been revised from the amounts previously disclosed in the Company's interim financial statements filed on Form 10-Q for the quarterly periods ended March 31, 2018, June 30, 2018 and September 30, 2018 to correct certain immaterial misstatements to the opening balance sheet adoption impact of the standard. The effects of these misstatements were immaterial to the Company's results of operations.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" ("ASC 842"). The guidance in ASC 842 supersedes the lease recognition requirements in ASC Topic 840, Leases (FAS 13) ("ASC 840"). The objective of ASC 842 is to increase transparency and comparability among organizations by requiring the recognition of Right-of-use assets ("ROU assets") and Lease liabilities on the balance sheet. In addition, ASC 842 introduces additional disclosure requirements that are meant to enable users of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. ASC 842 became effective for the Company in the first quarter 2019.

ASC 842 allows by policy election, an entity to choose its transition approach. Entities must adopt ASC 842 on either a modified retrospective basis to each prior reporting period presented or through an optional alternative method referred to as the "Comparatives Under ASC 840 Approach" which allows entities to apply the new requirements to only those leases that exist as of January 1, 2019. The Company has elected to adopt ASC 842 utilizing the Comparatives Under ASC 840 Approach. As such, ASC 842 is applied on a prospective basis as of January 1, 2019 and any cumulative catch up adjustment for differences between ASC 842 and ASC 840 were recorded upon adoption.

ASC 842 also allows for the election of certain practical expedients that are meant to ease the burden of transitioning to ASC 842 while still achieving compliance. The Company elected the "package of three" practical expedient allowing the Company to carry forward decisions made and documented under current U.S. GAAP, rather than reassessing all of the Company's contracts to determine whether they are or contain leases and how they would be classified under ASC 842. The Company has decided not to elect the hindsight practical expedient, which had it been elected, would require the Company to reassess the lease term and assessment of impairment for all of the Company's leases using the facts and circumstances known up to the adoption date of the standard.

ASC 842 had a material impact on our condensed consolidated balance sheets, as all leases currently classified as operating were recognized as ROU assets and lease liabilities upon adoption. In addition, it was determined that two contracts entered into with a related party for two of the Company's corporate offices that were classified as deemed assets and deemed liabilities under ASC 840 were determined to be operating leases under ASC 842. These deemed assets and liabilities were reclassified on the condensed consolidated balance sheets to ROU assets and lease liabilities and an adjustment to retained earnings was recorded as a cumulative adjustment for the difference in depreciation expense and operating lease expense as of the date of adoption.

The impact of the adoption of ASC 842 as of January 1, 2019 is as follows:

ASSETS	As of		
	January 1, 2019	Adjustments	December 31, 2018
Current assets:			
Prepaid expenses and other current assets	21,013	(370)	21,383
Total current assets	177,744	(370)	178,114
Property and equipment, net	37,613	(14,642)	52,255
Operating lease right-of-use assets	51,854	51,854	-
Total assets	<u>\$ 1,004,775</u>	<u>\$ 36,842</u>	<u>\$ 967,933</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Other current liabilities	10,951	6,090	4,861
Total current liabilities	263,116	6,090	257,026
Operating lease liabilities	45,294	45,294	-
Deemed landlord liability, less current portion	-	(24,484)	24,484
Deferred income tax liability	3,158	2,719	439
Other long-term liabilities	14,630	(1,930)	16,560
Total liabilities	405,919	27,689	378,230
Shareholders' equity:			
Accumulated deficit	(32,334)	9,153	(41,487)
Total shareholders' equity	598,856	9,153	589,703
Total liabilities and shareholders' equity	<u>\$ 1,004,775</u>	<u>\$ 36,842</u>	<u>\$ 967,933</u>

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." ASU 2018-02 allows for an entity to elect to reclassify the income tax effects on items within accumulated other comprehensive income resulting from U.S. tax reform to retained earnings. The guidance is effective for fiscal years beginning after December 15, 2018 with early adoption permitted, including interim periods within those years. The Company adopted this standard in the first quarter of 2019 and it had no impact on the condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles- Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." ASU 2017-04 simplifies how an entity assesses goodwill for impairment by eliminating Step 2 from the goodwill impairment test. As amended, the goodwill impairment test will consist of one step comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The guidance is effective for fiscal years beginning after December 15, 2019 with early adoption permitted. The Company adopted this standard on a prospective basis in the first quarter of 2019 and it had no impact to the condensed consolidated financial statements.

(3) Net Income Per Share

Basic and diluted earnings or loss per share ("EPS") are computed using the two-class method, which is an earnings allocation that determines EPS for each class of common stock and participating securities according to dividends declared and participation rights in undistributed earnings. Restricted Stock Awards ("RSAs") are considered participating securities because they are legally issued at the date of grant and holders are entitled to receive non-forfeitable dividends during the vesting term.

The computation of diluted EPS includes additional common shares, such as unvested stock options with exercise prices less than the average market price of the Company's common stock during the period ("in-the-money options"), which would be considered outstanding under the treasury stock method. The treasury stock method assumes that additional shares would have to be issued in cases where the exercise price of stock options is less than the value of the common stock being acquired because the cash proceeds received from the stock option holder would not be sufficient to acquire that same number of shares. The Company does not compute diluted EPS in cases where the inclusion of such additional shares would be anti-dilutive in effect.

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2019 and 2018 (in thousands, except for earnings per share):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Weighted-average shares:				
Common shares outstanding	35,939	35,569	35,829	35,525
RSAs	98	141	101	144
Total weighted-average shares	36,037	35,710	35,930	35,669
Earnings per common share—Basic				
Net income	\$ 23,977	\$ 19,305	\$ 70,630	\$ 50,424
Less: Undistributed earnings allocated to RSAs	65	76	199	204
Net income available to common shareholders—Basic	\$ 23,912	\$ 19,229	\$ 70,431	\$ 50,220
Net income per common share—Basic	\$ 0.67	\$ 0.54	\$ 1.97	\$ 1.41
Basic weighted-average common shares outstanding	35,939	35,569	35,829	35,525
Effect of diluted shares	1,896	1,556	1,678	1,270
Diluted weighted-average shares outstanding	37,835	37,125	37,507	36,795
Net income per common share—Diluted	\$ 0.63	\$ 0.52	\$ 1.88	\$ 1.36

During the three and nine months ended September 30, 2019, the Company had 245,000 stock options, respectively, that were excluded due to the exercise price exceeding the average fair value of the Company's common stock during the period. During the three and nine months ended September 30, 2018, the Company had 13,420 stock options, respectively, that were excluded due to the exercise price exceeding the average fair value of the Company's common stock during the period.

(4) Fair Value Measurements

The Company follows accounting guidance related to fair value measurements that defines fair value, establishes a framework for measuring fair value, and establishes a hierarchy for inputs used in measuring fair value. This hierarchy maximizes the use of "observable" inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy specifies three levels based on the inputs, as follows:

Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities.

Level 2: Valuations based on directly observable inputs or unobservable inputs corroborated by market data.

Level 3: Valuations based on unobservable inputs supported by little or no market activity representing management's determination of assumptions of how market participants would price the assets or liabilities.

The fair value of financial instruments such as cash and cash equivalents, accounts receivable and unbilled, net, accounts payable, accrued expenses and advanced billings approximate their carrying amounts due to their short term maturities.

The Company does not have any recurring fair value measurements as of September 30, 2019. There were no transfers between Level 1, Level 2 or Level 3 during the three and nine months ended September 30, 2019 or 2018.

(5) Contract Assets and Contract Liabilities

Contract assets and liabilities are reflected in the Company's condensed consolidated balance sheets within the accounts reflected below.

