

MEDNAX, INC.  
Form 10-Q  
October 30, 2014

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

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2014**

**OR**

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

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

**Commission File Number: 001-12111**

**MEDNAX, INC.**

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

**Florida**  
**(State or other jurisdiction of**  
**Incorporation or organization)**

**26-3667538**  
**(I.R.S. Employer**  
**Identification No.)**

**1301 Concord Terrace**

**Sunrise, Florida**  
**(Address of principal executive offices)**

**33323**  
**(Zip Code)**

**(954) 384-0175**

**(Registrant's telephone number, including area code)**

**Not Applicable**

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

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

On October 24, 2014, the registrant had outstanding 100,415,921 shares of Common Stock, par value \$.01 per share.

**MEDNAX, INC.**

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

	<b>September 30, 2014</b>	<b>December 31, 2013</b>
	<b>(in thousands)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 71,822	\$ 31,137
Short-term investments	7,281	6,457
Accounts receivable, net	345,169	285,397
Prepaid expenses	8,778	6,361
Deferred income taxes	37,193	30,766
Other assets	10,818	8,007
Total current assets	481,061	368,125
Investments	61,791	57,511
Property and equipment, net	63,596	59,911
Goodwill	2,659,331	2,393,731
Other assets, net	212,438	129,438
Total assets	\$ 3,478,217	\$ 3,008,716
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 300,321	\$ 308,754
Current portion of long-term capital lease obligations	349	92
Income taxes payable	28,610	17,946
Total current liabilities	329,280	326,792
Line of credit	287,500	27,000
Long-term capital lease obligations	651	143
Long-term professional liabilities	148,942	139,367
Deferred income taxes	152,225	111,441
Other liabilities	54,507	60,985
Total liabilities	973,105	665,728
Commitments and contingencies		
Shareholders' equity:		
Preferred stock; \$.01 par value; 1,000 shares authorized; none issued		

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Common stock; \$.01 par value; 200,000 shares authorized; 100,346 and 101,207 shares issued and outstanding, respectively	1,003	1,012
Additional paid-in capital	898,560	857,953
Retained earnings	1,604,484	1,484,023
Total MEDNAX, Inc. shareholders equity	2,504,047	2,342,988
Noncontrolling interests	1,065	
Total equity	2,505,112	2,342,988
Total liabilities and equity	\$ 3,478,217	\$ 3,008,716

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

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net revenue	\$ 626,506	\$ 554,730	\$ 1,788,389	\$ 1,586,625
Operating expenses:				
Practice salaries and benefits	394,794	346,879	1,139,050	1,008,002
Practice supplies and other operating expenses	21,570	19,445	65,452	58,361
General and administrative expenses	60,643	54,654	179,886	162,573
Depreciation and amortization	11,356	10,461	32,088	29,475
Total operating expenses	488,363	431,439	1,416,476	1,258,411
Income from operations	138,143	123,291	371,913	328,214
Investment and other income	563	372	2,533	1,170
Interest expense	(2,019)	(1,507)	(5,578)	(4,369)
Equity in earnings of unconsolidated affiliate	725		875	
Total non-operating expenses	(731)	(1,135)	(2,170)	(3,199)
Income before income taxes	137,412	122,156	369,743	325,015
Income tax provision	51,174	45,198	140,820	123,472
Net income	86,238	76,958	228,923	201,543
Less: Net income attributable to noncontrolling interests	(31)		(40)	
Net income attributable to MEDNAX, Inc.	\$ 86,207	\$ 76,958	\$ 228,883	\$ 201,543
Per common and common equivalent share data:				
Net income attributable to MEDNAX, Inc.:				
Basic	\$ 0.87	\$ 0.77	\$ 2.32	\$ 2.04
Diluted	\$ 0.86	\$ 0.76	\$ 2.28	\$ 2.00
Weighted average common shares:				
Basic	99,088	99,506	98,791	99,022
Diluted	100,145	101,178	100,168	100,962

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



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

	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 228,923	\$ 201,543
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	32,088	29,475
Net change in fair value of contingent consideration liabilities	(506)	1,316
Stock-based compensation expense	23,914	23,189
Equity in earnings of unconsolidated affiliate	(875)	
Deferred income taxes	10,410	19,340
Changes in assets and liabilities:		
Accounts receivable	(49,996)	(24,748)
Prepaid expenses and other assets	(3,168)	(911)
Other assets	1,680	(3,008)
Accounts payable and accrued expenses	(12,573)	(3,343)
Income taxes payable	5,502	4,866
Payments of contingent consideration liabilities	(3,851)	(630)
Long-term professional liabilities	9,575	17,349
Other liabilities	2,711	1,711
<b>Net cash provided from operating activities</b>	<b>243,834</b>	<b>266,149</b>
<b>Cash flows from investing activities:</b>		
Acquisition payments, net of cash acquired	(346,071)	(193,545)
Purchases of investments	(19,604)	(18,866)
Proceeds from sales or maturities of investments	14,500	6,313
Purchases of property and equipment	(11,405)	(12,684)
<b>Net cash used in investing activities</b>	<b>(362,580)</b>	<b>(218,782)</b>
<b>Cash flows from financing activities:</b>		
Borrowings on line of credit	1,084,000	832,000
Payments on line of credit	(823,500)	(852,500)
Payments of contingent consideration liabilities	(9,550)	(5,680)
Payments on capital lease obligations	(84)	(76)
Excess tax benefit from exercises of stock options	11,159	10,357
Proceeds from issuance of common stock	24,140	15,357
Contribution from noncontrolling interests	1,025	
Repurchases of common stock	(127,759)	(51,863)



