

MEDNAX, INC.  
Form 10-Q  
October 31, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2013**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-12111**

**MEDNAX, INC.**

**(Exact name of registrant as specified in its charter)**

|   |  |
|---|--|
| <b>Florida</b><br><b>(State or other jurisdiction of</b>  | <b>26-3667538</b><br><b>(I.R.S. Employer</b> |
| <b>Incorporation or organization)</b>   | <b>Identification No.)</b>                   |
| <b>1301 Concord Terrace</b><br><b>Sunrise, Florida</b><br><b>(Address of principal executive offices)</b> | <b>33323</b><br><b>(Zip Code)</b>            |
| <b>(954) 384-0175</b><br><b>(Registrant's telephone number, including area code)</b>                      |  |

**Not Applicable**

**(Former name, former address and former fiscal year, if changed since last report)**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

On October 24, 2013, the registrant had outstanding 50,293,793 shares of Common Stock, par value \$.01 per share.



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**Table of Contents****PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****MEDNAX, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

|  | <b>September 30,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--|-------------------------------|------------------------------|
|  | <b>(in thousands)</b>         |                              |
| <b>ASSETS</b>  |                               |                              |
| Current assets:  |                               |                              |
| Cash and cash equivalents                              | \$ 16,242                     | \$ 21,280                    |
| Short-term investments                                 | 4,920                         | 6,584                        |
| Accounts receivable, net                               | 272,814                       | 248,066                      |
| Prepaid expenses                                       | 6,076                         | 4,852                        |
| Deferred income taxes                                  | 63,496                        | 69,034                       |
| Other assets   | 9,415                         | 9,228                        |
| <b>Total current assets</b>                            | <b>372,963</b>                | <b>359,044</b>               |
| Investments  | 61,810                        | 47,593                       |
| Property and equipment, net                            | 60,931                        | 59,738                       |
| Goodwill   | 2,354,189                     | 2,165,672                    |
| Other assets, net                                      | 129,972                       | 118,290                      |
| <b>Total assets</b>                                    | <b>\$ 2,979,865</b>           | <b>\$ 2,750,337</b>          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>            |                               |                              |
| Current liabilities:                                   |                               |                              |
| Accounts payable and accrued expenses                  | \$ 256,596                    | \$ 255,661                   |
| Current portion of long-term capital lease obligations | 99                            | 101                          |
| Income taxes payable                                   | 17,299                        | 12,576                       |
| <b>Total current liabilities</b>                       | <b>273,994</b>                | <b>268,338</b>               |
| Line of credit   | 123,500                       | 144,000                      |
| Long-term capital lease obligations                    | 159                           | 233                          |
| Long-term professional liabilities                     | 136,919                       | 119,570                      |
| Deferred income taxes                                  | 147,883                       | 125,877                      |
| Other liabilities                                      | 63,316                        | 56,951                       |
| <b>Total liabilities</b>                               | <b>745,771</b>                | <b>714,969</b>               |

Commitments and contingencies

Shareholders' equity:

|   |                     |                     |
|---|---------------------|---------------------|
| Preferred stock; \$.01 par value; 1,000 shares authorized; none issued  |                     |                     |
| Common stock; \$.01 par value; 100,000 shares authorized; 50,247 and 50,019 shares issued and outstanding, respectively | 502                 | 500                 |
| Additional paid-in capital  | 828,543             | 788,080             |
| Retained earnings   | 1,405,049           | 1,246,788           |
| <b>Total shareholders' equity</b>   | <b>2,234,094</b>    | <b>2,035,368</b>    |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 2,979,865</b> | <b>\$ 2,750,337</b> |

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

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

|  | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |              |
|--|---|-------------|--|--------------|
|  | <b>2013</b>                                 | <b>2012</b> | <b>2013</b>                                | <b>2012</b>  |
| Net patient service revenue                    | \$ 554,730                                  | \$ 473,134  | \$ 1,586,625                               | \$ 1,345,280 |
| Operating expenses:                            |   |             |  |              |
| Practice salaries and benefits                 | 346,879                                     | 292,030     | 1,008,002                                  | 840,242      |
| Practice supplies and other operating expenses | 19,445                                      | 17,606      | 58,361                                     | 52,547       |
| General and administrative expenses            | 54,654                                      | 48,200      | 162,573                                    | 143,269      |
| Depreciation and amortization                  | 10,461                                      | 7,925       | 29,475                                     | 22,725       |
| Total operating expenses                       | 431,439                                     | 365,761     | 1,258,411                                  | 1,058,783    |
| Income from operations                         | 123,291                                     | 107,373     | 328,214                                    | 286,497      |
| Investment income                              | 372   | 422         | 1,170                                      | 1,215        |
| Interest expense                               | (1,507)                                     | (624)       | (4,369)                                    | (2,026)      |
| Income before income taxes                     | 122,156                                     | 107,171     | 325,015                                    | 285,686      |
| Income tax provision                           | 45,198                                      | 41,261      | 123,472                                    | 110,882      |
| Net income                                     | \$ 76,958                                   | \$ 65,910   | \$ 201,543                                 | \$ 174,804   |
| Per common and common equivalent share data:   |   |             |  |              |
| Net income:                                    |   |             |  |              |
| Basic  | \$ 1.55                                     | \$ 1.35     | \$ 4.07                                    | \$ 3.60      |
| Diluted  | \$ 1.52                                     | \$ 1.32     | \$ 3.99                                    | \$ 3.53      |
| Weighted average shares:                       |   |             |  |              |
| Basic  | 49,753                                      | 48,938      | 49,511                                     | 48,569       |
| Diluted  | 50,589                                      | 49,809      | 50,481                                     | 49,570       |