Contract Assets

Accounts receivable represent amounts due from the Company's customers who are concentrated primarily in the pharmaceutical, biotechnology, and medical device industries. Unbilled represents revenue recognized to date that has not been billed or is not yet contractually billable to the customer. In general, amounts become billable upon the achievement of negotiated contractual events, in accordance with predetermined payment schedules or when a reimbursable expense has been incurred. Amounts classified to unbilled are those billable to customers within one year from the respective balance sheet date.

Accounts receivable and unbilled, net consisted of the following (in thousands):

	As of	
	September 30, 2019	December 31, 2018
Accounts receivable	\$ 113,931	\$ 85,120
Unbilled receivables	26,987	49,361
Less: allowance for doubtful accounts	(729)	(1,032)
Total accounts receivable and unbilled, net	<u>\$ 140,189</u>	<u>\$ 133,449</u>

Unbilled receivables decreased from \$49.4 million at December 31, 2018 to \$27.0 million at September 30, 2019. The decrease is primarily driven by increased customer invoicing.

Contract Liabilities

Advanced billings represents cash received from customers, or billed amounts per an agreed upon payment schedule, in advance of services being performed or revenue being recognized.

Advanced billings consisted of the following (in thousands):

	As of	
	September 30, 2019	December 31, 2018
Advanced billings	\$ 169,529	\$ 147,935

Advanced billings increased from \$147.9 million at December 31, 2018 to \$169.5 million at September 30, 2019. The increase is primarily driven by billing and/or collection activity in advance of revenue being earned for services performed.

On September 30, 2019, we had approximately \$1.36 billion of performance obligations remaining to be performed for active projects.

(6) Intangible Assets, Net

Intangible assets, net consisted of the following (in thousands):

	As of	
	September 30, 2019	December 31, 2018
Intangible assets:		
Finite-lived intangible assets:		
Carrying amount:		
Backlog	\$ 72,630	\$ 72,630
Customer relationships	145,051	145,051
Developed technologies	54,475	54,475
Other	3,074	3,074
Total finite-lived intangible assets	<u>275,230</u>	<u>275,230</u>
Accumulated amortization:		
Backlog	(72,630)	(72,630)
Customer relationships	(119,478)	(110,636)
Developed technologies	(54,475)	(51,751)
Other	(2,948)	(2,680)
Total accumulated amortization	<u>(249,531)</u>	<u>(237,697)</u>
Total finite-lived intangible assets, net	<u>25,699</u>	<u>37,533</u>
Trade name (indefinite-lived)	31,646	31,646
Total intangible assets, net	<u>\$ 57,345</u>	<u>\$ 69,179</u>

As of September 30, 2019, estimated amortization expense of the Company's intangible assets for each of the next five years and thereafter is as follows (in thousands):

	Amortization
Remainder of 2019	\$ 2,995
2020	7,876
2021	5,114
2022	3,353
2023	2,199
Later years	4,162
	<u>\$ 25,699</u>

(7) Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	September 30, 2019	As of December 31, 2018
Employee compensation and benefits	\$ 31,458	\$ 31,344
Project related reimbursable expenses	63,799	51,109
Other	7,278	5,040
Total accrued expenses	<u>\$ 102,535</u>	<u>\$ 87,493</u>

(8) Debt

Debt consisted of the following (in thousands):

	September 30, 2019	As of December 31, 2018
Term loan	\$ -	\$ 80,438
Less unamortized discount	-	(282)
Less unamortized term loan debt issuance costs	-	(435)
Long-term debt, net, less current portion	<u>\$ -</u>	<u>\$ 79,721</u>

In the second quarter of 2019, the Company paid off its remaining outstanding obligations against its term loan (the "Senior Secured Term Loan Facility") under its 2016 Credit Agreement (the "Senior Secured Credit Agreement"). Upon satisfaction of the outstanding obligations of the Senior Secured Term Loan Facility, the Company recorded unamortized term loan issuance fees of \$0.3 million to Selling, general and administrative expenses and the unamortized discount of \$0.2 million to Interest expense, net.

On September 30, 2019 (the "Closing Date"), the Company obtained a new unsecured credit facility in an aggregate principal amount up to \$50.0 million (the "Credit Facility") through its wholly owned subsidiaries, Medpace, Inc., as borrower (the "Borrower"), and Medpace IntermediateCo, Inc., as guarantor (the "Guarantor").

On the Closing Date, the Borrower and lender entered into a Loan Agreement (the "Loan Agreement") providing for the Credit Facility, and the Guarantor executed a Guaranty Agreement providing for its guarantee of the payment and performance of the obligations under the Loan Agreement. The Loan Agreement provides that outstanding balances under the Credit Facility will bear interest at a rate of LIBOR plus 100 basis points (1.00%). The Loan Agreement also provides that the Credit Facility will expire in 364 days from the Closing Date.

The Loan Agreement contains other customary loan terms, representations and warranties, and affirmative and negative covenants, in each case, subject to customary limitations, exceptions and exclusions. The Loan Agreement contains certain events of default, including, among others, non-payment of principal or interest and breach of the covenants.

As of September 30, 2019, there were no outstanding borrowings under the Credit Facility and \$0.2 million in letters of credit outstanding related to certain operating lease obligations, which are secured by the Credit Facility.

The Loan Agreement replaces the Company's Senior Secured Credit Agreement dated as of December 8, 2016 (the "Prior Credit Agreement"), which was terminated on September 30, 2019 (the "Termination Date"). As of September 30, 2019, no amounts were drawn under the Prior Credit Agreement and no fees or penalties were incurred as a result of the termination, other than the payment of accrued commitment fees of \$0.1 million through the Termination Date. In addition, on the Termination Date, the Company recorded unamortized loan issuance fees of \$0.7 million, consisting of \$0.5 million in Selling, general and administrative and \$0.2 million of interest expense, during the third quarter of 2019, representing unamortized loan origination fees and loan discounts, respectively, associated with the Prior Credit Agreement.

(9) Leases

The Company enters into leases for real estate and equipment. Real estate leases are for our corporate office space and laboratories around the world. Real estate leases have remaining lease terms of less than 1 year to 20 years. Many of the Company's leases include options to extend the leases on a month to month basis or for set periods for up to 20 years. Many leases also include options to terminate the leases within 1 year or per other contractual terms.

The components of lease expense as of September 30, 2019 were as follows (in thousands):

	Three Months Ended September 30, 2019		Nine Months Ended September 30, 2019	
Operating lease cost	\$	3,241	\$	9,578
Variable lease cost		649		1,995

Supplemental cash flow information for the nine months ended September 30, 2019 related to the leases was as follows (in thousands):

	Nine Months Ended September 30, 2019	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$	6,979
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases		8,476

Supplemental balance sheet information as of September 30, 2019 related to the leases was as follows (in thousands):

	As of September 30, 2019	
Operating lease right-of-use assets	\$	52,479
Other current liabilities	\$	10,249
Operating lease liabilities		46,022
Total operating lease liabilities	\$	56,271
Weighted Average Remaining Lease Term (years)		
Operating leases		6.6
Weighted Average Discount Rate		
Operating leases		6.1%

Lease payments due related to lease liabilities as of September 30, 2019 were as follows (in thousands):

	Operating Leases	
Remainder of 2019	\$	3,151
2020		12,416
2021		12,142
2022		9,644
2023		7,378
Later years		24,411
Total lease payments		69,142
Less: imputed interest		(12,871)
Total	\$	<u>56,271</u>

As of September 30, 2019, we have an additional operating lease related to a corporate office under construction, which has not yet commenced, with future payments of \$124.0 million. This operating lease will commence in fiscal year 2020 with an initial lease term of 20 years and a renewal option for two 10-year terms at prevailing market rates.

Comparative period disclosures under ASC 840:

Rental expense under operating leases totaled \$2.3 million and \$6.9 million for the three and nine months ended September 30, 2018, respectively.

