

MEDNAX, INC.  
Form 10-Q  
November 03, 2010  
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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, 2010

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)

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**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 29, 2010, the registrant had outstanding 47,689,220 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)**

|   | September 30, 2010 | December 31, 2009 |
|---|--------------------|-------------------|
|   | (in thousands)     |                   |
| <b>ASSETS</b>   |                    |                   |
| Current assets:   |                    |                   |
| Cash and cash equivalents   | \$ 61,387          | \$ 26,503         |
| Short-term investments  | 14,220             | 5,380             |
| Accounts receivable, net  | 174,722            | 164,444           |
| Prepaid expenses  | 5,051              | 5,102             |
| Income taxes receivable   |                    | 5,704             |
| Deferred income taxes   | 72,995             | 72,434            |
| Other assets  | 5,602              | 13,098            |
| Total current assets  | 333,977            | 292,665           |
| Investments   | 29,473             | 28,491            |
| Property and equipment, net   | 44,043             | 43,272            |
| Goodwill  | 1,340,473          | 1,270,137         |
| Other assets, net   | 53,033             | 54,785            |
| Total assets  | \$ 1,800,999       | \$ 1,689,350      |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>  |                    |                   |
| Current liabilities:  |                    |                   |
| Accounts payable and accrued expenses   | \$ 299,245         | \$ 346,470        |
| Current portion of long-term debt and capital lease obligations   | 158                | 234               |
| Income taxes payable  | 11,839             |                   |
| Total current liabilities   | 311,242            | 346,704           |
| Line of credit  |                    | 50,000            |
| Long-term debt and capital lease obligations  | 84                 | 209               |
| Deferred income taxes   | 66,247             | 59,454            |
| Other liabilities   | 50,105             | 42,885            |
| Total liabilities   | 427,678            | 499,252           |
| 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; 47,649 and 46,963 shares issued and outstanding, respectively | 476                | 470               |
| Additional paid-in capital  | 638,761            | 604,435           |

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|  |              |              |
|--|--------------|--------------|
| Retained earnings                          | 734,084      | 585,193      |
| Total shareholders' equity                 | 1,373,321    | 1,190,098    |
| Total liabilities and shareholders' equity | \$ 1,800,999 | \$ 1,689,350 |

*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</b> |                      | <b>Nine Months Ended</b> |                      |
|--|---------------------------|----------------------|--------------------------|----------------------|
|  | <b>September 30,</b>      | <b>September 30,</b> | <b>September 30,</b>     | <b>September 30,</b> |
|  | <b>2010</b>               | <b>2009</b>          | <b>2010</b>              | <b>2009</b>          |
| Net patient service revenue                    | \$ 351,058                | \$ 331,276           | \$ 1,033,079             | \$ 954,976           |
| Operating expenses:                            |                           |                      |                          |                      |
| Practice salaries and benefits                 | 211,884                   | 198,229              | 634,048                  | 583,993              |
| Practice supplies and other operating expenses | 13,980                    | 13,100               | 41,137                   | 38,539               |
| General and administrative expenses            | 37,499                    | 37,648               | 114,762                  | 110,593              |
| Depreciation and amortization                  | 6,321                     | 3,956                | 16,107                   | 12,106               |
| Total operating expenses                       | 269,684                   | 252,933              | 806,054                  | 745,231              |
| Income from operations                         | 81,374                    | 78,343               | 227,025                  | 209,745              |
| Investment income                              | 438                       | 430                  | 1,107                    | 1,300                |
| Interest expense                               | (481)                     | (570)                | (2,309)                  | (2,405)              |
| Income before income taxes                     | 81,331                    | 78,203               | 225,823                  | 208,640              |
| Income tax provision                           | 20,061                    | 30,069               | 76,932                   | 83,237               |
| Net income                                     | \$ 61,270                 | \$ 48,134            | \$ 148,891               | \$ 125,403           |
| Per common and common equivalent share data:   |                           |                      |                          |                      |
| Net income:                                    |                           |                      |                          |                      |
| Basic  | \$ 1.31                   | \$ 1.05              | \$ 3.20                  | \$ 2.76              |
| Diluted  | \$ 1.29                   | \$ 1.03              | \$ 3.14                  | \$ 2.71              |
| Weighted average shares:                       |                           |                      |                          |                      |
| Basic  | 46,788                    | 45,663               | 46,535                   | 45,460               |
| Diluted  | 47,482                    | 46,664               | 47,426                   | 46,279               |