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



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

|   | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|--|-------------|
|   | <b>2013</b>                                | <b>2012</b> |
| <b>Cash flows from operating activities:</b>  |  |             |
| Net income  | \$ 201,543                                 | \$ 174,804  |
| <b>Adjustments to reconcile net income to net cash provided from operating activities:</b>            |  |             |
| Depreciation and amortization   | 29,475                                     | 22,725      |
| Accretion of contingent consideration liabilities   | 1,316                                      | 763         |
| Stock-based compensation expense  | 23,189                                     | 20,441      |
| Deferred income taxes   | 19,340                                     | 16,731      |
| <b>Changes in assets and liabilities:</b>   |  |             |
| Accounts receivable   | (24,748)                                   | (20,119)    |
| Prepaid expenses and other assets   | (911)                                      | 1,789       |
| Other assets  | (3,008)                                    | 754         |
| Accounts payable and accrued expenses   | (3,343)                                    | (14,699)    |
| Income taxes payable  | 4,866                                      | (158)       |
| Long-term professional liabilities  | 17,349                                     | 14,063      |
| Other liabilities   | 1,711                                      | 2,641       |
| Net cash provided from operating activities   | 266,779                                    | 219,735     |
| <b>Cash flows from investing activities:</b>  |  |             |
| Acquisition payments, net of cash acquired  | (193,545)                                  | (202,362)   |
| Purchases of investments  | (18,866)                                   | (21,099)    |
| Proceeds from maturities of investments   | 6,313                                      | 23,963      |
| Purchases of property and equipment   | (12,684)                                   | (9,947)     |
| Net cash used in investing activities   | (218,782)                                  | (209,445)   |
| <b>Cash flows from financing activities:</b>  |  |             |
| Borrowings on line of credit  | 832,000                                    | 401,500     |
| Payments on line of credit  | (852,500)                                  | (382,500)   |
| Payment of contingent consideration liabilities   | (6,310)                                    | (4,903)     |
| Payments on capital lease obligations   | (76)                                       | (121)       |
| Excess tax benefit from exercises of stock options and vesting of restricted stock and deferred stock | 10,357                                     | 4,435       |
| Proceeds from issuance of common stock  | 15,357                                     | 18,827      |
| Repurchases of common stock   | (51,863)                                   |             |

|   |           |           |
|---|-----------|-----------|
| Net cash (used in) provided from financing activities | (53,035)  | 37,238    |
| Net (decrease) increase in cash and cash equivalents  | (5,038)   | 47,528    |
| Cash and cash equivalents at beginning of period      | 21,280    | 18,596    |
| Cash and cash equivalents at end of period            | \$ 16,242 | \$ 66,124 |

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

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**MEDNAX, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2013**

**(Unaudited)**

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

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

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

**New Accounting Pronouncements**

There were no new accounting pronouncements issued or effective during the nine months ended September 30, 2013, that had or are expected to have a material impact on the Company s Condensed Consolidated Financial Statements.

**2. Cash Equivalents and Investments:**

As of September 30, 2013 and December 31, 2012, the Company s cash equivalents consisted entirely of money market funds with a fair value of \$2.4 million and \$11.1 million, respectively.

Investments consist of municipal debt securities, federal home loan securities and certificates of deposit. Investments with remaining maturities of less than one year are classified as short-term investments. Investments classified as long-term have maturities of one year to seven years.

The Company intends and has the ability to hold its held-to-maturity securities to maturity, and therefore carries such investments at amortized cost in accordance with the provisions of the accounting guidance for investments in debt and equity securities.

Investments held at September 30, 2013 and December 31, 2012 are summarized as follows (in thousands):

|                              | <b>September 30, 2013</b> |                  | <b>December 31, 2012</b> |                  |
|------------------------------|---------------------------|------------------|--------------------------|------------------|
|                              | <b>Short-Term</b>         | <b>Long-Term</b> | <b>Short-Term</b>        | <b>Long-Term</b> |
| Municipal debt securities    | \$ 3,707                  | \$ 35,783        | \$ 6,088                 | \$ 27,563        |
| Federal home loan securities |                           | 25,531           |                          | 18,569           |
| Certificates of deposit      | 1,213                     | 496              | 496                      | 1,461            |
|                              | \$ 4,920                  | \$ 61,810        | \$ 6,584                 | \$ 47,593        |

**Table of Contents****3. Fair Value Measurements:**

In accordance with the accounting guidance for fair value measurements and disclosures, the Company carries its money market funds included in cash and cash equivalents at fair value. In accordance with the three-tier fair value hierarchy under this guidance, the Company determined the fair value using quoted market prices, a Level 1 input as defined under the accounting guidance for fair value measurements. At September 30, 2013 and December 31, 2012, the Company's money market funds had a carrying amount of \$2.4 million and \$11.1 million, respectively.

The Company also carries the cash surrender value of life insurance related to its deferred compensation arrangements at fair value. The investments underlying the life insurance contracts consist primarily of exchange-traded equity securities and mutual funds with quoted prices in active markets. In accordance with the three-tier fair value hierarchy, the Company determined the fair value using the cash surrender value of the life insurance, a Level 2 input as defined under the accounting guidance for fair value measurements. At September 30, 2013 and December 31, 2012, the Company's cash surrender value of life insurance had a carrying amount of \$15.9 million and \$13.8 million, respectively.

In addition, the Company carries its contingent consideration liabilities at fair value. In accordance with the three-tier fair value hierarchy, the Company determined the fair value of its contingent consideration liabilities using the income approach with assumed discount rates and payment probabilities. The income approach uses Level 3, or unobservable inputs as defined under the accounting guidance for fair value measurements. At September 30, 2013 and December 31, 2012, the Company's contingent consideration liabilities had a fair value of \$45.9 million and \$37.7 million, respectively. See Note 5 for more information regarding the Company's contingent consideration liabilities recorded and paid during the nine months ended September 30, 2013.

The carrying amounts of cash equivalents, short-term investments, accounts receivable and accounts payable and accrued expenses approximate fair value due to the short maturities of the respective instruments. The carrying values of long-term investments, line of credit and capital lease obligations approximate fair value. If the Company's line of credit were measured at fair value, it would be categorized as Level 2 in the fair value hierarchy.