Future minimum rental payments for lease obligations with initial terms in excess of one year as of December 31, 2018 are as follows (in thousands):

	Related Party Operating Lease	Non-Related Parties Operating Leases	Total Operating Leases
2019	\$ 1,987	\$ 6,186	\$ 8,173
2020	6,843	6,617	13,460
2021	6,964	5,873	12,837
2022	6,757	3,694	10,451
2023	5,229	3,257	8,486
Thereafter	103,870	5,752	109,622
Total minimum lease payments	<u>\$ 131,650</u>	<u>\$ 31,379</u>	<u>\$ 163,029</u>

Minimum annual payments required in conjunction with the Deemed landlord liabilities as of December 31, 2018 are as follows (in thousands):

	Related Party Minimum Lease Payments	Less: Interest	Total Principal Amounts Due
2019	\$ 3,918	\$ 1,818	\$ 2,100
2020	3,988	1,662	2,326
2021	4,039	1,490	2,549
2022	4,092	1,301	2,791
2023	4,145	1,095	3,050
Thereafter	15,697	1,929	13,768
Total	<u>\$ 35,879</u>	<u>\$ 9,295</u>	<u>\$ 26,584</u>

(10) Shareholder's Equity and Stock-Based Compensation

The Company granted 778,986 awards to employees under the 2016 Incentive Award Plan during the nine months ended September 30, 2019, consisting of 10,000 stock option awards and 190,310 restricted stock units ("RSU") vesting after four years, 5,000 stock option awards vesting after one year, 551,676 fully-vested stock option awards and 22,000 stock option awards with vesting in twelve equal monthly installments beginning on March 31, 2019. The Company granted an additional 38,832 stock option awards, vesting after one year, to non-employee directors under the 2016 Incentive Award Plan, during the nine months ended September 30, 2019.

In the third quarter of 2019, Medpace Investors, LLC ("MPI"), a related party to the Company, filed a Tender Offer Statement ("Tender Offer") offering to purchase, for cash, vested stock options of employee holders of options outstanding from the 2014 Incentive Award Plan. The Tender Offer resulted in the tender and purchase of 229,431 vested options from employee holders of options by MPI. Under generally accepted accounting guidance governing such transactions, because the Tender Offer was initiated by an economic interest holder in the Company, this transaction is accounted for as a settlement of vested options and a reissuance of options at fair value as of the transaction date. Expense related to the reissuance of options to MPI is included as stock-based compensation expense of \$5.1 million within Selling, general and administrative expenses during the three and nine months ended September 30, 2019.

The Company granted 722,200 awards to employees under the 2016 Incentive Award Plan during the nine months ended September 30, 2018, consisting of 443,000 stock option awards and 279,200 RSUs, all vesting after four years. The Company granted an additional 33,801 stock option awards to non-employee directors under the 2016 Incentive Award Plan, during the nine months ended September 30, 2018. These awards will vest on the earlier of (a) the day immediately preceding the date of the first annual meeting following the date of grant and (b) the first anniversary of the date of grant, subject to the non-employee director continuing in service through the applicable vesting date.

Award Activity

The following table sets forth the Company's stock option activity:

	Nine Months Ended September 30, 2019		Weighted Average Exercise Price
	Stock Options		
Outstanding - beginning of period	2,945,040	\$	24.18
Granted	856,939	\$	54.90
Exercised	(345,815)	\$	16.28
Forfeited/Expired	(347,921)	\$	19.29
Outstanding - end of period	3,108,243	\$	34.08
Exercisable - end of period	1,446,664	\$	38.15

The following table sets forth the Company's RSA/RSU activity:

	Nine Months Ended September 30, 2019	
	Shares/Units	
Outstanding and unvested - beginning of period	421,200	
Granted	190,310	
Vested	-	
Forfeited	(66,040)	
Outstanding and unvested - end of period	545,470	
Cumulative vested shares - end of period	1,913,916	

Stock-based compensation expense recognized in the condensed consolidated statements of operations related to all outstanding stock based compensation awards is summarized below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Total direct costs	\$ 1,807	\$ 875	\$ 5,085	\$ 2,619
Selling, general and administrative	7,659	557	12,949	1,767
Total stock-based compensation expense	\$ 9,466	\$ 1,432	\$ 18,034	\$ 4,386

(11) Income Taxes

The Company's effective income tax rate was 18.6% and 24.2% for the three months ended September 30, 2019 and 2018, respectively. The Company's effective income tax rate was 20.3% and 22.0% for the nine months ended September 30, 2019 and 2018, respectively. The Company's effective income tax rate for the three and nine months ended September 30, 2019 varied from the U.S. statutory rate of 21% primarily due to the impact of state taxes, which was favorably offset by previously acquired tax attributes and excess tax benefits recognized from share-based compensation.

(12) Commitments and Contingencies

Legal Proceedings

The Company is involved in legal proceedings from time to time in the ordinary course of its business, including employment claims and claims related to other business transactions. The Company cannot predict with certainty the outcome of such proceedings, but it believes that adequate reserves have been recorded and losses already recognized with respect to such proceedings, which were immaterial as of September 30, 2019 and December 31, 2018. There is a reasonable possibility that a loss exceeding amounts already recognized may be incurred related to these actions; however, the Company believes that such potential losses were immaterial as of September 30, 2019.

Purchase Commitments

The Company has several minimum purchase commitments for project related supplies totaling \$11.1 million. In return for the commitment, Medpace receives preferential pricing. The commitments expire at various times through 2026.

(13) Related Party Transactions

Employee Loans

The Company periodically extends short term loans or advances to employees, typically upon commencement of employment. Total receivables as a result of these employee advances of \$0.2 million existed at September 30, 2019 and December 31, 2018, respectively, and are included in the Prepaid expenses and other current assets and Other assets line items of the condensed consolidated balance sheets, respectively, depending on the contractual repayment date.

Service Agreements

Cymabay Therapeutics, Inc. ("Cymabay")

Cymabay is a clinical-stage biopharmaceutical company developing therapies to treat metabolic diseases with high unmet medical need, including serious rare and orphan disorders. During the first quarter of 2016, it was announced that a Medpace employee would join Cymabay's board of directors. The Company and Cymabay entered into a MSA dated October 21, 2016. Subsequently, the Company and Cymabay have entered into several task orders for the Company to perform clinical trial related services. During the three and nine months ended September 30, 2019, the Company recognized total revenue from Cymabay of \$3.5 million and \$9.4 million, respectively, and for the three and nine months ended September 30, 2018, the Company recognized total revenue from Cymabay of \$1.1 million and \$6.2 million, respectively, in the Company's condensed consolidated statements of operations. As of September 30, 2019 and December 31, 2018, respectively, the Company had Advanced billings from Cymabay of \$0.5 million and less than \$0.1 million recorded in the condensed consolidated balance sheets. In addition, as of September 30, 2019 and December 31, 2018, respectively, the Company had Accounts receivable and unbilled, net from Cymabay of \$0.6 million and \$2.5 million recorded in the condensed consolidated balance sheets.

LIB Therapeutics LLC and subsidiaries ("LIB")

Certain executives and employees of the Company, including the chief executive officer, are members of LIB's board of managers. The Company entered into a MSA dated November 24, 2015 with LIB, a company that engages in research, development, marketing and commercialization of pharmaceutical drugs. Subsequently, the Company and LIB have entered into several task orders for the Company to perform clinical trial related services. During the three and nine months ended September 30, 2019, the Company recognized total revenue from LIB of \$0.5 million and \$1.5 million, respectively, and for the three and nine months ended September 30, 2018, the Company recognized total revenue from LIB of \$1.0 million and \$2.8 million, respectively, in the Company's condensed consolidated statements of operations. As of September 30, 2019 and December 31, 2018, respectively, the Company had Advanced billings from LIB of \$0.4 million and \$0.3 million recorded in the condensed consolidated balance sheets. In addition, as of September 30, 2019 and December 31, 2018, respectively, the Company had Accounts receivable and unbilled, net from LIB of \$0.1 million and \$1.0 million recorded in the condensed consolidated balance sheets.

