

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 September 30,</b>		<b>Nine Months Ended 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 appr