**4. Accounts Receivable:**

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

|  | <b>September 30, 2013</b> | <b>December 31, 2012</b> |
|--|---------------------------|--------------------------|
| Gross accounts receivable                                | \$ 946,892                | \$ 872,962               |
| Allowance for contractual adjustments and uncollectibles | (674,078)                 | (624,896)                |
|  | <b>\$ 272,814</b>         | <b>\$ 248,066</b>        |

**5. Business Acquisitions:**

During the nine months ended September 30, 2013, the Company completed the acquisition of eight physician group practices for total consideration of \$205.6 million, consisting of \$192.2 million in cash and \$13.4 million of

contingent consideration. In connection with these acquisitions, the Company recorded goodwill of approximately \$189.0 million, other intangible assets consisting primarily of physician and hospital agreements of approximately \$24.9 million and other liabilities of \$8.3 million. These acquisitions expanded the Company's national network of physician practices. The Company expects to improve the results of these physician practices through improved managed care contracting, improved collections, identification of growth initiatives, as well as, operating and cost savings based upon the significant infrastructure it has developed.

The contingent consideration of \$13.4 million recorded during the nine months ended September 30, 2013 is related to agreements to pay additional cash amounts based on the achievement of certain performance measures for up to five years ending after the acquisition dates. The accrued contingent consideration was recorded as a liability at acquisition-date fair value using the income approach with assumed discount rates ranging from 2.5% to 4.0% over the applicable terms and an assumed payment probability of 100% for each of the applicable years. The range of the undiscounted amount the Company could pay under the contingent consideration agreement is between \$0 and \$14.6 million.

During the nine months ended September 30, 2013, the Company paid approximately \$7.6 million for contingent consideration related to certain prior-period acquisitions, all of which was accrued as of December 31,

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2012. In connection with a prior-period acquisition, the Company also recorded other assets of \$0.5 million during the nine months ended September 30, 2013. The Company expects that \$58.0 million of the \$188.5 million of goodwill recorded during the nine months ended September 30, 2013 will be deductible for tax purposes.

The results of operations of the practices acquired during the nine months ended September 30, 2013 and 2012 have been included in the Company's Condensed Consolidated Financial Statements from their respective dates of acquisition. The following unaudited pro forma information combines the consolidated results of operations of the Company on a GAAP basis and the acquisitions completed during 2013 and 2012, including adjustments for pro forma amortization and interest expense, as if the transactions had occurred on January 1, 2012 and January 1, 2011, respectively (in thousands, except for per share data):

|  | <b>Nine Months Ended<br/>September 30,</b> |              |
|--|--|--------------|
|  | <b>2013</b>                                | <b>2012</b>  |
| Net patient service revenue              | \$ 1,639,874                               | \$ 1,600,939 |
| Net income <sup>(1)</sup>                | \$ 207,443                                 | \$ 202,085   |
| Net income per share <sup>(2)</sup> :    |  |              |
| Basic                                    | \$ 4.19                                    | \$ 4.16      |
| Diluted                                  | \$ 4.11                                    | \$ 4.08      |
| Weighted average shares <sup>(2)</sup> : |  |              |
| Basic                                    | 49,511                                     | 48,569       |
| Diluted                                  | 50,481                                     | 49,570       |
| Effective tax rate <sup>(1)</sup> :      | 38.0%                                      | 38.8%        |

(1) The comparison of net income is affected by the change in the effective tax rate. The effective tax rate was 38.0% for the nine months ended September 30, 2013 as compared to 38.8% for the nine months ended September 30, 2012.

(2) The comparison of net income per share is affected by the changes in the number of weighted average shares outstanding in each period. The basic and diluted weighted average shares outstanding for the nine months ended September 30, 2013 were 49.5 million and 50.5 million, respectively, as compared to 48.6 million and 49.6 million, respectively, for the nine months ended September 30, 2012.

The pro forma results do not necessarily represent results which would have occurred if the acquisitions had taken place at the beginning of the periods, nor are they indicative of the results of future combined operations.

**6. Accounts Payable and Accrued Expenses:**

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

|                  | <b>September 30, 2013</b> | <b>December 31, 2012</b> |
|------------------|---------------------------|--------------------------|
| Accounts payable | \$ 11,474                 | \$ 13,812                |

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|                                    |            |            |
|------------------------------------|------------|------------|
| Accrued salaries and bonuses       | 142,847    | 160,495    |
| Accrued payroll taxes and benefits | 44,762     | 36,176     |
| Accrued professional liabilities   | 17,224     | 17,466     |
| Accrued contingent consideration   | 20,103     | 16,109     |
| Other accrued liabilities          | 20,186     | 11,603     |
|                                    | \$ 256,596 | \$ 255,661 |

The net decrease in accrued salaries and bonuses of \$17.7 million, from \$160.5 million at December 31, 2012 to \$142.8 million at September 30, 2013, is primarily due to the payment of performance-based incentive compensation, principally to the Company's physicians, partially offset by performance-based incentive compensation accrued during the nine months ended September 30, 2013. A majority of the Company's payments for performance-based incentive compensation is paid annually in the first quarter.

**Table of Contents****7. Common and Common Equivalent Shares:**

Basic net income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is calculated by dividing net income by the weighted average number of common and potential common shares outstanding during the applicable period. Potential common shares consist of outstanding options and non-vested restricted and deferred stock calculated using the treasury stock method. Under the treasury stock method, the Company includes the assumed excess tax benefits related to the potential exercise or vesting of its stock-based awards using the difference between the average market price for the applicable period less the option price, if any, and the fair value of the stock-based award on the date of grant multiplied by the applicable tax rate.

The calculation of shares used in the basic and diluted net income per share calculation for the three and nine months ended September 30, 2013 and 2012 is as follows (in thousands):

|   | <b>Three Months Ended</b> |             | <b>Nine Months</b>   |             |
|---|---------------------------|-------------|----------------------|-------------|
|   | <b>September 30,</b>      |             | <b>Ended</b>         |             |
|   | <b>2013</b>               | <b>2012</b> | <b>September 30,</b> | <b>2012</b> |
| Weighted average number of common shares outstanding                                | 49,753                    | 48,938      | 49,511               | 48,569      |
| Weighted average number of dilutive common share equivalents                        | 836                       | 871         | 970                  | 1,001       |
| Weighted average number of common and common equivalent shares outstanding          | 50,589                    | 49,809      | 50,481               | 49,570      |
| Antidilutive securities not included in the dilutive earnings per share calculation |                           | 38          | 23                   | 35          |

**8. Stock Incentive Plans and Stock Purchase Plans:**

The Company's Amended and Restated 2008 Incentive Compensation Plan (the "2008 Incentive Plan") provides for grants of stock options, stock appreciation rights, restricted stock, deferred stock, and other stock-related awards and performance awards that may be settled in cash, stock or other property. As provided in the 2008 Incentive Plan, no additional grants can be made from the Company's prior incentive plans, except that new awards will be permitted under the 2004 Incentive Compensation Plan (the "2004 Incentive Plan") to the extent that shares previously granted under the 2004 Incentive Plan are forfeited, expire or terminate. To date, the only equity awards made by the Company under the 2008 Incentive Plan are for stock options, restricted stock and deferred stock. Collectively, the Company's prior incentive plans and the 2008 Incentive Plan are referred to as the Stock Incentive Plans.