*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 September 30,</b> |                  |
|--|--|------------------|
|  | <b>2010</b>                            | <b>2009</b>      |
| <b>Cash flows from operating activities:</b>   |  |                  |
| Net income   | \$ 148,891                             | \$ 125,403       |
| <b>Adjustments to reconcile net income to net cash provided from operating activities:</b> |  |                  |
| Depreciation and amortization  | 16,107                                 | 12,106           |
| Accretion of contingent consideration liabilities  | 717                                    | 94               |
| Stock-based compensation expense   | 19,099                                 | 17,886           |
| Deferred income taxes  | 6,232                                  | (1,764)          |
| <b>Changes in assets and liabilities:</b>  |  |                  |
| Accounts receivable  | (10,278)                               | (1,628)          |
| Prepaid expenses and other assets  | 3,632                                  | (1,229)          |
| Other assets   | (1,087)                                | 439              |
| Accounts payable and accrued expenses  | (45,410)                               | 13,033           |
| Income taxes payable   | 17,558                                 | 1,452            |
| Other liabilities  | 18                                     | 2,664            |
| <b>Net cash provided from operating activities</b>   | <b>155,479</b>                         | <b>168,456</b>   |
| <b>Cash flows from investing activities:</b>   |  |                  |
| Acquisition payments, net of cash acquired   | (64,136)                               | (103,371)        |
| Purchases of investments   | (21,422)                               | (19,601)         |
| Proceeds from sales or maturities of investments   | 11,600                                 | 18,065           |
| Purchases of property and equipment  | (10,054)                               | (10,861)         |
| <b>Net cash used in investing activities</b>   | <b>(84,012)</b>                        | <b>(115,768)</b> |
| <b>Cash flows from financing activities:</b>   |  |                  |
| Payments on line of credit   | (409,500)                              | (386,500)        |
| Borrowings on line of credit   | 359,500                                | 332,500          |
| Payment of contingent consideration liability  | (1,600)                                |                  |
| Payments on long-term debt and capital lease obligations                                   | (201)                                  | (245)            |
| Excess tax benefit from exercises of stock options and vesting of restricted stock         | 2,253                                  | 877              |
| Excess tax benefit related to resolution of income tax matters                             | 3,394                                  |                  |
| Proceeds from issuance of common stock   | 9,571                                  | 7,199            |
| <b>Net cash used in financing activities</b>   | <b>(36,583)</b>                        | <b>(46,169)</b>  |
| <b>Net increase in cash and cash equivalents</b>   | <b>34,884</b>                          | <b>6,519</b>     |
| Cash and cash equivalents at beginning of period   | 26,503                                 | 14,346           |
| <b>Cash and cash equivalents at end of period</b>  | <b>\$ 61,387</b>                       | <b>\$ 20,865</b> |

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*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, 2010**

**(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 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 presentation 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 ).

Reclassifications have been made to certain prior period financial statements to conform with the current quarter presentation.

**New Accounting Pronouncements**

Effective January 1, 2010, the Company adopted the provisions of new accounting guidance related to variable interest entities. The new guidance amended the consolidation accounting model and included new disclosure requirements for certain types of variable interest entities. The adoption of the new provisions did not have an impact on the Company s Condensed Consolidated Financial Statements.

In January 2010, the accounting guidance related to fair value measurements was amended. The amendment requires disclosure of transfers of assets and liabilities into and out of Level 1 and Level 2 of the fair value hierarchy, including the reasons and the timing of the transfers and disclosure of valuation techniques and inputs for assets and liabilities within Level 2 and Level 3 of the fair value hierarchy. Additionally, the guidance requires expanded disclosure about assets and liabilities within Level 3. The new guidance became effective for the Company on January 1, 2010, except for the new guidance related to the expanded Level 3 disclosure, which is effective for periods beginning after December 15, 2010. The Company did not have any transfers in or out of Level 1 and Level 2 fair value measurements during the nine months ended September 30, 2010; therefore, the adoption of the new guidance did not have any impact on the Company s Condensed Consolidated Financial Statements.

**2. Cash Equivalents and Investments:**

Certain cash equivalents carried by the Company are subject to the provisions of the accounting guidance for fair value measurements. Under this guidance, the Company is required to measure the fair value of its financial assets using a three-tier fair value hierarchy. Based on this hierarchy, the Company determined the fair value of its money market funds using quoted market prices, a Level 1 or an observable input as defined under the accounting guidance. As of September 30, 2010 and December 31, 2009, the Company s cash equivalents consisted entirely of money market funds with a fair value of \$10.6 million and \$20.2 million, respectively.

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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 two to five 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. Held-to-maturity securities are not subject to the requirements of the accounting guidance for fair value measurements.

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Investments held at September 30, 2010, and December 31, 2009, are summarized as follows (in thousands):

|                              | September 30, 2010 |           | December 31, 2009 |           |
|------------------------------|--------------------|-----------|-------------------|-----------|
|                              | Short-Term         | Long-Term | Short-Term        | Long-Term |
| Municipal debt securities    | \$ 13,000          | \$ 15,897 | \$ 4,880          | \$ 24,271 |
| Federal home loan securities | 500                | 13,576    | 500               | 3,500     |
| Certificates of deposit      | 720                |           |                   | 720       |
|                              | \$ 14,220          | \$ 29,473 | \$ 5,380          | \$ 28,491 |

**3. Fair Value of Financial Instruments:**

In accordance with the accounting guidance for fair value measurements and disclosures, the Company carries its money market funds and the cash surrender value of life insurance related to its deferred compensation arrangements at fair value. Under this guidance, the fair value of these instruments is determined using a three-tier fair value hierarchy. Based on this hierarchy, the Company determined the fair value of its money market funds and the cash surrender value of life insurance using quoted market prices, a Level 1 or an observable input as defined under the accounting guidance for fair value measurements. The investments underlying the cash surrender value of life insurance consist primarily of exchange-traded equity securities and mutual funds with quoted prices in active markets. At September 30, 2010, the Company's money market funds and the cash surrender value of life insurance had carrying amounts of \$10.6 million and \$11.8 million, respectively. At December 31, 2009, the Company's money market funds and the cash surrender value of life insurance had carrying amounts of \$20.2 million and \$10.7 million, respectively.

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 value of long-term investments, long-term debt and capital lease obligations approximates fair value.

**4. Accounts Receivable:**

Accounts receivable consists of the following (in thousands):

|  | September 30, 2010 | December 31, 2009 |
|--|--------------------|-------------------|
| Gross accounts receivable                                | \$ 564,912         | \$ 541,950        |
| Allowance for contractual adjustments and uncollectibles | (390,190)          | (377,506)         |
|  | \$ 174,722         | \$ 164,444        |

**5. Business Acquisitions:**

During the nine months ended September 30, 2010, the Company completed the acquisition of eight physician group practices for total consideration of \$63.7 million, consisting of \$54.7 million in cash and \$9.0 million of contingent consideration. In connection with these acquisitions, the Company recorded goodwill of \$60.9 million, other intangible assets consisting primarily of physician and hospital agreements of \$2.3 million and fixed assets of \$0.5 million. These acquisitions expand 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

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growth initiatives, as well as, operating and cost savings based upon the significant infrastructure it has developed.