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Net cash provided from (used in) financing activities	159,431	(52,405)
Net increase (decrease) in cash and cash equivalents	40,685	(5,038)
Cash and cash equivalents at beginning of period	31,137	21,280
Cash and cash equivalents at end of period	\$ 71,822	\$ 16,242

*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, 2014**

**(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.

On June 1, 2014, the Company entered into a joint venture in which it owns a 75% economic interest. The Company has a management agreement with the joint venture and, based on the provisions within the agreement, the Company has determined that the joint venture is a variable interest entity for which the Company is the primary beneficiary as defined in the accounting guidance for consolidation. Accordingly, the financial results of the joint venture are fully consolidated into the Company s operating results. The equity interests of the outside investor in the equity and results of operations of this consolidated entity are accounted for and presented as noncontrolling interests.

On June 1, 2014, the Company entered into a second joint venture in which it owns a 37.5% economic interest. The Company accounts for this joint venture under the equity method of accounting because the Company exercises significant influence over, but does not control, this entity.

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 ).

Reclassifications have been made to certain prior period financial statements to conform with the current year presentation. Specifically, the Company reclassified \$40.7 million of its deferred tax assets as of December 31, 2013 from current deferred income taxes to long-term deferred income taxes. This revision represents the correction of an error in the classification of certain deferred tax assets in our prior period financial statements that the Company has determined to be immaterial.

All share and per share data set forth herein give effect to the two-for-one split of the Company s common stock that became effective on December 19, 2013.

**New Accounting Pronouncements**

In May 2014, the accounting guidance related to revenue recognition was amended to outline a single, comprehensive model for accounting for revenue from contracts with customers. While the new guidance supersedes existing revenue recognition guidance, it closely aligns with current GAAP. The new guidance will become effective for the Company on January 1, 2017, and early adoption is not permitted. The Company is currently evaluating the impact, if any, the adoption of this guidance will have on the Company's Condensed Consolidated Financial Statements.

**2. Cash Equivalents and Investments:**

As of September 30, 2014 and December 31, 2013, the Company's cash equivalents consisted entirely of money market funds with a fair value of \$5.5 million and \$5.3 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, 2014 and December 31, 2013 are summarized as follows (in thousands):

	September 30, 2014		December 31, 2013	
	Short-Term	Long-Term	Short-Term	Long-Term
Municipal debt securities	\$ 7,033	\$ 35,282	\$ 5,492	\$ 34,495
Federal home loan securities		26,016		22,520
Certificates of deposit	248	493	965	496
	\$ 7,281	\$ 61,791	\$ 6,457	\$ 57,511

### 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, 2014 and December 31, 2013, the Company's money market funds had a carrying amount of \$5.5 million and \$5.3 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, 2014 and December 31, 2013, the Company's cash surrender value of life insurance had a carrying amount of \$15.9 million and \$17.1 million, respectively.

In addition, the Company carries its contingent consideration liabilities related to acquisitions 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, 2014 and December 31, 2013, the Company's contingent consideration liabilities had a fair value of \$29.2 million and \$43.0 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, 2014.

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, 2014</b>	<b>December 31, 2013</b>
Gross accounts receivable	\$ 1,202,549	\$ 997,682
Allowance for contractual adjustments and uncollectibles	(857,380)	(712,285)
	\$ 345,169	\$ 285,397

**5. Business Acquisitions:**

During the nine months ended September 30, 2014, the Company completed the acquisition of seven physician group practices, a complementary revenue cycle management company as well as a consulting services company for total consideration of \$346.8 million, consisting of \$346.1 million in cash and \$0.7 million of contingent consideration.

The Company's allocation of purchase price is as follows:

Current assets	\$ 11.8
Property and equipment	3.6
Goodwill	272.8
Other intangible assets	97.6
Current liabilities	(14.4)
Deferred income tax liabilities – long-term	(23.9)
Other long-term liabilities	(0.7)
	\$ 346.8

The physician practice acquisitions expanded the Company's national network of physician practices while the acquisitions of the complementary services businesses will function as support for the Company's physician practices as well as outsourced service capabilities.

Other intangible assets consist primarily of customer relationships, physician and hospital agreements and trade names. The Company has not yet completed the process of determining the fair value of intangible assets acquired during the three months ended September 30, 2014 and has recorded provisional estimates for such assets. This valuation will be completed within the measurement period, and management does not believe the additional adjustments will be material. The Company expects that \$108.6 million of the goodwill recorded during the nine months ended September 30, 2014 will be deductible for tax purposes.