Under the 2008 Incentive Plan, options to purchase shares of common stock may be granted at a price not less than the fair market value of the shares on the date of grant. The options must be exercised within 10 years from the date of grant and generally become exercisable on a pro rata basis over a three-year period from the date of grant. The Company issues new shares of its common stock upon exercise of its stock options. Restricted stock awards generally vest over periods of three years upon the fulfillment of specified service-based conditions and in certain instances performance-based conditions. Deferred stock awards vest upon the satisfaction of specified performance-based

conditions through December 31, 2018. The Company recognizes compensation expense related to its restricted stock and deferred stock awards ratably over the corresponding vesting periods. During the nine months ended September 30, 2013, the Company granted 305,978 shares of restricted stock to its employees and 9,450 shares of restricted stock to its non-employee directors under the Stock Incentive Plans. At September 30, 2013, the Company had approximately 3.6 million shares available for future grants and awards under its Stock Incentive Plans.

Under the Company's 1996 Non-Qualified Employee Stock Purchase Plan, as amended (the "Non-Qualified Plan"), employees are permitted to purchase the Company's common stock at 85% of market value on January 1st, April 1st, July 1st and October 1st of each year. During the nine months ended September 30, 2013, 98,003 shares were issued under the Non-Qualified Plan. At September 30, 2013, the Company had approximately 325,000 shares reserved for issuance under the Non-Qualified Plan.

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During the three and nine months ended September 30, 2013 and 2012, the Company recognized approximately \$8.1 million and \$23.2 million, and \$7.3 million and \$20.4 million, respectively, of stock-based compensation expense related to the Stock Incentive Plans and the Non-Qualified Plan. The net excess tax benefit recognized in additional paid-in capital related to the vesting of restricted stock and deferred stock and the exercise of stock options for the nine months ended September 30, 2013 was approximately \$10.5 million.

### **9. Common Stock Repurchase Program:**

In July 2013, the Company's Board of Directors authorized the repurchase of shares of the Company's common stock up to an amount sufficient to offset the dilutive impact from the issuance of shares under the Stock Incentive Plans and Non-Qualified Plan. The share repurchase program allows the Company to make open market purchases from time-to-time based on general economic and market conditions and trading restrictions. During the three months ended September 30, 2013, the Company repurchased approximately 528,000 shares of its common stock for approximately \$51.9 million.

### **10. Commitments and Contingencies:**

The Company expects that audits, inquiries and investigations from government authorities and agencies will occur in the ordinary course of business. Such audits, inquiries and investigations and their ultimate resolutions, individually or in the aggregate, could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows and the trading price of its common stock. The Company has not included an accrual for these matters as of September 30, 2013 in its Condensed Consolidated Financial Statements, as the variables affecting any potential eventual liability depend on the currently unknown facts and circumstances that arise out of, and are specific to, any particular future audit, inquiry and investigation and cannot be reasonably estimated at this time.

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

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



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

The following discussion highlights the principal factors that have affected our financial condition and results of operations, as well as our liquidity and capital resources, for the periods described. This discussion should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and the notes thereto included in this Quarterly Report. In addition, reference is made to our audited consolidated financial statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our most recent Annual Report on Form 10-K. As used in this Quarterly Report, the terms "MEDNAX", the "Company", "we", "us" or "our" refer to MEDNAX, Inc. and its consolidated subsidiaries (collectively "MDX"), together with MDX's affiliated professional associations, corporations and partnerships ( "affiliated professional contractors"). Certain subsidiaries of MDX have contracts with our affiliated professional contractors, which are separate legal entities that provide physician services in certain states and Puerto Rico.

**Overview**

MEDNAX is a leading provider of physician services including newborn, maternal-fetal, other pediatric subspecialties, and anesthesia care. Our national network is composed of affiliated physicians, including those who provide neonatal clinical care in 34 states and Puerto Rico, primarily within hospital-based neonatal intensive care units, to babies born prematurely or with medical complications. We also have affiliated physicians who provide maternal-fetal and obstetrical medical care to expectant mothers experiencing complicated pregnancies primarily in areas where our affiliated neonatal physicians practice. Our network includes other pediatric subspecialists, including those who provide pediatric cardiology care, pediatric intensive care, hospital-based pediatric care and pediatric surgical care. In addition, we have physicians who provide anesthesia care to patients in connection with surgical and other procedures as well as pain management.

During the nine months ended September 30, 2013, we completed the acquisition of eight physician group practices consisting of five anesthesiology practices and three neonatology practices. During the nine months ended September 30, 2012, we completed the acquisition of 10 physician group practices consisting of five anesthesiology practices, two pediatric cardiology practices, one neonatology practice, one maternal-fetal medicine practice, and one other pediatric subspecialty practice. Based on past results, we expect that we can improve the results of these practices through improved managed care contracting, improved collections, identification of growth initiatives, as well as operating and cost savings, based upon the significant infrastructure we have developed.

Our results of operations for the nine months ended September 30, 2013 and 2012 include the results of operations for these physician group practices from their respective dates of acquisition and therefore are not comparable in some respects.