The contingent consideration of \$9.0 million recorded during the nine months ended September 30, 2010 is related to an agreement to pay additional amounts based on the achievement of certain performance measures for up to five years ending after the acquisition date. The accrued contingent consideration related to this acquisition was recorded at acquisition-date fair value using the income approach with assumed discount rates ranging from 3.0% to 6.0% 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 this contingent consideration agreement is between \$0 and \$10.5 million.

During the nine months ended September 30, 2010, the Company paid approximately \$11.0 million for contingent consideration related to certain prior-period acquisitions, of which \$1.6 million was accrued as of December 31, 2009. The Company expects that approximately \$68.7 million of the \$70.3 million of goodwill recorded during the nine months ended September 30, 2010 will be deductible for tax purposes.

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The results of operations of the eight practices acquired during the nine months ended September 30, 2010 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 and the acquisitions completed during 2010 and 2009 as if the transactions had occurred at the beginning of the respective periods (in thousands, except for per share data):

|                             | Three Months Ended |                    | Nine Months Ended  |                    |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|
|                             | September 30, 2010 | September 30, 2009 | September 30, 2010 | September 30, 2009 |
| Net patient service revenue | \$ 351,248         | \$ 349,926         | \$ 1,040,511       | \$ 1,027,844       |
| Net income                  | \$ 61,290          | \$ 50,958          | \$ 150,673         | \$ 138,600         |
| Net income per share:       |                    |                    |                    |                    |
| Basic                       | \$ 1.31            | \$ 1.12            | \$ 3.24            | \$ 3.05            |
| Diluted                     | \$ 1.29            | \$ 1.09            | \$ 3.18            | \$ 2.99            |

The pro forma results do not necessarily represent results which would have occurred if the acquisitions had taken place at the beginning of the period, 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):

|                                      | September 30, 2010 | December 31, 2009 |
|--------------------------------------|--------------------|-------------------|
| Accounts payable                     | \$ 8,216           | \$ 11,199         |
| Accrued professional liability risks | 115,241            | 109,628           |
| Accrued salaries and bonuses         | 103,977            | 144,827           |
| Accrual for uncertain tax positions  | 29,736             | 40,859            |
| Accrued payroll taxes and benefits   | 26,564             | 22,600            |
| Other accrued expenses               | 15,511             | 17,357            |
|                                      | \$ 299,245         | \$ 346,470        |

The net decrease in accrued salaries and bonuses of \$40.8 million, from \$144.8 million at December 31, 2009 to \$104.0 million at September 30, 2010, is primarily due to the payment of performance-based incentive compensation during the first quarter of 2010, partially offset by performance-based incentive compensation accrued during the nine months ended September 30, 2010. A majority of the Company's payments for performance-based incentive compensation is paid annually in the first quarter of each year.

The accrual for uncertain tax positions, which represents the current portion of reserves for uncertain tax positions including interest and penalties, decreased by \$11.2 million, from \$40.9 million at December 31, 2009 to \$29.7 million at September 30, 2010, of which \$10.5 million relates to the resolution of certain income tax matters that were under review with taxing authorities. See Note 7 for more information on the Company's uncertain tax positions.

**Table of Contents****7. Income Taxes:**

As of September 30, 2010 and December 31, 2009, the Company's total liability for uncertain tax positions, excluding interest and penalties, was \$41.3 million and \$49.4 million, respectively. The following table summarizes the activity related to the Company's gross unrecognized tax benefits for the nine months ended September 30, 2010 (in thousands):

|   | <b>Nine Months<br/>Ended<br/>September 30,<br/>2010</b> |
|---|---|
| Balance at December 31, 2009                    | \$ 49,416   |
| Increases related to prior year tax positions   | 374   |
| Decreases related to prior year tax positions   | (9,569)   |
| Increases related to current year tax positions | 1,696   |
| Settlements                                     | (605)   |
| Balance at September 30, 2010                   | \$ 41,312   |

During the third quarter of 2010, the Company reached a resolution with taxing authorities on certain income tax matters that were under review. In connection with this resolution, the Company recorded a reduction in reserves for uncertain tax positions of \$9.6 million, excluding interest of \$4.7 million and also recorded a reduction in its income tax provision of \$10.9 million. In addition, the resolution resulted in an increase in additional paid-in capital of \$3.4 million for excess tax benefits related to stock-based awards, which increased the Company's cash flow from financing activities.

The Company's effective income tax rate was 24.7% and 34.1% for the three and nine months ended September 30, 2010, as compared to 38.4% and 39.9% for the same periods in 2009. The net decrease in the Company's effective income tax rate in both periods was primarily related to the \$10.9 million reduction in its income tax provision resulting from the resolution of certain matters that were under review with taxing authorities.

The Company anticipates that it is reasonably possible that approximately \$29.5 million of the liability for uncertain tax positions related to certain temporary differences could be reclassified to deferred taxes payable over the next 12 months. In addition, the Company's liability for uncertain tax positions could be increased over the next 12 months by approximately \$1.0 million, excluding accrued interest.