The contingent consideration of \$0.7 million recorded during the nine months ended September 30, 2014 is related to shares of common stock that will vest and an additional cash amount that will become payable in each case based on the achievement of certain performance measures for up to four years ending after the acquisition date. Approximately \$0.7 million of the contingent consideration was recorded as equity with the remaining \$41,000 recorded as a liability, both at acquisition-date fair value.

In addition, during the nine months ended September 30, 2014, the Company paid \$13.4 million for contingent consideration related to certain prior-period acquisitions, of which all but the accretion recorded during 2014 was accrued as of December 31, 2013.

On June 1, 2014, the Company entered into two joint ventures. In connection with the joint venture in which it owns a 75% economic interest, the financial results of the joint venture are fully consolidated into the Company's operating results and are not material to the Condensed Consolidated Financial Statements. In connection with the joint venture in which the Company owns a 37.5% economic interest, the Company completed a nonmonetary exchange of certain operations with a fair value of \$7.7 million as contribution credit in the joint venture. The carrying value of the goodwill transferred of \$7.2 million and the fixed assets transferred of \$0.5 million approximated the fair value of the contribution to this joint venture, and accordingly no gain or loss was recognized on the transaction. The investment in this joint venture is included in other assets, net as presented in the Company's Condensed Consolidated Balance Sheet.



The following unaudited pro forma information combines the consolidated results of operations of the Company on a GAAP basis and the acquisitions completed during 2014 and 2013, including adjustments for pro forma amortization and interest expense, as if the transactions had occurred on January 1, 2013 and January 1, 2012, respectively (in thousands, except for per share data):

	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
Net revenue	\$ 1,870,039	\$ 1,799,726
Net income	\$ 233,175	\$ 217,019
Net income per common share <sup>(1)</sup> :		
Basic	\$ 2.36	\$ 2.19
Diluted	\$ 2.33	\$ 2.15
Weighted average shares <sup>(1)</sup> :		
Basic	98,791	99,022
Diluted	100,168	100,962

<sup>(1)</sup> The comparison of net income per share is affected by the change 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, 2014 were 98.8 million and 100.2 million, respectively, as compared to 99.0 million and 101.0 million, respectively, for the nine months ended September 30, 2013.

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, 2014</b>	<b>December 31, 2013</b>
Accounts payable	\$ 22,174	\$ 18,605
Accrued salaries and bonuses	170,855	189,439
Accrued payroll taxes and benefits	51,585	44,131
Accrued professional liabilities	18,693	19,324
Accrued contingent consideration	14,916	19,833
Other accrued expenses	22,098	17,422
	<b>\$ 300,321</b>	<b>\$ 308,754</b>

The net decrease in accrued salaries and bonuses of \$18.6 million, from \$189.4 million at December 31, 2013 to \$170.8 million at September 30, 2014, 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, 2014. A majority of the Company's payments for performance-based incentive compensation is paid annually in the first quarter.



**7. Common and Common Equivalent Shares:**

Basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per 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 stock 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 common share calculation for the three and nine months ended September 30, 2014 and 2013 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Weighted average number of common shares outstanding	99,088	99,506	98,791	99,022
Weighted average number of dilutive common share equivalents	1,057	1,672	1,377	1,940
Weighted average number of common and common equivalent shares outstanding	100,145	101,178	100,168	100,962

Antidilutive securities not included in the dilutive earnings per share calculation

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#### 8. Stock Incentive Plans and Stock Purchase Plan:

The Company's Amended and Restated 2008 Incentive Compensation Plan, as amended (the Amended and Restated 2008 Incentive Plan) provides for grants of stock options, stock appreciation rights, restricted stock, deferred stock, and other stock-related awards and performance awards that may be settled in cash, stock or other property.

Under the Amended and Restated 2008 Incentive Plan, options to purchase shares of common stock may be granted at a price not less than the fair market value of the shares on the date of grant. The options must be exercised within 10 years from the date of grant and generally become exercisable on a pro rata basis over a three-year period from the date of grant. The Company issues new shares of its common stock upon exercise of its stock options. Restricted stock awards generally vest over periods of three years upon the fulfillment of specified service-based conditions and in certain instances performance-based conditions. Deferred stock awards 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, 2014, the Company granted 504,210 shares of restricted stock to its employees and 19,917 shares of restricted stock to its non-employee directors under the Amended and Restated 2008 Incentive Plan. At September 30, 2014, the Company had approximately 6.3 million shares available for future grants and awards under the Amended and Restated 2008 Incentive Plan.

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. In accordance with the provisions of the accounting guidance for stock-based compensation, the Company recognizes stock-based compensation expense for the 15% discount received by participating employees. During the nine months ended September 30, 2014, 192,799 shares were issued under the Non-Qualified Plan. At September 30, 2014, the Company had approximately 401,900 shares reserved for issuance under the Non-Qualified Plan.