The United States continues to be affected by unfavorable economic conditions and slow economic growth. The number of unemployed and under-employed workers remains significant. During the three months ended September 30, 2013, the percentage of patients being reimbursed under government-sponsored healthcare programs decreased as compared to the three months ended September 30, 2012. On a sequential basis, however, there were shifts toward government-sponsored programs. If economic conditions do not improve or if they deteriorate, there could be additional shifts toward government-sponsored programs and patient volumes could decline. Payments received from government-sponsored programs are substantially less for equivalent services than payments received from commercial insurance payors. In addition, in part due to volatility in economic conditions, many states continue to experience lower than anticipated revenue and are facing budget shortfalls. Although the shortfalls for the more recent budgetary years have declined, they are still significant by historical standards. These shortfalls, and any future shortfalls, could lead to reduced or delayed funding for state Medicaid programs and, in turn, reduced or delayed

reimbursement for physician services.

In March 2010, the Patient Protection and Affordable Care Act, (the Affordable Care Act ), was enacted. The Affordable Care Act contains a number of provisions that could affect us over the next several years. These provisions include establishing health insurance exchanges to facilitate the purchase of qualified health plans, expanding Medicaid eligibility, subsidizing insurance premiums and creating requirements and incentives for businesses to provide healthcare benefits, the effects of which are unpredictable and complex. Other provisions contain changes to healthcare fraud and abuse laws and expand the scope of the Federal False Claims Act. Additionally, in November 2012, the Centers for Medicare & Medicaid Services ( CMS ) adopted a rule under the Affordable Care Act that would allow physicians who provide eligible primary care services to generally be paid at the Medicare reimbursement rates in effect in calendar years 2013 and 2014 instead of state-established Medicaid reimbursement rates. Generally, state Medicaid reimbursement rates are lower than federally-established Medicare rates. State agencies were required to submit their state plan amendments ( SPAs ) outlining how they will implement the rule, including frequency and timing of payments by March 31, 2013. In June 2013, CMS indicated that all SPAs except for one state s had been approved. During the three months ended June 30, 2013 we began receiving parity payments from a few states that are now paying at the Medicare rate for Medicaid services. The number of states that have started paying at the Medicare rate for Medicaid services increased during the three months ended September 30, 2013. Our 2013 third quarter and nine month results include approximately \$10.5 million and \$13.4 million in revenue, respectively, from parity payments that contributed approximately \$0.06 and \$0.08, respectively, to our net income per diluted share, reflecting the impacts from incentive compensation and income taxes, however; because of the unanswered questions regarding timing and frequency of future payments, at this time we cannot predict with any assurance the ultimate impact of the rule on us.

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The Affordable Care Act contains numerous other measures that could also affect us. For example, payment modifiers are to be developed that will differentiate payments to physicians under federal healthcare programs based on quality of care. In addition, other provisions authorize voluntary demonstration projects relating to the bundling of payments for episodes of hospital care and the sharing of cost savings achieved under the Medicare program.

Many of the Affordable Care Act's most significant reforms, such as the establishment of state-based and federally facilitated insurance exchanges that will provide a marketplace for eligible individuals and small employers to purchase health care insurance, do not take effect until 2014 and thereafter. Starting on October 1, 2013, individuals began enrolling in health care insurance plans offered under these state-based and federally facilitated insurance exchanges, although significant technical issues in accessing and enrolling in the federal online exchange has been reported. Such issues may delay or reduce the purchase of health care insurance by uninsured persons. In order to be covered on the effective date of January 1, 2014 individuals are required to enroll and pay their first premium payments by December 15, 2013. Subsequently, there will be additional enrollment periods and effective dates. Uninsured persons who do not enroll in health care insurance plans by March 31, 2014 will be required to pay a penalty to the Internal Revenue Service.

The Affordable Care Act also allows states to expand their Medicaid programs through an increase in the Medicaid eligibility income limit from a state's current eligibility levels to 133% of the federal poverty limit. It remains unclear to what extent states will expand their Medicaid programs by raising the income limit to 133% of the federal poverty level and whether there will be more uninsured patients in 2014 than anticipated when the Affordable Care Act was enacted. All of the states in which we operate, however, already cover children in the first year of life and pregnant women if their household income is at or below 133% of the federal poverty level.

Federal and state agencies are expected to continue to implement provisions of the Affordable Care Act. However, given the complexity and the number of changes expected as a result of the Affordable Care Act, as well as the implementation timetable for many of them, we cannot predict the ultimate impacts of the Affordable Care Act as they may not be known for several years. The Affordable Care Act also remains subject to continuing legislative scrutiny, including efforts by Congress to amend or repeal a number of its provisions. As a result, we cannot predict with any assurance the ultimate effect of the Affordable Care Act on our Company, nor can we provide any assurance that its provisions will not have a material adverse effect on our business, financial condition, results of operations or cash flows.

In addition, the Budget Control Act of 2011 requires across-the-board cuts ( sequestrations ) to Medicare reimbursement rates for the years 2013 through 2021. This 2% reduction in Medicare reimbursement rates commenced on April 1, 2013 but is not expected to have a material adverse effect on our business, financial condition, results of operations or cash flows.

In July 2013, our board of directors authorized the repurchase of shares of our common stock up to an amount sufficient to offset the dilutive impact from the issuance of shares under our equity compensation programs. The share repurchase program permits us to make open market purchases from time-to-time based upon general economic and market conditions and trading restrictions. During the three months ended September 30, 2013, we repurchased approximately 528,000 shares of our common stock for approximately \$51.9 million.

The following discussion contains forward-looking statements. Please see the Company's most recent Annual Report on Form 10-K, including Item 1A, Risk Factors, for a discussion of the uncertainties, risks and assumptions associated with these forward-looking statements. In addition, please see Caution Concerning Forward-Looking Statements below.

## Results of Operations

### *Three Months Ended September 30, 2013 as Compared to Three Months Ended September 30, 2012*

Our net patient service revenue increased \$81.6 million, or 17.3%, to \$554.7 million for the three months ended September 30, 2013, as compared to \$473.1 million for the same period in 2012. Of this \$81.6 million increase, \$65.0 million, or 79.6%, was attributable to revenue generated from acquisitions completed after June 30, 2012. Same-unit net patient service revenue increased \$16.6 million, or 3.7%, for the three months ended September 30, 2013. The change in same-unit net patient service revenue was the result of an increase in revenue of \$18.4 million, or 4.1%, related to net reimbursement-related factors and a decrease of approximately \$1.8 million, or 0.4%, from lower overall patient service volumes. The increase in revenue of \$18.4 million related to net reimbursement-related factors was primarily due to the favorable impact from the parity payments received during the three months ended September 30, 2013, continued improvements in managed care contracting and a slight increase in revenue caused by a decrease in the percentage of our patients being enrolled in government-sponsored programs. The decrease in revenue of \$1.8 million from lower patient service volumes is primarily related to declines in our hospital-based neonatal practices. These declines were, however, partially offset by increases across all other service lines, including hospital-based anesthesia services, office-based maternal-fetal medicine and pediatric cardiology services, as well as other pediatric physician services, primarily newborn nursery services. Same units are those units at which we provided services for the entire current period and the entire comparable period.