CinRX Pharma and subsidiaries (“CinRx”)

Certain executives and employees of the Company, including the chief executive officer, are members of CinRx’s board of managers and/or have equity investments in CinRx, a biotech company. The Company and CinRx have entered into several task orders for the Company to perform clinical trial related services. During the three and nine months ended September 30, 2019, the Company recognized total revenue from CinRx of \$0.5 million and \$2.8 million, respectively, and for the three and nine months ended September 30, 2018, the Company recognized total revenue from CinRx of less than \$0.1 million and \$0.2, respectively, in the Company’s consolidated statements of operations. As of September 30, 2019 and December 31, 2018, respectively, the Company had Advanced billings from CinRx of \$0.4 million and \$0.1 million recorded in the condensed consolidated balance sheets. In addition, as of September 30, 2019 and December 31, 2018 the Company had Accounts receivable and unbilled, net from CinRx of \$0.4 million, respectively, in the condensed consolidated balance sheets.

The Summit, a Dolce Hotel (“The Summit”)

The Summit Hotel, located on the Medpace campus, is owned by the chief executive officer, and managed by an unrelated hospitality management entity. Medpace incurs travel lodging and meeting expenses at The Summit. For the three and nine months ended September 30, 2019, Medpace incurred expenses of \$0.2 million and \$0.5 million, respectively, at The Summit.

Medpace Investors, LLC (“MPI”)

MPI is a noncontrolling shareholder and related party of Medpace Holdings, Inc. MPI is owned and managed by employees of the Company. The chief executive officer of Medpace is also the manager and majority unit holder of MPI. The Company acted as a paying agent for MPI with taxing authorities principally in instances when employee tax payments or remittance of withholdings related to equity compensation are required. Refer to Note 10 of the Notes to Condensed Consolidated Financial Statements for details of the Tender Offer transaction. As of September 30, 2019, the Company had Prepaid expenses and other current assets from MPI of \$0.3 million in the condensed consolidated balance sheets for tax-related receivables from the transaction.

Leased Real Estate

Headquarters Lease

The Company entered into an operating lease for its corporate headquarters with an entity that is wholly owned by the chief executive officer of the Company. The Company has evaluated its relationship with the related party and concluded that the related party is not a variable interest entity because the Company has no direct ownership interest or relationship other than the lease. The lease for headquarters is for an initial term of twelve years through November 2022 with a renewal option for one 10-year term at prevailing market rates. The Company pays rent, taxes, insurance, and maintenance expenses that arise from the use of the property. Annual base rent for its corporate headquarters allows for adjustments to the rental rate annually for increases in the consumer price index. Under ASC 842, operating lease cost recognized for the three and nine months ended September 30, 2019 was \$0.5 million and \$1.5 million, respectively. Under ASC 840, lease expense recognized for the three and nine months ended September 30, 2018 was \$0.5 million and \$1.6 million, respectively. The lease expense was allocated between Total direct costs and Selling, general and administrative in the condensed consolidated statements of operations.

In 2018, Medpace, Inc. entered into a multi-year lease agreement governing future occupancy of additional office space in Cincinnati, Ohio. The lease expires in 2040 and the Company has two 10-year options to extend the term of the lease.

ASC 842 – Operating Leases

The Company entered into two multi-year lease agreements governing the occupancy of space of two buildings in Cincinnati, Ohio with an entity that is wholly owned by the Company's chief executive officer and certain members of his immediate family. The Company assumed occupancy in 2012 and the leases expire in 2027 with the Company having one 10-year option to extend the lease term. The Company pays rent, taxes, insurance, and maintenance expenses that arise from the use of the property. Annual base rent for the corporate headquarters allows for adjustments to the rental rate annually for increases in the consumer price index. Under ASC 842, the Company has determined that the leases are operating leases. Operating lease cost recognized for the three and nine months ended September 30, 2019 is \$0.9 million and \$2.7 million, respectively. The lease cost was allocated between Total direct costs and Selling, general and administrative in the condensed consolidated statements of operations.

ASC 840 – Deemed Assets and Deemed Landlord Liabilities

In accordance with the accounting guidance related to leases under ASC 840, the Company was deemed in substance to be the owner of the property during the construction phase and at completion. Accordingly, the Company reflected the buildings and related liabilities as deemed assets from landlord building construction in Property and equipment, net, Other current liabilities, and Deemed landlord liability, less current portion, respectively, on the condensed consolidated balance sheets. The deemed assets were being fully depreciated, on a straight line basis, over the 15-year term of the lease. Deemed landlord liabilities were recorded at their net present value when the Company enters into qualifying leases and are reduced as the Company makes periodic lease payments on the properties. Accretion expense was being recorded over the term of the lease as a component of Interest expense, net in the Company's condensed consolidated statements of operations. The Company paid \$1.0 million and \$2.9 million during the three and nine months ended September 30, 2018. The current and long-term portions of the Deemed landlord liability at December 31, 2018 were \$2.1 million and \$24.5 million, respectively. The Company has recognized deemed assets, net of \$14.6 million at December 31, 2018 in the condensed consolidated balance sheets.

Travel Services

The Company incurs expenses for travel services for company executives provided by a private aviation charter company that is owned by the chief executive officer and the executive vice president of operations of the Company ("private aviation charter"). The Company may contract directly with the private aviation charter for the use of its aircraft or indirectly through a third party aircraft management and jet charter company (the "Aircraft Management Company"). The travel services provided are primarily for business purposes, with certain personal travel paid for as part of the executives' compensation arrangements. The Aircraft Management Company also makes the private aviation charter aircraft available to third parties. The Company incurred travel expenses of \$0.3 million and \$0.4 million during the three months ended September 30, 2019 and 2018, respectively, and \$0.9 million and \$1.0 million during the nine months ended September 30, 2019 and 2018, respectively, related to these travel services. These travel expenses are recorded in Selling, general and administrative in the Company's condensed consolidated statements of operations. As of September 30, 2019 and December 31, 2018, the Company had Accounts payable due to Aircraft Management Company of \$0.1 million and \$0.2 million, respectively, in the condensed consolidated balance sheets.

(14) Entity Wide Disclosures

Revenue by Category

The following table disaggregates our revenue by major source (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Therapeutic Area				
Oncology	\$ 65,529	\$ 48,947	\$ 186,152	\$ 135,824
Other	53,484	42,200	158,676	114,852
Metabolic	34,919	30,037	102,287	90,748
AVAI	24,243	21,947	66,831	59,497
Cardiology	21,733	22,227	68,792	71,262
Central Nervous System	16,330	13,895	48,345	40,291
Total revenue	<u>\$ 216,238</u>	<u>\$ 179,253</u>	<u>\$ 631,083</u>	<u>\$ 512,474</u>

In the current quarter and for all periods presented, the revenue associated with medical device projects, previously a separate therapeutic area, has been included in the respective therapeutic area that best aligns with the therapeutic focus of the medical device project and represents how management evaluates disaggregated revenue in its internal reporting.

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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q, with our audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 and with the information under the heading “Management Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. This item and the related discussion contain forward-looking statements reflecting current expectations that involve risks and uncertainties. Actual results and the timing of events may differ materially from those indicated in such forward-looking statements. Important factors that may cause such differences include, but are not limited to, those discussed under the “Forward-Looking Statements” below and “Risk Factors” in “Item 1A Risk Factors” of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical facts contained herein, including statements regarding our future results of operations and financial position, business strategy, prospects, product approvals and plans and our objectives for future operations, are forward looking statements. The words “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “see,” “will,” “would,” “target,” and similar expressions are intended to identify forward looking statements. Forward looking statements are based largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, prospects, short-term and long-term business operations and objectives, and financial needs. These forward looking statements are subject to inherent uncertainties, risks, changes in circumstances and other important factors that are difficult to predict. Moreover, we operate in a very competitive and rapidly changing environment in which new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all important factors on our business or the extent to which any factor, or combination of such factors, may cause actual results to differ materially from those contained in any forward looking statements we may make. In light of these risks, uncertainties and assumptions, the forward looking events and circumstances discussed may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward looking statements. We caution you therefore against relying on these forward looking statements.