**8. 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 calculates 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, 2010 and 2009 is as follows (in thousands):

| <b>Three Months<br/>Ended<br/>September 30,</b> | <b>Nine Months Ended<br/>September 30,</b> |
|---|--|
|---|--|

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|   | 2010   | 2009   | 2010   | 2009   |
|---|--------|--------|--------|--------|
| Weighted average number of common shares outstanding                                | 46,788 | 45,663 | 46,535 | 45,460 |
| Weighted average number of dilutive common share equivalents                        | 694    | 1,001  | 891    | 819    |
| Weighted average number of common and common equivalent shares outstanding          | 47,482 | 46,664 | 47,426 | 46,279 |
| Antidilutive securities not included in the dilutive earnings per share calculation | 1,382  | 1,400  | 737    | 2,530  |

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**Table of Contents****9. Stock Incentive Plans and Stock Purchase Plans:**

The terms of the Company's 2008 Incentive Compensation Plan (the "2008 Incentive Plan") provide 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. Under the 2008 Incentive Plan, a total of six million shares were available for the granting of awards, inclusive of the number of shares remaining available for grant under the 2004 Incentive Plan as of May 23, 2008. 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. 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 on a cliff basis over a term of five years upon the fulfillment of specified service-based and performance-based conditions. The Company recognizes compensation expense related to its restricted stock and deferred stock awards ratably over the corresponding vesting periods. During the nine months ended September 30, 2010, the Company granted 436,756 shares of restricted stock and 60,747 stock options to its employees under the Stock Incentive Plans. At September 30, 2010, the Company had approximately 2.2 million shares available for future grants and awards under the Stock Incentive Plans.

In September 2008, the Company's shareholders approved an amendment to the Company's 1996 Non-Qualified Employee Stock Purchase Plan (the "Non-Qualified Plan") to increase the number of shares issuable under the Non-Qualified Plan from 1.5 million to 2.5 million shares. The approved amendment also expanded participation in the Non-Qualified Plan to all employees who formerly participated in the 1996 Qualified Employee Stock Purchase Plan, which was terminated in August 2008. Under 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, 2010, 96,904 shares were issued under the Non-Qualified Plan. At September 30, 2010, the Company had approximately 705,000 shares reserved for issuance under the Non-Qualified Plan.

During the three and nine months ended September 30, 2010 and 2009, the Company recognized approximately \$6.7 million and \$19.1 million, and \$6.5 million and \$17.9 million, respectively, of stock-based compensation expense related to the Stock Incentive Plans and the Non-Qualified Plan. The excess tax benefit recognized in additional paid-in capital related to the exercise of stock options and the vesting of restricted stock for the three and nine months ended September 30, 2010 was approximately \$0.1 million and \$2.3 million, respectively.

**10. Commitments and Contingencies:**

In July 2007, the Audit Committee of the Company's Board of Directors concluded a comprehensive review of the Company's historical practices related to the granting of stock options. In connection with the review, the Company had discussions with the U.S. Attorney's office for the Southern District of Florida concerning the matters covered by the review and, in response to a subpoena received in December 2007, provided the office with various documents and information related to the Company's stock option granting practices. Although the Company intends to continue full cooperation with the U.S. Attorney's office, it cannot predict the outcome of this matter.

In September 2006, the Company entered into a settlement agreement with the Department of Justice and a relator who initiated a *qui tam* complaint against the Company relating to its billing practices for services provided from January 1996 through December 1999 that were reimbursed by Medicaid, the Federal Employees Health Benefit program, and the United States Department of Defense's TRICARE program for military dependents and retirees ("Settlement Agreement"). As part of the Settlement Agreement, the Company is under a five-year Corporate Integrity Agreement with the Office of Inspector General of the Department of Health and Human Services (the "OIG"). The Corporate Integrity Agreement acknowledges the existence of the Company's comprehensive Compliance Plan, which provides for policies and procedures aimed at promoting the Company's adherence with FHC Program requirements and requires the Company to maintain the Compliance Plan in full operation for the term of the Corporate Integrity Agreement. In addition, the Corporate Integrity Agreement requires, among other things, that the Company must comply with the following integrity obligations during the term of the Corporate Integrity Agreement:



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maintaining a Chief Compliance Officer and Compliance Committee to administer compliance with FHC Program requirements, the Compliance Plan and the Corporate Integrity Agreement;

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maintaining the Code of Conduct for the Company's officers, directors, employees, contractors, subcontractors, agents, or other persons who provide patient care items or services (the "Covered Persons");

maintaining the written policies and procedures regarding the operation of the Compliance Plan and the Company's compliance with FHC Program requirements;

providing general compliance training to the Covered Persons as well as specific training to the Covered Persons who perform coding functions relating to claims for reimbursement from any FHC Program;

engaging an independent review organization to perform annual reviews of samples of claims from multiple hospital units to assist the Company in assessing and evaluating its coding, billing, and claims-submission practices;

maintaining the Disclosure Program that includes a mechanism to enable individuals to confidentially disclose issues or questions believed by the individual to be a potential violation of criminal, civil, or administrative laws;

not hiring or, if employed, removing from the Company's business operations which are related to or compensated, in whole or part, by FHC Programs, persons (i) convicted of a criminal offense related to the provision of healthcare items or services or (ii) ineligible to participate in FHC Programs or Federal procurement or non-procurement programs;

notifying the OIG of (i) new investigations or legal proceedings by a governmental entity or its agents involving an allegation that the Company has committed a crime or has engaged in fraudulent activities, (ii) matters that a reasonable person would consider a probable violation of criminal, civil or administrative laws applicable to any FHC Program for which penalties or exclusion may be imposed, and (iii) the purchase, sale, closure, establishment, or relocation of any facility furnishing items or services that are reimbursed under FHC Programs;

reporting and returning overpayments received from FHC Programs;

submitting reports to the OIG regarding the Company's compliance with the Corporate Integrity Agreement; and

maintaining for inspection, for a period of six years from the effective date, all documents and records relating to reimbursement from the FHC Programs and compliance with the Corporate Integrity Agreement.