During the three and nine months ended September 30, 2014 and 2013, the Company recognized approximately \$8.1 million and \$23.9 million, and \$8.1 million and \$23.2 million, respectively, of stock-based compensation expense. The net excess tax benefit recognized in additional paid-in capital related to the exercise of stock options for the nine months ended September 30, 2014 was approximately \$11.2 million.

**9. Common Stock Repurchases:**

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 nine months ended September 30, 2014, the Company repurchased approximately 2.2 million shares of its common stock for approximately \$127.8 million, including 18,282 shares withheld to satisfy minimum statutory tax withholding obligations of \$1.1 million in connection with the vesting of restricted stock units during the three months ended September 30, 2014. The repurchase program was also expanded to allow for the repurchase of shares of the Company's common stock to offset the dilutive impact from the issuance of shares, if any, related to the Company's acquisition program.

#### **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, 2014 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, results of operations, cash flows and the trading price of its common stock.

#### **11. Subsequent Event:**

On October 29, 2014, the Company entered into a new credit agreement (the "New Credit Agreement"), which replaces the Company's amended and restated credit agreement. The New Credit Agreement provides for a \$1.3 billion unsecured revolving credit facility and a \$200 million term loan and includes a \$75 million sub-facility for swingline loans and a \$37.5 million sub-facility for the issuance of letters of credit. The new credit facility matures on October 29, 2019 and is guaranteed by substantially all of the Company's subsidiaries and affiliated professional associations and corporations. At the Company's option, borrowings under the New Credit Agreement (other than swingline loans) will bear interest at (i) the alternate base rate (defined as the higher of (a) the prime rate, (b) the Federal Funds Rate plus 1/2 of 1.00% and (c) LIBOR for an interest period of one month plus 1.00%) plus an applicable margin rate ranging from 0.125% to 0.750% based on the Company's consolidated leverage ratio or (ii) the LIBOR rate plus an applicable margin rate ranging from 1.125% to 1.750% based on the Company's consolidated leverage ratio. Swingline loans will bear interest at the alternate base rate plus the applicable margin. The New Credit Agreement also calls for other customary fees and charges, including an unused commitment fee ranging from 0.150% to 0.300% of the unused lending commitments, based on the Company's consolidated leverage ratio.

The New Credit Agreement contains customary covenants and restrictions, including covenants that require the Company to maintain a minimum interest charge ratio, not to exceed a specified consolidated leverage ratio and to comply with laws, and restrictions on the ability of the Company to pay dividends and make certain other distributions, as specified therein. Failure to comply with these covenants would constitute an event of default under the New Credit Agreement, notwithstanding the ability of the Company to meet its debt service obligations. The New

Credit Agreement also includes various customary remedies for the lenders following an event of default, including the acceleration of repayment of outstanding amounts under the New Credit Agreement.

## 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", "our" refer to the parent company, MEDNAX, Inc., a Florida corporation, and the consolidated subsidiaries through which its businesses are actually conducted (collectively, "MDX"), together with MDX's affiliated 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, anesthesia, maternal-fetal and other pediatric subspecialties. 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 physicians who provide anesthesia care to patients in connection with surgical and other procedures as well as pain management. In addition, we have affiliated physicians who provide maternal-fetal and obstetrical medical care to expectant mothers experiencing complicated pregnancies in many areas where our affiliated neonatal physicians practice. In addition, 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 to our national physician network, we recently added two complementary businesses that offer services to medical providers, including ours, consisting of a revenue cycle management company and a consulting services company.

During the nine months ended September 30, 2014, we completed the acquisition of seven physician group practices, consisting of six anesthesiology practices and one neonatology practice. We also completed the acquisition of two complementary services businesses, consisting of a revenue cycle management company and a consulting services company. Based on past results, we expect that we can improve the results of the acquired 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 we have developed. We also expect that the development of our services offerings will function as support for our own physician practices as well as an outsourced services capability. Our results of operations for the nine months ended September 30, 2014 include the results of operations for these acquisitions from their respective dates of acquisition and therefore are not comparable in some respects.

On June 1, 2014, we entered into a joint venture in which we own a 75% economic interest. The joint venture operates as a fully integrated physician practice within the specialties of pediatric cardiology providing services to certain hospital and clinical sites.

On June 1, 2014, we entered into a second joint venture in which we own a 37.5% economic interest. This joint venture operates as a provider-based venture on the campus of a hospital and will provide certain cardiology diagnostic services to inpatients and outpatients of the hospital.

See Note 1 to our Condensed Consolidated Financial Statements in this Quarterly Report for a discussion of our accounting treatment of these joint ventures.

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 nine months ended September 30, 2014, we repurchased approximately 2.2 million shares of our common stock for approximately \$127.8 million. This repurchase program was also expanded to allow for the repurchase of shares of our common stock to offset the dilutive impact from the issuance of shares, if any, related to our acquisition program.

On October 30, 2014, we announced that our board of directors had authorized the repurchase of up to \$600.0 million of shares of our common stock in addition to our existing share repurchase program. We intend to utilize various methods to effect the additional share repurchases, including, among others, open market purchases, which are expected to commence in the near term, as well as an accelerated share repurchase program. The amount and timing of repurchases will depend upon several factors, including general economic and market conditions and trading restrictions.