We qualify all of our forward-looking statements by these cautionary statements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise. For a further discussion of the risks relating to our business, see “Item 1A Risk Factors” of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Business Overview

We are one of the world’s leading clinical contract research organizations, or CROs, by revenue, solely focused on providing scientifically-driven outsourced clinical development services to the biotechnology, pharmaceutical and medical device industries. Our mission is to accelerate the global development of safe and effective medical therapeutics. We differentiate ourselves from our competitors by our disciplined operating model centered on providing full-service Phase I-IV clinical development services and our therapeutic expertise. We believe this combination results in timely and cost-effective delivery of clinical development services for our customers. We believe that we are a partner of choice for small- and mid-sized biopharmaceutical companies based on our ability to consistently utilize our full-service, disciplined operating model to deliver timely and high-quality results for our customers.

We focus on conducting clinical trials across all major therapeutic areas, with particular strength in Cardiology, Metabolic Disease, Oncology, Central Nervous System (“CNS”), Antiviral and Anti-infective (“AVAI”), as well as therapeutic expertise in Medical Devices. Our global platform includes approximately 3,400 employees across 37 countries, providing our customers with broad access to diverse markets and patient populations as well as local regulatory expertise and market knowledge.

How We Generate Revenue

We earn fees through the performance of services detailed in our customer contracts. Contract scope and pricing is typically based on either a fixed-fee or unit-of-service model, with consideration of activities performed by third parties, as well as ancillary costs necessary to deliver on the contract scope that are reimbursable by our customers. Our contracts can range in duration from a few months to several years. These contracts are individually priced and negotiated based on the anticipated project scope, including the complexity of the project and the performance risks inherent in the project. The majority of our contracts are structured with an upfront fee that is collected at the time of contract signing, and the balance of the fee is collected over the duration of the contract either through an arranged billing schedule or upon completion of certain performance targets or defined milestones.

Revenue, which is distinct from billing and cash receipt, is recognized based the satisfaction of the individual performance obligations identified in each contract. Substantially all of our customer contracts consist of a single performance obligation, as the promise to transfer the individual services defined in the contracts are not separately identifiable from other promises in the contract, and therefore not distinct. Our performance obligations are generally satisfied over time and recognized as services are performed. The progression of our contract performance obligations are measured primarily utilizing the input method of cost to cost. Cancellation provisions in our contracts allow our customers to terminate a contract either immediately or according to advance notice terms specified within the applicable contract, which is typically 30 days. Contract cancellation may occur for various reasons, including, but not limited to, adverse patient reactions, lack of efficacy, or inadequate patient enrollment. Upon cancellation, we are entitled to fees for services rendered through the date of termination, including payment for subsequent services necessary to conclude the study or close out the contract. These fees are typically discussed and agreed upon with the customer and are realized as revenue when we believe the amount can be estimated reliably and its realization is probable. Changes in revenue from period to period are driven primarily by new business volume and task order execution activity, project cancellations, and the mix of active studies during a given period that can vary based on therapeutic area and or study life cycle stage.

Costs and Expenses

Our costs and expenses are comprised primarily of our total direct costs, selling, general and administrative costs, depreciation and amortization and income taxes.

Total Direct Costs

Total direct costs are primarily driven by labor and related employee benefits, but also include contracted third party service related expenses, fees paid to site investigators, reimbursed out of pocket expenses, laboratory supplies and other expenses contributing to service delivery. The other costs of service delivery can include office rent, utilities, supplies and software licenses which are allocated between Total direct costs and selling, general and administrative expenses based on the estimated contribution among service delivery and support function efforts on a percentage basis. Total direct costs are expensed as incurred and are not deferred in anticipation of contracts being awarded or finalization of changes in scope. Total direct costs, as a percentage of net revenue, can vary from period to period due to project labor efficiencies, changes in workforce, compensation/bonus programs and service mix.

Selling, General and Administrative

Selling, general and administrative expenses are primarily driven by compensation and related employee benefits, as well as rent, utilities, supplies, software licenses, professional fees (e.g., legal and accounting expenses), bad debt expense, travel, marketing and other operating expenses.

Depreciation

Depreciation is provided on our property and equipment on the straight-line method at rates adequate to allocate the cost of the applicable assets over their estimated useful lives, which is three to five years for computer hardware, software, phone, and medical imaging equipment, five to seven years for furniture and fixtures and other equipment, and thirty to forty years for buildings. Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life of the improvement or the associated remaining lease term.

Amortization

Amortization relates to finite-lived intangible assets recognized as expense using the straight-line method or using an accelerated method over their estimated useful lives, which range in term from 5 to 15 years.

Income Tax Provision

Income tax provision consists of federal, state and local taxes on income in multiple jurisdictions. Our income tax is impacted by the pre-tax earnings in jurisdictions with varying tax rates and any related tax credits that may be available to us. Our current and future provision for income taxes will vary from statutory rates due to the impact of valuation allowances in certain countries, income tax incentives, certain non-deductible expenses, and other discrete items.

Key Performance Metrics

To evaluate the performance of our business, we utilize a variety of financial and performance metrics. These key measures include new business awards, cancellations and backlog.

New Business Awards, Cancellations and Backlog

New business awards represent the value of anticipated future net revenue that has been awarded during the period that is recognized in backlog. This value is recognized upon the signing of a contract or receipt of a written pre-contract confirmation from a customer that confirms an agreement in principle on budget and scope. New business awards also include contract amendments, or changes in scope, where the customer has provided written authorization for changes in budget and scope or has approved us to perform additional work as of the measurement date. Awards may not be recognized as backlog after consideration of a number of factors, including whether (i) the relevant net revenue is expected only after a pending regulatory hurdle, which might result in cancellation of the study, (ii) the customer funding needed for commencement of the study is not believed to have been secured or (iii) study timelines are uncertain or not well defined. In addition, study amounts that extend beyond a three-year timeline are not included in backlog. The number and amount of new business awards can vary significantly from period to period, and an award's contractual duration can range from several months to several years based on customer and project specifications.

Cancellations arise in the normal course of business and are reflected when we receive written confirmation from the customer to cease work on a contractual agreement. The majority of our customers can terminate our contracts without cause upon 30 days' notice. Similar to new business awards, the number and amount of cancellations can vary significantly period over period due to timing of customer correspondence and study-specific circumstances.

Net new business awards represent gross new business awards received in a period offset by total cancellations in that period. Net new business awards were \$285.4 million and \$813.3 million for the three and nine months ended September 30, 2019, respectively. Net new business awards were \$227.6 million and \$668.3 million for the three and nine months ended September 30, 2018, respectively.

Backlog represents anticipated future net revenue from net new business awards that have not commenced or are currently in process but not complete. Reported backlog will fluctuate based on new business awards, changes in the scope of existing contracts, cancellations, revenue recognition on existing contracts and foreign exchange adjustments from non-U.S. dollar denominated backlog. As of September 30, 2019, our backlog increased by \$204.2 million, or 19.9%, to \$1,228.7 million compared to \$1,024.5 million as of September 30, 2018. Included within backlog as of September 30, 2019 was approximately \$675 million to \$695 million that we expect to convert to net revenue over the next twelve months, with the remainder expected to convert to net revenue thereafter.