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Practice salaries and benefits increased \$54.9 million, or 18.8%, to \$346.9 million for the three months ended September 30, 2013, as compared to \$292.0 million for the same period in 2012. This \$54.9 million increase was primarily attributable to increased costs associated with new physicians and other staff to support acquisition-related growth and growth at existing units, of which \$46.4 million was related to salaries and \$8.5 million was related to benefits and incentive compensation.

Practice supplies and other operating expenses increased \$1.8 million, or 10.5%, to \$19.4 million for the three months ended September 30, 2013, as compared to \$17.6 million for the same period in 2012. The increase was attributable to practice supply, rent and other costs of \$0.9 million related to our acquisitions and \$0.9 million at our existing units.

General and administrative expenses include all billing and collection functions and all other salaries, benefits, supplies and operating expenses not specifically related to the day-to-day operations of our physician group practices. General and administrative expenses increased \$6.5 million, or 13.4%, to \$54.7 million for the three months ended September 30, 2013, as compared to \$48.2 million for the same period in 2012, and grew at a rate slower than the rate of revenue growth. The increase of \$6.5 million is attributable to the overall growth of the Company including acquisition-related growth. General and administrative expenses as a percentage of net patient service revenue was 9.9% for the three months ended September 30, 2013, as compared to 10.2% for the three months ended September 30, 2012.

Depreciation and amortization expense increased \$2.6 million, or 32.0%, to \$10.5 million for the three months ended September 30, 2013, as compared to \$7.9 million for the same period in 2012. The increase was primarily attributable to the amortization of intangible assets related to acquisitions.

Income from operations increased \$15.9 million, or 14.8%, to \$123.3 million for the three months ended September 30, 2013, as compared to \$107.4 million for the same period in 2012. Our operating margin was 22.2% for the three months ended September 30, 2013, as compared to 22.7% for the same period in 2012. This decrease of 46 basis points was primarily due to the variability in margins due to the mix of practices acquired after June 30, 2012, partially offset by the favorable impact from operating expense efficiencies.

We recorded net interest expense of \$1.1 million for the three months ended September 30, 2013, as compared to \$0.2 million for the same period in 2012. The increase in net interest expense was primarily due to higher average borrowings at a higher effective borrowing interest rate related to our \$800 million amended and restated revolving credit facility ( Line of Credit ) and an increase in accretion related to our contingent consideration liabilities. Interest expense for the three months ended September 30, 2013 and 2012, consisted primarily of interest charges, commitment fees and amortized debt costs related to our Line of Credit and accretion expense related to our contingent consideration liabilities.

Our effective income tax rate was 37.0% for the three months ended September 30, 2013, as compared to 38.5% for the three months ended September 30, 2012. Our effective income tax rate for the three months ended September 30, 2013 was favorably impacted by changes in our tax-related reserves due to the expiration of certain statutes of limitation, partially offset by increases in tax-related reserves for uncertain tax positions.

Net income increased by 16.8% to \$77.0 million for the three months ended September 30, 2013, as compared to \$65.9 million for the same period in 2012.

Diluted net income per common and common equivalent share was \$1.52 on weighted average shares outstanding of 50.6 million for the three months ended September 30, 2013, as compared to \$1.32 on weighted average shares outstanding of 49.8 million for the same period in 2012. The net increase in weighted average shares outstanding was

primarily due to the vesting of restricted and deferred stock, the exercise of employee stock options and the issuance of shares under our stock purchase plans, partially offset by a decrease in weighted average shares from the impact of shares repurchased under the repurchase program approved by our board of directors in July 2013.

*Nine Months Ended September 30, 2013 as Compared to Nine Months Ended September 30, 2012*

Our net patient service revenue increased \$241.3 million, or 17.9%, to \$1.59 billion for the nine months ended September 30, 2013, as compared to \$1.35 billion for the same period in 2012. Of this \$241.3 million increase, \$204.8 million, or 84.9%, was attributable to revenue generated from acquisitions completed after December 31, 2011. Same-unit net patient service revenue increased \$36.5 million, or 2.8%, for the nine months ended September 30, 2013. The change in same-unit net patient service revenue was the result of an increase of approximately \$37.8 million, or 2.9%, related to net reimbursement-related factors, partially offset by a decrease in revenue of \$1.3 million, or 0.1%, from lower overall patient service volumes. The increase in revenue of \$37.8 million related to net reimbursement-related factors was primarily due to continued improvements in managed care contracting and favorable impact from the parity payments received during the nine months ended September 30, 2013, partially offset by a decrease in revenue caused by an increase in the percentage of our patients being enrolled in government-sponsored programs. The decrease in revenue of \$1.3 million from lower patient service volumes is related to declines in our hospital-based neonatal practices and our office-based pediatric cardiology practices, mostly offset by increases in our office-based maternal-fetal medicine practices and our hospital-based other pediatric physician practices and anesthesia practices. Same units are those units at which we provided services for the entire current period and the entire comparable period.

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Practice salaries and benefits increased \$167.8 million, or 20.0%, to \$1.01 billion for the nine months ended September 30, 2013, as compared to \$840.2 million for the same period in 2012. This \$167.8 million increase was primarily attributable to increased costs associated with new physicians and other staff to support acquisition-related growth and growth at existing units, of which \$141.5 million was related to salaries and \$26.3 million was related to benefits and incentive compensation.

Practice supplies and other operating expenses increased \$5.9 million, or 11.1%, to \$58.4 million for the nine months ended September 30, 2013, as compared to \$52.5 million for the same period in 2012. The increase was attributable to practice supply, rent and other costs of \$3.2 million at our existing units and \$2.7 million related to our acquisitions.