Failure to comply with the Company's duties under the Corporate Integrity Agreement could result in substantial monetary penalties and in the case of a material breach, could even result in the Company being excluded from participating in FHC Programs. Management believes that the Company was in compliance with the Corporate Integrity Agreement as of September 30, 2010.

The Company expects that additional audits, inquiries and investigations from government authorities and agencies will continue to 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.

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

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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.

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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.

**11. Subsequent Events:**

Since September 30, 2010, the Company completed the acquisition of two anesthesiology physician practices. Total consideration paid for these practices was \$244.0 million using cash on hand and proceeds from the Company's revolving credit facility. The allocation of the purchase price for each acquisition will be based on the fair value of assets acquired and liabilities assumed as of the dates the acquisitions were completed. A majority of the purchase price of each acquisition will be allocated to goodwill.

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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" and "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**

In March 2010, the Patient Protection and Affordable Care Act, as amended by a subsequent reconciliation bill (as amended, the "Healthcare Reform Act"), was enacted. The Healthcare Reform 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 incentives for businesses to provide healthcare benefits. Other provisions contain changes to healthcare fraud and abuse laws and expand the scope of the Federal False Claims Act.

The Healthcare Reform 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 by providers organized as accountable care organizations under the Medicare program.

The Healthcare Reform Act, however, did not address the mechanism by which physician fees are set under Medicare. A scheduled Medicare fee reduction of approximately 21% became effective June 1, 2010. However, on June 25, 2010 Congress temporarily reversed the reduction, retroactive to June 1, 2010, and raised the Medicare fee by approximately 2%. If Congress does not take further action, the Medicare fee schedule will be reduced by approximately 23% effective December 1, 2010.

Healthcare is an area of rapid regulatory change. Changes in the laws and regulations and new interpretations of existing laws and regulations may further affect reimbursement amounts paid by federal, state and other third-party payors. We cannot predict with any assurance the ultimate effect of the Healthcare Reform Act on our Company, nor can we provide any assurance that its provisions will not have a material adverse effect on our business, results of operations, financial condition or cash flows.

The United States continues to experience an economic slowdown. As a result of the slowdown, the number of unemployed workers remains significant, and the capital and credit markets continue to be impacted. During the first nine months of 2010, our business continued to be affected by a shift toward government-sponsored programs. There could be additional shifts toward government-sponsored programs and declines in patient volumes if economic conditions in the United States do not improve or deteriorate further. Payments received from government-sponsored programs are substantially less than payments received from commercial payors for equivalent services. As a consequence of the economic slowdown, many states continue to experience lower than anticipated revenue and continue to face significant budget shortfalls. These shortfalls could lead to reduced or delayed funding for state Medicaid programs and, in turn, reduced or delayed reimbursement for physician services.

During the nine months ended September 30, 2010, we completed the acquisition of eight physician group practices consisting of six neonatology practices, one maternal-fetal medicine practice and one pediatric cardiology practice. During the nine months ended September 30, 2009, we completed the acquisition of eight physician practices consisting of five neonatology practices, one multi-state pediatric subspecialty group, one maternal-fetal practice and one pediatric cardiology 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, 2010 and 2009 include the results of operations for these physician group practices from their respective dates of acquisition and therefore are not comparable in some respects.

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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.

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**Table of Contents****Results of Operations***Three Months Ended September 30, 2010 as Compared to Three Months Ended September 30, 2009*

Our net patient service revenue increased \$19.8 million, or 6.0%, to \$351.1 million for the three months ended September 30, 2010, as compared to \$331.3 million for the same period in 2009. Of this \$19.8 million increase, \$17.2 million, or 86.9%, was attributable to revenue generated from acquisitions completed after June 30, 2009. Same-unit net patient service revenue increased \$2.6 million, or 0.8%, for the three months ended September 30, 2010. The change in same-unit net patient service revenue was the result of a net increase in revenue of approximately \$2.4 million, or 0.7%, related to pricing and reimbursement factors and a net increase of \$0.2 million, or 0.1%, from higher overall patient service volumes across our specialties. The net increase in revenue of \$2.4 million related to pricing and reimbursement factors was primarily due to improved managed care contracting and the flow through of revenue from modest price increases, partially offset by a decrease in revenue caused by an increase in the percentage of our patients being enrolled in government-sponsored programs. Payments received from government-sponsored programs are substantially less than payments received from commercial insurance payors for equivalent services. The net increase in revenue of \$0.2 million from higher patient service volumes includes a decrease of \$1.1 million from a 0.6% decline in neonatal intensive care unit patient days and a net increase of \$1.3 million primarily from volume growth in our anesthesiology and pediatric cardiology services, partially offset by volume declines in our maternal-fetal medicine subspecialty. 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 \$13.7 million, or 6.9%, to \$211.9 million for the three months ended September 30, 2010, as compared to \$198.2 million for the same period in 2009. This \$13.7 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, slightly offset by a decrease in incentive compensation based on physician-practice operational results.

Practice supplies and other operating expenses increased \$0.9 million, or 6.7%, to \$14.0 million for the three months ended September 30, 2010, as compared to \$13.1 million for the same period in 2009. The increase was attributable to practice supply and other costs of \$0.7 million related to hospital-based and hearing screen program acquisitions and rent, medical supply and other costs of \$0.4 million related to our office-based acquisitions, partially offset by a decrease of \$0.2 million in practice supply and other costs 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 decreased \$0.1 million, or 0.4%, to \$37.5 million for the three months ended September 30, 2010, as compared to \$37.6 million for the same period in 2009. General and administrative expenses as a percentage of net patient service revenue decreased to 10.7% for the three months ended September 30, 2010, as compared to 11.4% for the three months ended September 30, 2009, due to continued administrative efficiencies including the integration of billing services related to our anesthesiology practices.