The effect of foreign currency adjustments on backlog was as follows: unfavorable foreign currency adjustments of \$9.8 million for the three months ended September 30, 2019; unfavorable foreign currency adjustments of \$12.4 million for the nine months ended September 30, 2019; unfavorable foreign currency adjustments of \$2.6 million for the three months ended September 30, 2018; and favorable foreign currency adjustments of \$0.6 million for the nine months ended September 30, 2018.

Backlog and net new business award metrics may not be reliable indicators of our future period revenue as they are subject to a variety of factors that may cause material fluctuations from period to period. These factors include, but are not limited to, changes in the scope of projects, cancellations, and duration and timing of services provided.

Exchange Rate Fluctuations

The majority of our contracts and operational transactions are U.S. dollar denominated. The Euro represents the largest foreign currency denomination of our contractual and operational exposure. As a result, a portion of our revenue and expenses are subject to exchange rate fluctuations. We have translated the Euro into U.S. dollars using the following average exchange rates based on data obtained from www.xe.com:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
U.S. Dollars per Euro:	1.11	1.16	1.12	1.19

Results of Operations

Three Months Ended September 30, 2019 compared to Three Months Ended September 30, 2018

(Amounts in thousands, except percentages)	Three Months Ended September 30,		Change	% Change
	2019	2018		
Revenue, net	\$ 216,238	\$ 179,253	\$ 36,985	20.6%
Direct service costs, excluding depreciation and amortization	81,086	62,520	18,566	29.7%
Reimbursed out-of-pocket expenses	70,984	61,476	9,508	15.5%
Total direct costs	152,070	123,996	28,074	22.6%
Selling, general and administrative	29,120	18,606	10,514	56.5%
Depreciation	2,062	2,343	(281)	(12.0)%
Amortization	2,995	7,390	(4,395)	(59.5)%
Total operating expenses	186,247	152,335	33,912	22.3%
Income from operations	29,991	26,918	3,073	
Miscellaneous (expense) income, net	(273)	482	(755)	
Interest expense, net	(253)	(1,941)	1,688	
Income before income taxes	29,465	25,459	4,006	
Income tax provision	5,488	6,154	(666)	
Net income	\$ 23,977	\$ 19,305	\$ 4,672	

Nine Months Ended September 30, 2019 compared to Nine Months Ended September 30, 2018

(Amounts in thousands, except percentages)	Nine Months Ended September 30,		Change	% Change
	2019	2018		
Revenue, net	\$ 631,083	\$ 512,474	\$ 118,609	23.1%
Direct service costs, excluding depreciation and amortization	235,522	184,339	51,183	27.8%
Reimbursed out-of-pocket expenses	212,563	173,587	38,976	22.5%
Total direct costs	448,085	357,926	90,159	25.2%
Selling, general and administrative	73,984	55,112	18,872	34.2%
Depreciation	6,035	6,883	(848)	(12.3)%
Amortization	11,834	22,171	(10,337)	(46.6)%
Total operating expenses	539,938	442,092	97,846	22.1%
Income from operations	91,145	70,382	20,763	
Miscellaneous (expense) income, net	(574)	807	(1,381)	
Interest expense, net	(1,956)	(6,558)	4,602	
Income before income taxes	88,615	64,631	23,984	
Income tax provision	17,985	14,207	3,778	
Net income	\$ 70,630	\$ 50,424	\$ 20,206	

Total revenue

Total revenue increased by \$37.0 million to \$216.2 million for the three months ended September 30, 2019, from \$179.3 million for the three months ended September 30, 2018. Total revenue increased by \$118.6 million to \$631.1 million for the nine months ended September 30, 2019, from \$512.5 million for the nine months ended September 30, 2018. The increases were primarily driven by growth within the Oncology and other uncategorized therapeutic areas.

Total direct costs

Total direct costs increased by \$28.1 million, to \$152.1 million for the three months ended September 30, 2019 from \$124.0 million for the three months ended September 30, 2018. Total direct costs increased by \$90.2 million, to \$448.1 million for the nine months ended September 30, 2019 from \$357.9 million for the nine months ended September 30, 2018. The increase was primarily attributed to higher reimbursed out-of-pocket expenses and higher personnel costs to support the growth in service activities. Reimbursed out-of-pocket expenses, which can fluctuate significantly from period to period based on the timing of program initiation and closeout, increased \$9.5 million and \$39.0 million for the three and nine months ended September 30, 2019, respectively, compared to the same period in the prior year. The higher personnel costs portion increased by \$11.9 million and \$35.0 million for the three and nine months ended September 30, 2019, respectively, compared to the same period in the prior year.

Selling, general and administrative

Selling, general and administrative expenses increased by \$10.5 million, to \$29.1 million for the three months ended September 30, 2019 from \$18.6 million for the three months ended September 30, 2018. Selling, general and administrative expenses increased by \$18.9 million, to \$74.0 million for the nine months ended September 30, 2019 from \$55.1 million for the nine months ended September 30, 2018. This increase was primarily driven by higher personnel costs. The higher personnel costs portion increased by \$8.7 million and \$16.4 million for the three and nine months ended September 30, 2019, respectively, compared to the same period in the prior year.

Depreciation and Amortization

Depreciation and amortization expense decreased by \$4.7 million, to \$5.1 million for the three months ended September 30, 2019 from \$9.7 million for the three months ended September 30, 2018. Depreciation and amortization expense decreased by \$11.2 million, to \$17.9 million for the nine months ended September 30, 2019 from \$29.1 million for the nine months ended September 30, 2018. The decrease in depreciation and amortization was primarily related to the continued amortization of our definite lived intangible assets, which are amortized on an accelerated basis.

Miscellaneous (expense) income, net

Miscellaneous (expense) income, net decreased by \$0.8 million to \$0.3 million of expense for the three months ended September 30, 2019 from \$0.5 million of income for the three months ended September 30, 2018. Miscellaneous (expense) income, net decreased by \$1.4 million to \$0.6 million of expense for the nine months ended September 30, 2019 from \$0.8 million of income for the nine months ended September 30, 2018. These changes were mainly attributable to foreign exchange gains or losses that arise in connection with the revaluation of short-term intercompany balances between our domestic and international subsidiaries, gains or losses from foreign currency transactions, such as those resulting from the settlement of third-party accounts receivables and payables denominated in a currency other than the local currency of the entity making the payment.

Interest expense, net

Interest expense, net decreased by \$1.7 million to \$0.3 million for the three months ended September 30, 2019 from \$1.9 million for the three months ended September 30, 2018. Interest expense, net decreased by \$4.6 million to \$2.0 million for the nine months ended September 30, 2019 from \$6.6 million for the nine months ended September 30, 2018. The decrease in interest expense, net was related to a lower average outstanding balance under our Prior Senior Secured Credit Facilities (as defined below).

Income tax provision

Income tax provision decreased by \$0.7 million, to \$5.5 million for the three months ended September 30, 2019 from \$6.2 million for the nine months ended September 30, 2018. Income tax provision increased by \$3.8 million, to \$18.0 million for the nine months ended September 30, 2019 from \$14.2 million for the nine months ended September 30, 2018. The overall effective tax rate for the three months ended September 30, 2019 was 18.6%, compared to an overall effective tax rate of 24.2% for the three months ended September 30, 2018. The overall effective tax rate for the nine months ended September 30, 2019 was 20.3%, compared to an overall effective tax rate of 22.0% for the nine months ended September 30, 2018. The decrease in the effective tax rate for the three months ended September 30, 2019 was primarily attributable to a notable amount of excess tax benefits recognized from share-based compensation that took place in the three months ended September 30, 2019. The decrease in the effective tax rate for the nine months ended September 30, 2019 was primarily attributable to a notable amount of excess tax benefits recognized from share-based compensation, which was partially offset by a reduction in the benefit for uncertain tax positions. The decrease in the income tax provision for the three months ended September 30, 2019 was primarily due to excess tax benefits recognized from share-based compensation which was partially offset by an increase in pre-tax book income compared to the same period in the prior year. The increase in the income tax provision for the nine months ended September 30, 2019 was primarily due to an increase in pre-tax book income compared to the same period in the prior year, which was partially offset by excess tax benefits recognized from share-based compensation.