Although economic conditions in the United States have gradually improved, the number of unemployed and under-employed workers remains significant and economic growth has been slow. During the three months ended September 30, 2014, we experienced a slight shift toward services reimbursed under government-sponsored programs, from commercial-payor programs, as compared to the three months ended September 30, 2013. In other recent periods, we have experienced variability in our payor mix and there have been shifts toward commercial-sponsored programs. If economic conditions do not improve or if they deteriorate, we could experience 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, due to the rising costs of managed care premiums and patient responsibility amounts, coupled with the current economic environment, we may experience increased bad debt due to patients' inability to pay for certain services. Moreover, it remains too soon to assess the impact on our payor mix from the Patient Protection and Affordable Care Act (the Affordable Care Act).

The Affordable Care Act contains a number of provisions that could affect us over the next several years. These provisions include the establishment of 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 generally allows physicians who provide eligible primary care services and some preventive health services to be paid at the Medicare reimbursement rates in effect in calendar years 2013 and 2014 instead of state-established Medicaid reimbursement rates (parity revenue). Generally, state Medicaid reimbursement rates are lower than federally-established Medicare rates. During the three and nine months ended September 30, 2014, we recognized \$17.2 million and \$48.2 million, respectively, in parity revenue that contributed approximately \$0.05 and \$0.15, respectively, to our net income per diluted share, reflecting the impacts from incentive compensation and income taxes.

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 and cost 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 provide a marketplace for eligible individuals and small employers to purchase healthcare insurance, only became effective in the beginning of 2014. Uninsured persons who did not enroll in healthcare insurance plans by March 31, 2014 were required to pay a penalty to the Internal Revenue Service, unless a hardship exception applied. The patient responsibility costs related to healthcare plans obtained through the insurance exchanges may be high and could increase in the future, and we may experience increased bad debt due to patients' inability to pay for certain services.

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. As of September 2014, 23 states have expressed their intent not to expand Medicaid eligibility; however, several states are seeking approval to expand Medicaid eligibility in their states in a manner that is different than set forth under the Affordable Care Act. 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 and judicial scrutiny, including efforts by Congress to amend or repeal a number of its provisions. In addition, there have been lawsuits filed by various stakeholders pertaining to the Affordable Care Act that may have the effect of modifying or altering various parts of the law. 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.

Presently, Medicare pays for all physician services based upon a national fee schedule that contains a list of uniform rates. The fee schedule is adjusted annually based on a complex formula that is linked in part to the use of services by Medicare beneficiaries and the growth in gross domestic product (the Sustainable Growth Rate formula). Since 2002, this Sustainable Growth Rate formula has resulted in negative payment updates for physicians under the fee schedule that have grown larger, and Congress has had to take repeated legislative action to reverse scheduled payment reductions, most recently in March 2014,

when legislation was enacted to avert a rate reduction and temporarily increase Medicare physician payment rates through the end of March 2015. If Congress does not take further action to modify or repeal the Sustainable Growth Rate formula, payments for physician services under the Medicare fee schedule will be reduced by approximately 20% effective April 1, 2015. Fee reductions will continue to be scheduled annually and will grow to approximately 40% in cumulative reductions by 2016 unless Congress takes action in the future to modify or reform the mechanism by which payment rates are updated.

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, 2014 as Compared to Three Months Ended September 30, 2013*

Our net revenue increased \$71.8 million, or 12.9%, to \$626.5 million for the three months ended September 30, 2014, as compared to \$554.7 million for the same period in 2013. Of this \$71.8 million increase, \$44.5 million, or 62.0%, was attributable to revenue generated from acquisitions completed after June 30, 2013. Same-unit net revenue increased \$27.2 million, or 5.0%, for the three months ended September 30, 2014. The change in same-unit net revenue was the result of an increase in revenue of \$15.9 million, or 2.9%, related to net reimbursement-related factors and an increase of approximately \$11.3 million, or 2.1%, from patient service volumes. The increase in revenue of \$15.9 million related to net reimbursement-related factors was primarily due to the favorable impact from the parity revenue recorded during the three months ended September 30, 2014 and continued modest improvements in managed care contracting, partially offset by a decrease in revenue caused by an increase in the percentage of our patients being enrolled in government-sponsored programs. The increase in revenue of \$11.3 million from patient service volumes is primarily related to solid growth in our hospital-based anesthesia and neonatology practices as well as in our other pediatric services, partially offset by decreases in our office-based practices. Same units are those units at which we provided services for the entire current period and the entire comparable period.

Practice salaries and benefits increased \$47.9 million, or 13.8%, to \$394.8 million for the three months ended September 30, 2014, as compared to \$346.9 million for the same period in 2013. This \$47.9 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 \$32.0 million was related to salaries and \$15.9 million was related to benefits and incentive compensation.