Depreciation and amortization expense increased by \$2.3 million, or 59.8%, to \$6.3 million for the three months ended September 30, 2010, as compared to \$4.0 million for the same period in 2009. Amortization expense for the three months ended September 30, 2010 includes approximately \$1.2 million of accelerated amortization related to the termination of a hospital contract associated with a prior acquisition. The remaining increase was primarily attributable to the amortization of intangible assets related to acquisitions and the depreciation of fixed asset additions.

Income from operations increased \$3.0 million, or 3.9%, to \$81.4 million for the three months ended September 30, 2010, as compared to \$78.3 million for the same period in 2009. Our operating margin decreased to 23.2% for the three months ended September 30, 2010, as compared to 23.7% for the same period in 2009. This decrease of 47 basis points was primarily due to lower growth in same-unit net patient service revenue and an increase in amortization expense, partially offset by administrative expense management.

We recorded net interest expense of \$43,000 for the three months ended September 30, 2010, as compared to \$140,000 for the same period in 2009. The decrease in net interest expense was primarily due to lower average borrowings under our \$350 million revolving credit facility ( Line of Credit ), partially offset by accretion related to our contingent consideration liabilities. Interest expense for the three months ended September 30, 2010 and 2009, consisted primarily of accretion expense and interest charges, commitment fees and amortized debt costs associated with our Line of Credit.

Our effective income tax rate was 24.7% for the three months ended September 30, 2010, as compared to 38.4% for the same period in 2009. The net decrease in our effective income tax rate was primarily related to a \$10.9 million reduction in our income tax provision resulting from

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the resolution of certain matters that were under review with taxing authorities. Excluding the favorable impact of the tax matters resolution, our effective income tax rate was 38.1% for the three months ended September 30, 2010. We believe that excluding the favorable impact from the tax matters resolution provides a more comparable effective income tax rate.



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Net income increased by 27.3% to \$61.3 million for the three months ended September 30, 2010, as compared to \$48.1 million for the same period in 2009.

Diluted net income per common and common equivalent share was \$1.29 on weighted average shares outstanding of 47.5 million for the three months ended September 30, 2010, as compared to \$1.03 on weighted average shares outstanding of 46.7 million for the same period in 2009.

***Nine Months Ended September 30, 2010 as Compared to Nine Months Ended September 30, 2009***

Our net patient service revenue increased \$78.1 million, or 8.2%, to \$1.03 billion for the nine months ended September 30, 2010, as compared to \$955.0 million for the same period in 2009. Of this \$78.1 million increase, \$61.6 million, or 78.9%, was attributable to revenue generated from acquisitions completed after December 31, 2008. Same-unit net patient service revenue increased \$16.6 million, or 1.8%, for the nine months ended September 30, 2010. The change in same-unit net patient service revenue was the net result of increased revenue of approximately \$18.4 million, or 2.0%, related to pricing and reimbursement factors, partially offset by a net decrease of \$1.8 million, or 0.2%, from lower overall patient service volumes across our specialties. The net increase in revenue of \$18.4 million related to pricing and reimbursement factors was primarily due to improved managed care contracting and the flow through of revenue from modest price increases partially offset by a decrease in revenue caused by an increase in the percentage of our patients being enrolled in government-sponsored programs. Payments received from government-sponsored programs are substantially less than payments received from commercial insurance payors for equivalent services. The net decrease in revenue of \$1.8 million from lower patient service volumes includes a decrease of \$2.1 million from a 0.4% decline in neonatal intensive care unit patient days and a decrease of \$2.5 million from volume declines in our maternal-fetal medicine subspecialty and other services, partially offset by an increase of \$2.8 million from volume growth in our pediatric cardiology and anesthesiology services. 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 \$50.0 million, or 8.6%, to \$634.0 million for the nine months ended September 30, 2010, as compared to \$584.0 million for the same period in 2009. This \$50.0 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 slightly offset by a decrease in incentive compensation based on physician-practice operational results.

Practice supplies and other operating expenses increased \$2.6 million, or 6.7%, to \$41.1 million for the nine months ended September 30, 2010, as compared to \$38.5 million for the same period in 2009. The increase was attributable to practice supply and other costs of \$1.7 million related to hospital-based and hearing screen program acquisitions and rent, medical supply and other costs of \$1.0 million related to our office-based acquisitions, partially offset by a decrease of \$0.1 million in practice supply and other costs 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 \$4.2 million, or 3.8%, to \$114.8 million for the nine months ended September 30, 2010, as compared to \$110.6 million for the same period in 2009. This increase of \$4.2 million is attributable to salaries, benefits and other general and administrative costs related to the overall growth of the Company. General and administrative expenses as a percentage of net patient service revenue decreased to 11.1% for the nine months ended September 30, 2010 from 11.6% for the nine months ended September 30, 2009. General and administrative expense growth was at a rate considerably slower than the rate of revenue growth primarily due to administrative efficiencies including the integration of billing services related to our anesthesiology practices.

Depreciation and amortization expense increased by \$4.0 million, or 33.0%, to \$16.1 million for the nine months ended September 30, 2010, as compared to \$12.1 million for the same period in 2009. Amortization expense for the nine months ended September 30, 2010 includes approximately \$1.2 million of accelerated amortization related to the termination of a hospital contract associated with a prior acquisition. The remaining increase was primarily attributable to the amortization of intangible assets related to acquisitions and the depreciation of fixed asset additions.

Income from operations increased \$17.3 million, or 8.2%, to \$227.0 million for the nine months ended September 30, 2010, as compared to \$209.7 million for the same period in 2009. Our operating margin was 22.0% for the nine months ended September 30, 2010 and 2009.