General and administrative expenses include all billing and collection functions and all other salaries, benefits, supplies and operating expenses not specifically related to the day-to-day operations of our physician group practices. General and administrative expenses increased \$19.3 million, or 13.5%, to \$162.6 million for the nine months ended September 30, 2013, as compared to \$143.3 million for the same period in 2012. This increase of \$19.3 million is attributable to the overall growth of the Company, including acquisition-related growth. General and administrative expenses as a percentage of net patient service revenue was 10.2% for the nine months ended September 30, 2013, as compared to 10.7% for the nine months ended September 30, 2012, and grew at a rate slower than the rate of revenue growth.

Depreciation and amortization expense increased \$6.8 million, or 29.7%, to \$29.5 million for the nine months ended September 30, 2013, as compared to \$22.7 million for the same period in 2012. The increase was primarily attributable to the amortization of intangible assets related to acquisitions.

Income from operations increased \$41.7 million, or 14.6%, to \$328.2 million for the nine months ended September 30, 2013, as compared to \$286.5 million for the same period in 2012. Our operating margin was 20.7% for the nine months ended September 30, 2013, as compared to 21.3% for the same period in 2012. This decrease of 61 basis points was primarily due to the variability in margins due to the mix of practices acquired after December 31, 2011, partially offset by the favorable impact from operating expense efficiencies.

We recorded net interest expense of \$3.2 million for the nine months ended September 30, 2013, as compared to \$0.8 million for the same period in 2012. The increase in net interest expense was primarily due to higher average borrowings at a higher effective borrowing interest rate and an increase in commitment fees related to our Line of Credit, as well as an increase in accretion related to our contingent consideration liabilities. Interest expense for the nine months ended September 30, 2013 and 2012, consisted primarily of interest charges, commitment fees and amortized debt costs related to our Line of Credit and accretion expense.

Our effective income tax rate was 38.0% for the nine months ended September 30, 2013, as compared to 38.8% for the same period in 2012.

Net income increased by 15.3% to \$201.5 million for the nine months ended September 30, 2013, as compared to \$174.8 million for the same period in 2012.

Diluted net income per common and common equivalent share was \$3.99 on weighted average shares outstanding of 50.5 million for the nine months ended September 30, 2013, as compared to \$3.53 on weighted average shares outstanding of 49.6 million for the same period in 2012.

**Liquidity and Capital Resources**

As of September 30, 2013, we had \$16.2 million of cash and cash equivalents on hand as compared to \$21.3 million at December 31, 2012. In addition, we had working capital of \$99.0 million at September 30, 2013, an increase of \$8.3 million from working capital of \$90.7 million at December 31, 2012. This net increase in working capital is primarily due to year-to-date earnings and proceeds from the issuance of common stock under our stock incentive and stock purchase plans, offset by the use of funds for practice acquisitions and contingent purchase price payments, repurchases of our common stock, net payments on our Line of Credit and purchases of investments.

Our net cash provided from operating activities was \$266.8 million for the nine months ended September 30, 2013, as compared to \$219.7 million for the same period in 2012. This net improvement of \$47.1 million for the nine months ended September 30, 2013 is primarily due to improved operating results and a net increase in cash flow related to changes in our accounts payable and accrued expenses.

During the nine months ended September 30, 2013, accounts receivable increased by \$24.7 million, as compared to an increase of \$20.1 million for the same period in 2012. The net change in the increase of accounts receivable is due to increases in accounts receivable related to recent acquisitions, partially offset by improvements in cash collections at existing units.

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Our accounts receivable are principally due from managed care payors, government payors, and other third-party insurance payors. We track our collections from these sources, monitor the age of our accounts receivable, and make all reasonable efforts to collect outstanding accounts receivable through our systems, processes and personnel at our corporate and regional billing and collection offices. We use customary collection practices, including the use of outside collection agencies, for accounts receivable due from private pay patients when appropriate. Almost all of our accounts receivable adjustments consist of contractual adjustments due to the difference between gross amounts billed and the amounts allowed by our payors. Any amounts written off related to private pay patients are based on the specific facts and circumstances related to each individual patient account.

Days sales outstanding ( DSO ) is one of the key factors that we use to evaluate the condition of our accounts receivable and the related allowances for contractual adjustments and uncollectibles. DSO reflects the timeliness of cash collections on billed revenue and the level of reserves on outstanding accounts receivable. Our DSO improved to 45.2 days at September 30, 2013 as compared to 48.4 days at December 31, 2012, primarily as a result of improvements in cash collections.

During the nine months ended September 30, 2013, our net cash used in investing activities of \$218.8 million included physician practice acquisition payments and contingent purchase price payments of \$193.5 million, capital expenditures of \$12.7 million and net purchases of \$12.6 million related to the purchase and maturity of investments. Our acquisition payments were primarily related to the purchase of five anesthesiology practices and three neonatology practices. Our capital expenditures were for medical equipment, leasehold and other improvements, computer and office equipment, software and furniture and fixtures at our office-based practices and our corporate and regional offices. Under the current accounting guidance for business combinations, payments of contingent consideration liabilities related to acquisitions completed prior to January 1, 2009 are presented as cash flows from investing activities. Payments of contingent consideration liabilities related to acquisitions completed after January 1, 2009 are presented as cash flows from financing activities.

During the nine months ended September 30, 2013, our net cash used in financing activities of \$53.0 million consisted primarily of the repurchase of \$51.9 million of our common stock under the share repurchase program approved by our board of directors in July 2013, net payments on our Line of Credit of \$20.5 million and the payment of \$6.3 million for contingent consideration liabilities, partially offset by proceeds from the exercise of employee stock options and the issuance of common stock under our stock purchase plans of \$15.4 million and excess tax benefits related to the vesting of restricted stock and deferred stock and the exercise of employee stock options of \$10.4 million.