Liquidity and Capital Resources

We assess our liquidity in terms of our ability to generate cash to fund our operating, investing and financing activities. Our principal sources of liquidity are operating cash flows and funds available for borrowing under our new unsecured credit facility (the "Credit Facility"). As of September 30, 2019, we had cash and cash equivalents of \$79.3 million. Approximately \$15.0 million of cash and cash equivalents, none of which was restricted, was held by our foreign subsidiaries as of September 30, 2019. On September 30, 2019, the Company entered into the Credit Facility consisting of up to a \$50.0 million revolving line of credit (the "Line of Credit"). The Credit Facility replaced a Senior Secured Term Loan Facility of \$165.0 million (the "Prior Senior Secured Term Loan Facility") and a Senior Secured Revolving Credit Facility of \$150.0 million (the "Prior Senior Secured Revolving Credit Facility" and, together with the Senior Secured Term Loan Facility, the "Prior Senior Secured Credit Facilities") which were set to expire in December 2021. In relation to the termination of the Prior Senior Secured Credit Facilities, the Borrower has repaid all of its outstanding obligations. As a result, no amounts remain outstanding under the Prior Senior Secured Credit Facilities.

As of September 30, 2019, we had \$49.8 million available for borrowing under the Credit Facility. Our expected primary cash needs on both a short and long-term basis are for investment in operational growth, capital expenditures, share repurchases, selective strategic bolt-on acquisitions, other investments, and other general corporate needs. We have historically funded our operations and growth with cash flow from operations and borrowings under our credit facilities. We expect to continue expanding our operations through organic growth and potentially highly selective bolt-on acquisitions and investments. We expect these activities will be funded from existing cash, cash flow from operations and, if necessary, borrowings under our existing or future credit facilities. We have deemed that foreign earnings will be indefinitely reinvested and therefore we have not provided taxes on these earnings. While we do not anticipate the need to repatriate these foreign earnings for liquidity purposes given our cash flows from operations and available borrowing under existing and future credit facilities, we would incur taxes on these earnings if the need for repatriation due to liquidity purposes arises.

Cash Flows (Amounts in thousands)	Nine Months Ended September 30,	
	2019	2018
Net cash provided by operating activities	\$ 144,927	\$ 117,142
Net cash used in investing activities	(13,414)	(12,761)
Net cash used in financing activities	(74,752)	(107,733)
Effect of exchange rates on cash, cash equivalents and restricted cash	(753)	(889)
Increase (decrease) in cash, cash equivalents and restricted cash	\$ 56,008	\$ (4,241)

Cash Flow from Operating Activities

Cash flows from operations are driven mainly by net income, stock based compensation expense, amortization of intangibles and net movement in advanced billings, accrued expenses, prepaid and other current assets, and accounts receivable and unbilled, net. Accounts receivable and unbilled, net, and advanced billings fluctuate on a regular basis as we perform our services, bill our customers and ultimately collect on those receivables. We attempt to negotiate payment terms in order to provide for payments prior to or soon after the provision of services, but this timing of collection can vary significantly on a period by period comparative basis.

Net cash flows provided by operating activities was \$144.9 million for the nine months ended September 30, 2019 beginning with net income of \$70.6 million. Adjustments to reconcile net income to net cash provided by operating activities were \$48.1 million, primarily related to amortization of intangibles of \$11.8 million, depreciation of \$6.0 million, stock based compensation expense of \$18.0 million and noncash lease expense of \$7.2 million. Changes in operating assets and liabilities provided \$26.2 million in operating cash flows and was primarily driven by increased advanced billings of \$21.9 million and increased accrued expenses of \$15.4 million, offset by increased prepaid expenses and other current assets of \$9.0 million.

Net cash flows provided by operating activities was \$117.1 million for the nine months ended September 30, 2018 beginning with net income of \$50.4 million. Adjustments to reconcile net income to net cash provided by operating activities were \$34.1 million, primarily related to amortization of intangibles of \$22.2 million, depreciation of \$6.9 million, and deferred income tax provision of \$7.3 million, offset by \$7.5 million of amortization and adjustment of deferred credit. Changes in operating assets and liabilities provided \$32.6 million in operating cash flows and was primarily driven by increased accrued expenses of \$21.6 million and an increase in advanced billings of \$28.3 million, offset by increased accounts receivable and unbilled, net of \$12.8 million.

Cash Flow from Investing Activities

Net cash used in investing activities was \$13.4 million for the nine months ended September 30, 2019 primarily consisting of property and equipment expenditures.

Net cash used in investing activities was \$12.8 million for the nine months ended September 30, 2018 primarily consisting of property and equipment expenditures.

Cash Flow from Financing Activities

Net cash used in financing activities was \$74.8 million for the nine months ended September 30, 2019 primarily related to \$80.4 million in principal payments on our Prior Senior Secured Term Loan Facility, offset by \$5.7 million in proceeds from stock option exercises.

Net cash used in financing activities was \$107.7 million for the nine months ended September 30, 2018 primarily related to \$70.0 million in principal payments on our Prior Senior Secured Revolving Credit Facility and \$38.2 million in principal payments on our Prior Senior Secured Term Loan Facility.

Indebtedness

As of September 30, 2019, we had no indebtedness and \$0.2 million in letters of credit outstanding related to certain operating lease obligations, which are secured by the Credit Facility. Refer to Note 8 of the Notes to Condensed Consolidated Financial Statements for details regarding our Credit Facility.

Contractual Obligations and Commercial Commitments

We have various contractual obligations, which are recorded as liabilities in our condensed consolidated financial statements. The following table summarizes our future payments for all contractual obligations and commercial commitments for the partial and full years subsequent to the quarter ended September 30, 2019.

There have been no material changes, except as follows, to our contractual obligations as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Contractual Obligations (In thousands)	Payments Due by Period				
	Total	Remaining 2019	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	\$ -	\$ -	\$ -	\$ -	\$ -
Interest on long-term debt	-	-	-	-	-
Operating lease obligations	193,173	3,151	34,390	27,352	128,280
Deemed landlord liabilities	-	-	-	-	-
Total	\$ 193,173	\$ 3,151	\$ 34,390	\$ 27,352	\$ 128,280

Principal payments in the above table are based on the terms contained in our agreements. Interest payments are based on the interest rate in effect on September 30, 2019.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements refer to any transaction, agreement or other contractual arrangement to which an entity not consolidated under our entity structure exists, where we have an obligation arising under a guarantee contract, derivative instrument or variable interest or a retained or contingent interest in assets transferred to such an entity or similar arrangement that serves as credit, liquidity or market risk support for such assets. We have no off-balance sheet arrangements currently.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, or U.S. GAAP, requires us to make a variety of decisions which affect reported amounts and related disclosures, including the selection of appropriate accounting principles and the assumptions on which to base accounting estimates. In reaching such decisions, we apply judgment based on our understanding and analysis of the relevant circumstances, including our historical experience and other assumptions. Actual results could differ from our estimates. We are committed to incorporating accounting principles, assumptions and estimates that promote the representational faithfulness, verifiability, neutrality and transparency of the accounting information included in the financial statements.

There have been no significant changes in the critical accounting policies and estimates as previously described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, except for the below:

Lease Recognition

The Company enters into contracts to lease facilities and equipment to be used in its operations. At contract inception, the Company determines whether a contract contains a lease within the scope of Accounting Standard Codification Topic 842, Leases ("ASC 842"), and determines the appropriate classification of the lease as either operating or finance.