We recorded net interest expense of \$1.2 million for the nine months ended September 30, 2010, as compared to \$1.1 million for the same period in 2009. The increase in net interest expense was primarily due to accretion related to our contingent consideration liabilities combined with a lower rate of return on our investments, almost entirely offset by a decrease in interest expense due to lower average borrowings under our Line of Credit. Interest expense for the nine months ended September 30, 2010 and 2009, consisted primarily of interest charges,

commitment fees and amortized debt costs associated with our Line of Credit and accretion expense.

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Our effective income tax rate was 34.1% for the nine months ended September 30, 2010, as compared to 39.9% for the same period in 2009. The net decrease in our effective income tax rate is primarily related to a \$10.9 million reduction in our income tax provision resulting from the resolution of certain matters that were under review with taxing authorities. In addition, the rate for the nine months ended September 30, 2009 was increased by approximately 0.7% from the net impact of the recognition of a non-deductible loss and a net decrease in reserve requirements related to uncertain tax positions. Excluding the favorable impact of the tax matters resolution, our effective income tax rate was 38.9% for the nine months ended September 30, 2010. We believe that excluding the favorable impact from the tax matters resolution provides a more comparable effective income tax rate.

Net income increased by 18.7% to \$148.9 million for the nine months ended September 30, 2010, as compared to \$125.4 million for the same period in 2009.

Diluted net income per common and common equivalent share was \$3.14 on weighted average shares outstanding of 47.4 million for the nine months ended September 30, 2010, as compared to \$2.71 on weighted average shares outstanding of 46.3 million for the same period in 2009.

## **Liquidity and Capital Resources**

As of September 30, 2010, we had \$61.4 million of cash and cash equivalents on hand as compared to \$26.5 million at December 31, 2009. In addition, we had working capital of \$22.7 million at September 30, 2010, an increase of \$76.7 million from a working capital deficit of \$54.0 million at December 31, 2009. 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, partially offset by the use of funds for practice acquisition payments and payments on our Line of Credit.

Our net cash provided from operating activities was \$155.5 million for the nine months ended September 30, 2010, as compared to net cash provided from operating activities of \$168.5 million for the same period in 2009. This \$13.0 million net decrease in our cash flow provided from operating activities for the nine months ended September 30, 2010 is primarily due to: (i) a net decrease in cash flow from operations related to changes in the components of our accounts payable and accrued expenses, consisting primarily of changes in our accrued incentive compensation liability; and (ii) a reduction in cash flow from operations related to higher accounts receivable balances from higher net patient service revenue recorded during the nine months ended September 30, 2010; partially offset by (iii) a net improvement in cash flow related to changes in our income tax liabilities, resulting primarily from lower estimated tax payments and (iv) improved operating results.

During the nine months ended September 30, 2010, accounts receivable increased by \$10.3 million, as compared to an increase of \$1.6 million for the same period in 2009. The net increase in accounts receivable for the nine months ended September 30, 2010 is primarily due to higher net patient service revenue recorded during the period.

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 45.8 days at September 30, 2010 as compared to 45.4 days at December 31, 2009.

During the nine months ended September 30, 2010, cash used in operating activities related to accounts payable and accrued expenses was \$45.4 million, compared to cash provided from operating activities of \$13.1 million for the same period in 2009. The net increase in cash used of \$58.5 million related to the components of our accounts payable and accrued expenses is primarily due to (i) an increase in our annual payments due under our performance-based incentive compensation program of which a majority of our payments are paid annually in the first quarter of each year; (ii) a decrease in our accruals for performance-based incentive compensation; (iii) an increase in claim payments made under our professional liability insurance policies; and (iv) a decrease in reserves for uncertain tax positions resulting from the resolution of certain matters that were under review with taxing authorities.



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During the nine months ended September 30, 2010, our net cash used in investing activities of \$84.0 million included physician practice acquisition payments and contingent purchase price payments of \$64.1 million, capital expenditures of \$10.1 million, and net purchases of \$9.8 million related to the purchase and maturity of investments. Our acquisition payments were primarily related to the purchase of six neonatal physician practices, one maternal-fetal medicine practice and one pediatric cardiology practice. Our capital expenditures were for medical equipment, software, leasehold improvements, computer and office equipment, furniture and fixtures and other improvements at our office-based practices and our corporate and regional offices.

During the nine months ended September 30, 2010, our net cash used in financing activities of \$36.6 million consisted primarily of net payments on our Line of Credit of \$50.0 million and a \$1.6 million payment of a contingent consideration liability, partially offset by \$9.6 million of proceeds from the exercise of employee stock options and the issuance of common stock under our stock purchase plans, \$3.4 million of excess tax benefits related to the resolution of income tax matters and \$2.3 million of excess tax benefits related to the exercise of employee stock options and vesting of restricted stock. Under the current accounting guidance for business combinations, payments of contingent consideration liabilities related to acquisitions completed after January 1, 2009 are presented as cash flows from financing activities. Payments of contingent consideration liabilities related to acquisitions completed prior to January 1, 2009 are presented as cash flows from investing activities.

Our \$350 million Line of Credit is guaranteed by substantially all of our subsidiaries and includes a \$50 million sub-facility for the issuance of letters of credit and a \$25 million sub-facility for swingline loans. In addition, our Line of Credit may be increased to \$400 million subject to the satisfaction of specified conditions. At our option, our Line of Credit (other than swingline loans) bears interest at (1) the alternate base rate, which is defined as the higher of (i) the Federal Funds Rate plus one half of 1.0% and (ii) the Wachovia Bank, N.A prime rate or (2) the LIBOR rate, plus, in either case, an applicable margin rate of up to 1.5% based on our consolidated leverage ratio. The Line of Credit is also subject to facility fees based on applicable rates defined in the agreement and the aggregate commitments, regardless of usage. Swingline loans bear interest at the alternate base rate plus the applicable margin. Our Line of Credit matures on September 3, 2013. We are subject to certain covenants and restrictions specified in our Line of Credit, including covenants that require us to maintain a minimum fixed charge coverage ratio and to not 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 our Line of Credit, notwithstanding our ability to meet our debt service obligations. Our Line of Credit includes various customary remedies for the lenders following an event of default.