Practice supplies and other operating expenses increased \$2.2 million, or 10.9%, to \$21.6 million for the three months ended September 30, 2014, as compared to \$19.4 million for the same period in 2013. The increase was attributable to practice supply, rent and other costs of \$1.7 million related to our acquisitions and \$0.5 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 \$5.9 million, or 11.0%, to \$60.6 million for the three months ended September 30, 2014, as compared to \$54.7 million for the same period in 2013. The increase of \$5.9 million is attributable to the overall growth of the Company including acquisition-related growth. General and administrative expenses as a percentage of net revenue was 9.7% for the three months ended September 30, 2014, as compared to 9.9% for the same period in 2013, and grew at a rate slower than the rate of revenue growth.

Depreciation and amortization expense increased \$0.9 million, or 8.6%, to \$11.4 million for the three months ended September 30, 2014, as compared to \$10.5 million for the same period in 2013. The increase was primarily

attributable to the amortization of intangible assets related to acquisitions.

Income from operations increased \$14.8 million, or 12.0%, to \$138.1 million for the three months ended September 30, 2014, as compared to \$123.3 million for the same period in 2013. Our operating margin was 22.0% for the three months ended September 30, 2014, as compared to 22.2% for the same period in 2013, a decrease of 18 basis points.

Net non-operating expenses were \$0.7 million for the three months ended September 30, 2014, as compared to \$1.1 million for the same period in 2013 and were primarily related to interest expense, partially offset by equity in earnings of an unconsolidated affiliate and investment income. Interest expense consists of interest charges, commitment fees and amortized debt costs related to our \$800 million amended and restated revolving credit facility ( Line of Credit ) and accretion expense related to our contingent consideration liabilities.

Our effective income tax rate was 37.2% for the three months ended September 30, 2014, as compared to 37.0% for the three months ended September 30, 2013.

Net income attributable to MEDNAX, Inc. increased by 12.0% to \$86.2 million for the three months ended September 30, 2014, as compared to \$77.0 million for the same period in 2013.

Diluted net income attributable to MEDNAX, Inc. per common and common equivalent share was \$0.86 on weighted average shares outstanding of 100.1 million for the three months ended September 30, 2014, as compared to \$0.76 on weighted average shares outstanding of 101.2 million for the same period in 2013. The decrease in the weighted average shares outstanding is related to the shares of common stock repurchased under our share repurchase program.

***Nine Months Ended September 30, 2014 as Compared to Nine Months Ended September 30, 2013***

Our net revenue increased \$201.8 million, or 12.7%, to \$1.8 billion for the nine months ended September 30, 2014, as compared to \$1.6 billion for the same period in 2013. Of this \$201.8 million increase, \$146.8 million, or 72.7%, was attributable to revenue generated from acquisitions completed after December 31, 2012. Same-unit net revenue increased \$55.0 million, or 3.6%, for the nine months ended September 30, 2014. The change in same-unit net revenue was the result of an increase of approximately \$40.4 million, or 2.6%, related to net reimbursement-related factors and an increase in revenue of \$14.6 million, or 1.0%, from patient service volumes. The increase in revenue of \$40.4 million related to net reimbursement-related factors was primarily due to the favorable impact from the parity revenue recorded during the nine months ended September 30, 2014, the flow through of revenue from modest price increases and continued modest improvements in managed care contracting, partially offset by a decrease in revenue caused by an increase in the percentage of our patients being enrolled in government-sponsored programs. The increase in revenue of \$14.6 million from patient service volumes is related to growth in our hospital-based anesthesia and neonatal practices as well as our other pediatric physician services, partially offset by decreases in our office-based practices. Same units are those units at which we provided services for the entire current period and the entire comparable period.

Practice salaries and benefits increased \$131.0 million, or 13.0%, to \$1.1 billion for the nine months ended September 30, 2014, as compared to \$1.0 billion for the same period in 2013. This \$131.0 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 \$95.2 million was related to salaries and \$35.8 million was related to benefits and incentive compensation.

Practice supplies and other operating expenses increased \$7.1 million, or 12.2%, to \$65.5 million for the nine months ended September 30, 2014, as compared to \$58.4 million for the same period in 2013. The increase was attributable to practice supply, rent and other costs of \$3.7 million at our existing units and \$3.4 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 \$17.3 million, or 10.7%, to \$179.9 million for the nine months ended September 30, 2014, as compared to \$162.6 million for the same period in 2013. This increase of \$17.3 million is attributable to the overall growth of the Company, including acquisition-related growth. General and administrative expenses as a percentage of net revenue was 10.1% for the nine months ended September 30, 2014, as compared to 10.2% for the nine months ended September 30, 2013, and grew at a rate slower than the rate of revenue growth.

Depreciation and amortization expense increased \$2.6 million, or 8.9%, to \$32.1 million for the nine months ended September 30, 2014, as compared to \$29.5 million for the same period in 2013. The increase was primarily attributable to the amortization of intangible assets related to acquisitions.

Income from operations increased \$43.7 million, or 13.3%, to \$371.9 million for the nine months ended September 30, 2014, as compared to \$328.2 million for the same period in 2013. Our operating margin increased by 11 basis points to 20.8% for the nine months ended September 30, 2014, as compared to 20.7% for the same period in

2013.