Our Line of Credit, which is guaranteed by substantially all of our subsidiaries and affiliated professional contractors, includes (1) a \$75 million sub-facility for the issuance of letters of credit and (2) a \$37.5 million sub-facility for swingline loans. The Line of Credit may be increased from \$800.0 million up to \$1.0 billion, subject to the satisfaction of specified conditions. At our option, borrowings under the Line of Credit (other than swingline loans) bear interest at (1) the alternate base rate (defined as the highest of (i) the Wells Fargo Bank, National Association prime rate, (ii) the Federal Funds Rate plus 1/2 of 1.00% and (iii) one month LIBOR plus 1.00%) or (2) the LIBOR rate, as defined in the Line of Credit, plus an applicable margin rate ranging from 0.125% to 0.750% for alternate base rate borrowings and 1.125% to 1.750% for LIBOR rate borrowings, in each case based on our consolidated leverage ratio. Swingline loans bear interest at the alternate base rate plus the applicable margin rate. We are subject to certain covenants and restrictions specified in the Line of Credit, including covenants that require us to maintain a minimum fixed charge coverage ratio and not to exceed a specified consolidated leverage ratio, to comply with laws, and restrict us from paying dividends and making certain other distributions, as specified therein. Failure to comply with these covenants would constitute an event of default under the Line of Credit, notwithstanding our ability to meet our debt service obligations. The Line of Credit includes various customary remedies for the lenders following an event of

default.

At September 30, 2013, we had an outstanding principal balance of \$123.5 million on our Line of Credit. We had outstanding letters of credit associated with our professional liability insurance program of \$5.3 million which reduced the amount available on our Line of Credit to \$671.2 million at September 30, 2013. At September 30, 2013, we believe we were in compliance, in all material respects, with the financial covenants and other restrictions applicable to us under our Line of Credit. We believe we will be in compliance with these covenants throughout 2013.

We maintain professional liability insurance policies with third-party insurers, subject to self-insured retention, exclusions and other restrictions. We self-insure our liabilities to pay self-insured retention amounts under our professional liability insurance coverage through a wholly owned captive insurance subsidiary. We record liabilities for self-insured amounts and claims incurred but not reported based on an actuarial valuation using historical loss information, claim emergence patterns and various actuarial assumptions. Our total liability related to professional liability risks at September 30, 2013 was \$154.1 million, of which \$17.2 million is classified as a current liability within accounts payable and accrued expenses in the Condensed Consolidated Balance Sheet.

We anticipate that funds generated from operations, together with our current cash on hand and funds available under our Line of Credit, will be sufficient to finance our working capital requirements, fund anticipated acquisitions and capital expenditures, fund our share repurchase program and meet our contractual obligations for at least the next 12 months.

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**Caution Concerning Forward-Looking Statements**

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

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

Our Line of Credit is subject to market risk and interest rate changes. Our Line of Credit bears interest at (1) the alternate base rate, which is defined as the highest of (i) the Wells Fargo Bank, National Association prime rate, (ii) the Federal Funds Rate plus 1/2 of 1.000% and (iii) one month LIBOR plus 1.000% or (2) the LIBOR rate, as defined in the Line of Credit, plus, an applicable margin rate ranging from 0.125% to 0.750% for alternate base rate borrowings and 1.125% to 1.750% for LIBOR rate borrowings, in each case based on the Company's consolidated leverage ratio. The outstanding principal balance on our Line of Credit was \$123.5 million at September 30, 2013. Considering the total outstanding balance of \$123.5 million, a 1% change in interest rates would result in an impact to income before taxes of approximately \$1.2 million per year.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to provide reasonable assurance that information required to be disclosed by the Company in reports it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this report.

**Changes in Internal Controls Over Financial Reporting**

No changes in our internal control over financial reporting occurred during the quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II - OTHER INFORMATION****Item 1. Legal Proceedings**

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

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

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

**Item 1A. Risk Factors**

There have been no material changes to the risk factors previously disclosed in the Company's most recent Annual Report on Form 10-K.

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

During the three months ended September 30, 2013, we repurchased approximately 528,213 shares of our common stock in connection with a share repurchase program that was approved by our board of directors in July 2013. All repurchases were made in open market transactions, subject to general economic and market conditions and trading restrictions.

| Period | Total<br>Number<br>of<br>Shares<br>Purchased | Average<br>Price<br>Paid<br>per<br>Share<br>(a) | Total<br>Number of<br>Shares<br>Purchased<br>as part of<br>the | Approximate<br>Dollar<br>Value<br>of Shares<br>that May<br>Yet |
|--------|--|---|--|--|
|--------|--|---|--|--|

|             |                    |         |          | Repurchase<br>Program | Be<br>Purchased<br>Under<br>the<br>Repurchase<br>Program |
|-------------|--------------------|---------|----------|-----------------------|--|
| July 1      | July 31, 2013      |         | \$       |                       | (b)  |
| August 1    | August 31, 2013    | 398,735 | \$ 98.02 | 398,735               | (b)  |
| September 1 | September 30, 2013 | 129,478 | \$ 98.68 | 129,478               | (b)  |
| Total       |                    | 528,213 | \$ 98.19 | 528,213               | (b)  |

- (a) This amount represents the weighted average price paid per share and includes a per share commission paid for all repurchases.
- (b) The repurchase program allows us to repurchase shares of our common stock up to an amount sufficient to offset the dilutive impact from the issuance of shares under our equity compensation programs, which is estimated to be approximately 1.0 million shares per year.

**Item 6. Exhibits**

See Exhibit Index.

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**SIGNATURES**

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

**MEDNAX, INC.**

Date: October 31, 2013

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

Date: October 31, 2013

By: /s/ Vivian Lopez-Blanco  
Vivian Lopez-Blanco  
Chief Financial Officer and Treasurer  
(Principal Financial Officer and  
Principal Accounting Officer)

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**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 31.1+              | Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2+              | Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32+                | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 101.INS+           | XBRL Instance Document.  |
| 101.SCH+           | XBRL Taxonomy Extension Schema Document.   |
| 101.CAL+           | XBRL Taxonomy Extension Calculation Linkbase Document.   |
| 101.DEF+           | XBRL Taxonomy Extension Definition Linkbase Document.  |
| 101.LAB+           | XBRL Taxonomy Extension Label Linkbase Document.   |
| 101.PRE+           | XBRL Taxonomy Extension Presentation Linkbase Document.  |

+ Filed herewith.