Contracts containing operating leases are recorded on the condensed consolidated balance sheets within Operating lease right-of-use (“ROU”) assets, Other current liabilities, and Operating lease liabilities. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future lease payments over the lease term as of the lease commencement date. In addition operating ROU assets also include lease payments made and exclude lease incentives and initial direct costs incurred. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term within Total direct costs and Selling, general, and administrative expenses. Variable lease costs are primarily related to adjustments for inflation, common area maintenance and property tax and are recognized within Total direct costs and Selling, general and administrative expenses.

Contracts containing finance leases are recognized initially in the same manner as Operating lease ROU assets and liabilities, however are recorded on the condensed consolidated balance sheets within Property and equipment, net, Other current liabilities, and Other long-term liabilities. Finance lease assets are subsequently amortized on a straight line basis over the lease term within Depreciation expense, while the lease liability is accreted within Interest expense, net utilizing the discount rate determined at lease commencement and reduced by periodic lease payments over the lease term. Currently, the Company does not have any finance leases.

The discount rate utilized in determining the present value of future payments for both operating and finance leases, unless implicit in the lease contract, is determined based on the Company’s collateralized incremental borrowing rate based on the information available at lease commencement.

Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option as determined at lease commencement.

Many of our lease agreements have both lease and non-lease components, which the Company has elected to treat as a single lease component for recognition purposes.

The Company may enter into short-term leases (leases with a lease term of less than 1 year), which it has elected not to capitalize as assets and liabilities on the condensed consolidated balance sheets, but instead recognizes lease payments within Total direct costs and Selling, general, and administrative expenses on a straight line basis over the lease term.

Effect of Recent Accounting Pronouncements

Refer to Note 2 of the Notes to Condensed Consolidated Financial Statements for management’s discussion of the effect of recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to our quantitative and qualitative disclosures about market risk as compared to the quantitative and qualitative disclosures about market risk described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Item 4. Controls and Procedures

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on that evaluation, and as previously reported in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, management has concluded that the Company’s internal control over financial reporting was not effective as of September 30, 2019 due to a material weakness related to the implementation of ASU No. 2014-09 “Revenue from Contracts with Customers (Topic 606)”. We are in the process of remediating the material weakness, however, the material weakness will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. During the period, the Company has enhanced its review controls to remediate the material weakness and improve its internal control over financial reporting.

Changes in Internal Control over Financial Reporting

During the nine months ended September 30, 2019, the Company adopted ASU 2016-02 and centralized the Company's lease accounting system and processes effective January 1, 2019. This implementation resulted in a material change to the Company's internal control over financial reporting as of that date. The operating effectiveness of these changes will be evaluated as part of our annual assessment of the effectiveness of internal control over financial reporting for the fiscal year ended December 31, 2019.

Other than described above, there were no changes in our internal control over financial reporting that 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 are party to legal proceedings incidental to our business. While the outcome of these matters could differ from management's expectations, we do not believe that the resolution of these matters is reasonably likely to have a material adverse effect to our financial statements.

Item 1A. Risk Factors

For a discussion of our potential risks and uncertainties, see the information under the heading "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. There have been no significant changes from the risk factors previously disclosed in our Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds***Recent Sales of Unregistered Securities***

Date	Equity Plan	Number of Stock Options Exercised	Exercise Price	Approximate Aggregate Purchase Price
July 1, 2019	2014 Equity Incentive Plan	2,222	\$ 14.41	\$ 32,000
July 9, 2019	2014 Equity Incentive Plan	240	16.20	3,900
July 26, 2019	2014 Equity Incentive Plan	1,117	16.20	18,100
July 26, 2019	2014 Equity Incentive Plan	600	14.41	8,600
July 29, 2019	2014 Equity Incentive Plan	16,667	14.41	240,200
July 31, 2019	2014 Equity Incentive Plan	2,763	14.41	39,800
August 5, 2019	2014 Equity Incentive Plan	8,306	14.41	119,700
August 5, 2019	2014 Equity Incentive Plan	3,703	16.20	60,000
August 9, 2019	2014 Equity Incentive Plan	1,111	16.20	18,000
August 15, 2019	2014 Equity Incentive Plan	200	14.41	2,900
August 16, 2019	2014 Equity Incentive Plan	13,000	18.23	237,000
August 16, 2019	2014 Equity Incentive Plan	3,851	14.41	55,500
August 16, 2019	2014 Equity Incentive Plan	4,481	16.20	72,600
August 19, 2019	2014 Equity Incentive Plan	740	14.41	10,700
August 19, 2019	2014 Equity Incentive Plan	1,111	16.20	18,000
August 21, 2019	2014 Equity Incentive Plan	926	18.23	16,900
August 26, 2019	2014 Equity Incentive Plan	1,851	16.20	30,000
August 28, 2019	2014 Equity Incentive Plan	1,200	14.41	17,300
August 29, 2019	2014 Equity Incentive Plan	2,000	14.41	28,800
August 30, 2019	2014 Equity Incentive Plan	10,718	14.41	154,400
September 3, 2019	2014 Equity Incentive Plan	1,570	14.41	22,600
September 3, 2019	2014 Equity Incentive Plan	1,851	16.20	30,000
September 10, 2019	2014 Equity Incentive Plan	3,805	14.41	54,800
September 10, 2019	2014 Equity Incentive Plan	4,444	16.20	72,000
September 17, 2019	2014 Equity Incentive Plan	5,703	14.41	82,200
September 23, 2019	2014 Equity Incentive Plan	4,000	16.20	64,800
September 24, 2019	2014 Equity Incentive Plan	6,535	14.41	94,200
September 24, 2019	2014 Equity Incentive Plan	1,851	16.20	30,000
September 27, 2019	2014 Equity Incentive Plan	11,111	14.41	160,100
Total		117,677		\$ 1,795,100

All of the forgoing transactions involved issuances of securities to employees of the Company and are exempt from registration pursuant to Rule 701 promulgated under the Securities Act of 1933, as amended, as transactions pursuant to benefit plans and contracts relating to compensation.

Use of Proceeds from Registered Securities

Not applicable.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits in the accompanying Exhibit Index preceding the signature page are filed or furnished as a part of this report and are incorporated herein by reference.

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed/ Furnished Herewith
		Form	File No.	Exhibit	Filing Date	
10.1	Loan Agreement dated as of September 30, 2019, by and among Medpace, Inc., as borrower, and PNC Bank, National Association.	8-K	001-37856	10.1	10/1/19	
31.1	Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer					*
31.2	Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer					*
32.1	Section 1350 Certification of Chief Executive Officer					**
32.2	Section 1350 Certification of Chief Financial Officer					**
101.INS	Inline 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	Inline XBRL Taxonomy Extension Schema Document					*
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document					*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					*
101.PRE	Inline XBRL Taxonomy Extension Presentation					*
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.

MEDPACE HOLDINGS, INC.

/s/ Jesse J. Geiger

Jesse J. Geiger

*Chief Financial Officer, and Chief Operating Officer, Laboratory
Operations*

(Authorized Officer and Principal Financial Officer)

Date: October 29, 2019

I, August J. Troendle, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Medpace Holdings, 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: October 29, 2019

/s/ August J. Troendle
August J. Troendle
*President, Chief Executive Officer and Chairman of the Board of
Directors*
(Principal Executive Officer)

I, Jesse J. Geiger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Medpace Holdings, 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: October 29, 2019

/s/ Jesse J. Geiger

Jesse J. Geiger
*Chief Financial Officer and Chief Operating Officer, Laboratory
Operations*
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Medpace Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2019 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: October 29, 2019

By: /s/ August J. Troendle

August J. Troendle

*President, Chief Executive Officer and
Chairman of the Board of Directors*
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Medpace Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2019 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: October 29, 2019

By: /s/ Jesse J. Geiger

Jesse J. Geiger

*Chief Financial Officer and Chief Operating Officer,
Laboratory Operations
(Principal Financial Officer)*