Net non-operating expenses were \$2.2 million for the nine months ended September 30, 2014, as compared to \$3.2 million for the same period in 2013 and were primarily related to interest expense, partially offset by other income, investment income and equity in earnings of an unconsolidated affiliate. Interest expense consists of interest charges, commitment fees and amortized debt costs related to our Line of Credit and accretion expense. Other income during the nine months ended September 30, 2014 included the favorable settlement of litigation.

Our effective income tax rate was 38.1% for the nine months ended September 30, 2014, as compared to 38.0% for the nine months ended September 30, 2013.

Net income attributable to MEDNAX, Inc. increased by 13.6% to \$228.9 million for the nine months ended September 30, 2014, as compared to \$201.5 million for the same period in 2013.

Diluted net income attributable to MEDNAX, Inc. per common and common equivalent share was \$2.28 on weighted average shares outstanding of 100.2 million for the nine months ended September 30, 2014, as compared to \$2.00 on weighted average shares outstanding of 101.0 million for the same period in 2013. The decrease in the weighted average shares outstanding is related to the shares of common stock repurchased under our share repurchase program.

### **Liquidity and Capital Resources**

As of September 30, 2014, we had \$71.8 million of cash and cash equivalents on hand as compared to \$31.1 million at December 31, 2013. In addition, we had working capital of \$151.8 million at September 30, 2014, an increase of \$110.5 million from working capital of \$41.3 million at December 31, 2013. This net increase in working capital is primarily due to net borrowings on our Line of Credit, year-to-date earnings and proceeds from the issuance of common stock under our stock incentive and stock purchase plans, partially offset by the use of funds for acquisitions and repurchases of our common stock.

Our net cash provided from operating activities was \$243.8 million for the nine months ended September 30, 2014, as compared to \$266.1 million for the same period in 2013. This net decrease of \$22.3 million for the nine months ended September 30, 2014 is primarily due to (i) a net decrease in cash flow related to accounts receivable and (ii) a net decrease in cash flow related to changes in the components of our accounts payable and accrued expenses; partially offset by (iii) improved operating results.

During the nine months ended September 30, 2014, accounts receivable increased by \$59.8 million, as compared to an increase of \$24.7 million for the same period in 2013. The net increases in accounts receivable for the nine months ended September 30, 2014 and 2013 are primarily due to increases in accounts receivable related to acquisitions as well as increases in revenue at our existing units, including accrued parity revenue.

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 was 50.7 days at September 30, 2014 as compared to 46.3 days at December 31, 2013. The increase in DSO is primarily related to the integration of acquired practices.

During the nine months ended September 30, 2014, our net cash used in investing activities of \$362.6 million included acquisition payments of \$346.1 million, capital expenditures of \$11.4 million and net purchases of \$5.1 million related to the purchase and maturity of investments. Our capital expenditures were for medical equipment, computer equipment, software, leasehold and other improvements and furniture and fixtures at our office-based practices and our corporate and regional offices.

During the nine months ended September 30, 2014, our net cash provided from financing activities of \$159.4 million consisted primarily of net borrowings on our Line of Credit of \$260.5 million, proceeds from the exercise of employee stock options and the issuance of common stock under our stock purchase plans of \$24.1 million and excess tax benefits related to the exercise of employee stock options of \$11.2 million, partially offset by the repurchase of \$127.8

million of our common stock and the payment of \$9.6 million for contingent consideration liabilities.

At September 30, 2014, we had an outstanding principal balance of \$287.5 million on our Line of Credit. We also had outstanding letters of credit associated with our professional liability insurance program of \$0.1 million which reduced the amount available on our Line of Credit to \$512.4 million at September 30, 2014. At September 30, 2014, 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. On October 29, 2014, we entered into a new credit agreement that replaced our Line of Credit (the New Credit Agreement ); see Item 5. of Part II of this Quarterly Report on Form 10-Q for more information regarding our New Credit Agreement, which is incorporated herein by reference.

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, 2014 was \$167.6 million, of which \$18.7 million is classified as a current liability within accounts payable and accrued expenses in the Condensed Consolidated Balance Sheets.

On October 30, 2014, we announced that our board of directors had authorized the repurchase of up to \$600.0 million of shares of our common stock in addition to our existing share repurchase program. We intend to utilize various methods to effect the additional share repurchases, including, among others, open market purchases, which are expected to commence in the near term, as well as an accelerated share repurchase program. The amount and timing of repurchases will depend upon several factors, including general economic and market conditions and trading restrictions.

We anticipate that funds generated from operations, together with our current cash on hand and funds available under our New Credit Agreement, 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.

### **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.



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

Our Line of Credit was and our New Credit Agreement is subject to market risk and interest rate changes. The outstanding principal balance on our Line of Credit was \$287.5 million at September 30, 2014. Considering this total outstanding balance, a 1.0% change in interest rates would result in an impact to income before taxes of approximately \$2.9 million per year. See Item 5. of Part II of this Quarterly Report on Form 10-Q for more information regarding our New Credit Agreement.