At September 30, 2010, we had no outstanding principal balance on our Line of Credit. We had outstanding letters of credit associated with our professional liability insurance program of \$5.9 million which reduced the amount available on our Line of Credit to \$344.1 million at September 30, 2010. At September 30, 2010, 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. Based on our current expectations, we believe we will be in compliance with these covenants throughout 2010.

Since September 30, 2010, we acquired two physician practices using proceeds from our Line of Credit and cash on hand. As of the date of this filing, the principal balance outstanding on our Line of Credit was \$161.5 million, which represents borrowings to effect these acquisitions, partially offset by repayments.

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, 2010 was \$115.2 million.

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, 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. Forward-looking statements may include, but are not limited to, statements relating to our objectives, plans and strategies, and all statements (other than statements of historical facts) that address activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future are forward-looking statements. These statements are often characterized by terminology such as believe, hope, may, anticipate, should, intend, plan, will, expect, estimate, project, positioned, strategy and similar expressions and are based on 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 higher of (i) the Federal Funds Rate plus one half of 1.0% and (ii) the Wachovia Bank, N.A. prime rate or (2) the LIBOR rate, plus, in either case, an applicable margin rate of up to 1.5% based on our consolidated leverage ratio. There was no outstanding principal balance on our Line of Credit at September 30, 2010.

**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 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, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

In July 2007, the Audit Committee of our Board of Directors concluded a comprehensive review of our historical practices related to the granting of stock options. In connection with the review, we had discussions with the U.S. Attorney's office for the Southern District of Florida concerning the matters covered by the review and, in response to a subpoena received in December 2007, provided the office with various documents and information related to our stock option granting practices. Although we intend to continue full cooperation with the U.S. Attorney's office, we cannot predict the outcome of this matter.

In September 2006, we entered into a settlement agreement with the Department of Justice and a relator who initiated a qui tam complaint against us relating to our billing practices for services provided from January 1996 through December 1999 that were reimbursed by Medicaid, the Federal Employees Health Benefit program, and the United States Department of Defense's TRICARE program for military dependents and retirees (Settlement Agreement). As part of the Settlement Agreement, we are under a five-year Corporate Integrity Agreement with the OIG. The Corporate Integrity Agreement acknowledges the existence of our comprehensive Compliance Plan, which provides for policies and procedures aimed at promoting our adherence with FHC Program requirements and requires us to maintain the Compliance Plan in full operation for the term of the Corporate Integrity Agreement. In addition, the Corporate Integrity Agreement requires, among other things, that we must comply with the following integrity obligations during the term of the Corporate Integrity Agreement:

maintaining a Chief Compliance Officer and Compliance Committee to administer compliance with FHC Program requirements, the Compliance Plan and the Corporate Integrity Agreement;

maintaining the Code of Conduct for our officers, directors, employees, contractors, subcontractors, agents, or other persons who provide patient care items or services (the Covered Persons);

maintaining the written policies and procedures regarding the operation of the Compliance Plan and our compliance with FHC Program requirements;

providing general compliance training to the Covered Persons as well as specific training to the Covered Persons who perform coding functions relating to claims for reimbursement from any FHC Program;

engaging an independent review organization to perform annual reviews of samples of claims from multiple hospital units to assist us in assessing and evaluating its coding, billing, and claims-submission practices;

maintaining a Disclosure Program that includes a mechanism to enable individuals to confidentially disclose issues or questions believed by the individual to be a potential violation of criminal, civil, or administrative laws;

not hiring or, if employed, removing from our business operations which are related to or compensated, in whole or part, by FHC Programs, persons (i) convicted of a criminal offense related to the provision of healthcare items or services or (ii) ineligible to participate in FHC Programs or Federal procurement or non-procurement programs;



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notifying the OIG of (i) new investigations or legal proceedings by a governmental entity or its agents involving an allegation that we have committed a crime or have engaged in fraudulent activities, (ii) matters that a reasonable person would consider a probable violation of criminal, civil or administrative laws applicable to any FHC Program for which penalties or exclusion may be imposed, and (iii) the purchase, sale, closure, establishment, or relocation of any facility furnishing items or services that are reimbursed under FHC Programs;

reporting and returning overpayments received from FHC Programs;

submitting reports to the OIG regarding our compliance with the Corporate Integrity Agreement; and

maintaining for inspection, for a period of six years from the effective date, all documents and records relating to reimbursement from the FHC Programs and compliance with the Corporate Integrity Agreement.

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Failure to comply with our duties under the Corporate Integrity Agreement could result in substantial monetary penalties and in the case of a material breach, could even result in us being excluded from participating in FHC Programs. We believe that we were in compliance with the Corporate Integrity Agreement as of September 30, 2010.

We expect that additional audits, inquiries and investigations from government authorities and agencies will continue to 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, or the trading price of our common stock.

In the ordinary course of 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 which 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 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. With respect to professional liability risk, we generally self-insure a 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 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: November 2, 2010

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

(Principal Executive Officer)

Date: November 2, 2010

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.LAB++          | XBRL Taxonomy Extension Label Linkbase Document.   |
| 101.PRE++          | XBRL Taxonomy Extension Presentation Linkbase Document.  |

+ Filed herewith.

++ Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.