### **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, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

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

### 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, 2014, 18,282 shares of our common stock were withheld to satisfy minimum statutory tax withholding obligations in connection with the vesting of restricted stock units. During the three months ended September 30, 2014, we did not repurchase any shares of our common stock under the share repurchase program that was approved by our board of directors in July 2013.

On October 30, 2014, we announced that our board of directors had authorized the repurchase of up to \$600.0 million of shares of our common stock in addition to our existing share repurchase program. We intend to utilize various methods to effect the additional share repurchases, including, among others, open market purchases, which are expected to commence in the near term, as well as an accelerated share repurchase program. The amount and timing of repurchases will depend upon several factors, including general economic and market conditions and trading restrictions.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as part of a Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Repurchase Program
July 1 July 31, 2014	18,282	\$ 58.18		(a)
August 1 August 31, 2014		\$		(a)
September 1 September 30, 2014		\$		(a)
Total	18,282	\$ 58.18		(a)

- (a) The repurchase program approved by our board of directors in July 2013 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 2.0 million shares per year.

### **Item 5. Other Information**

On October 29, 2014, the Company entered into a New Credit Agreement, which replaces the Company's Line of Credit. The New Credit Agreement provides for a \$1.3 billion unsecured revolving credit facility and a \$200 million term loan and includes a \$75 million sub-facility for swingline loans and a \$37.5 million sub-facility for the issuance of letters of credit. The Company may increase the credit facility to up to \$1.8 billion on an unsecured basis, subject to the satisfaction of specified conditions. The new credit facility matures on October 29, 2019 and is guaranteed by substantially all of the Company's subsidiaries and affiliated professional associations and corporations. At the Company's option, borrowings under the New Credit Agreement (other than swingline loans) will bear interest at (i) the alternate base rate (defined as the higher of (a) the prime rate, (b) the Federal Funds Rate plus 1/2 of 1.00% and (c) LIBOR for an interest period of one month plus 1.00%) plus an applicable margin rate ranging from 0.125% to 0.750% based on the Company's consolidated leverage ratio or (ii) the LIBOR rate plus an applicable margin rate ranging from 1.125% to 1.750% based on the Company's consolidated leverage ratio. Swingline loans will bear interest at the alternate base rate plus the applicable margin. The New Credit Agreement also calls for other customary fees and charges, including an unused commitment fee ranging from 0.150% to 0.300% of the unused lending commitments, based on the Company's consolidated leverage ratio.

The New Credit Agreement contains customary covenants and restrictions, including covenants that require the Company to maintain a minimum interest charge ratio, not to exceed a specified consolidated leverage ratio and to comply with laws, and restrictions on the ability of the Company to pay dividends and make certain other distributions, as specified therein. Failure to comply with these covenants would constitute an event of default under the New Credit Agreement, notwithstanding the ability of the Company to meet its debt service obligations. The New Credit Agreement also includes various customary remedies for the lenders following an event of default, including the acceleration of repayment of outstanding amounts under the New Credit Agreement.

The New Credit Agreement was provided by a syndicate of banks with JPMorgan Chase Bank, N.A. as Administrative Agent, Wells Fargo Bank, National Association, U.S. Bank National Association and Bank of America, N.A., as Co-Syndication Agents, and BBVA Compass, Citizens Bank, N.A., Fifth Third Bank, SunTrust Bank and The Bank of Tokyo-Mitsubishi UFJ, Ltd. as Co-Documentation Agents. J.P. Morgan Securities LLC, Wells Fargo Securities, LLC, U.S. Bank National Association and Merrill Lynch, Pierce, Fenner & Smith Incorporated acted as Joint Lead Arrangers and Joint Bookrunners.

The foregoing description of the New Credit Agreement is only a summary and is qualified in its entirety by reference to the full text of the New Credit Agreement, which is filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q and is incorporated herein by reference.

On October 30, 2014, we announced that our board of directors had authorized the repurchase of up to \$600.0 million of shares of our common stock in addition to our existing share repurchase program. We intend to utilize various methods to effect the additional share repurchases, including, among others, open market purchases, which are expected to commence in the near term, as well as an accelerated share repurchase program. The amount and timing of repurchases will depend upon several factors, including general economic and market conditions and trading restrictions.

### **Item 6. Exhibits**

See Exhibit Index.

**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 30, 2014

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

Date: October 30, 2014

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

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
10.1+	Credit Agreement, dated as of October 29, 2014, among MEDNAX, Inc., certain of its domestic subsidiaries from time to time party thereto as Guarantors, the Lender parties thereto, JPMorgan Chase Bank, N.A., as Administrative Agent and Wells Fargo Bank, National Association, U.S. Bank National Association and Bank of America, N.A. as Co-Syndication Agents and BBVA Compass, Citizens Bank, N.A., Fifth Third Bank, SunTrust Bank and The Bank of Tokyo-Mitsubishi UFJ, Ltd. as Co-Documentation Agents.
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.