

MEDNAX, INC.
Form 10-Q
November 01, 2012
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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, 2012

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 26, 2012, the registrant had outstanding 49,825,938 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, 2012	December 31, 2011
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 66,124	\$ 18,596
Short-term investments	5,765	4,139
Accounts receivable, net	250,507	230,388
Prepaid expenses	5,149	6,305
Deferred income taxes	68,363	70,314
Other assets	6,898	7,531
Total current assets	402,806	337,273
Investments	40,501	44,991
Property and equipment, net	59,207	60,530
Goodwill	1,939,782	1,746,762
Other assets, net	90,673	83,092
Total assets	\$ 2,532,969	\$ 2,272,648
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 224,910	\$ 234,535
Current portion of long-term capital lease obligations	92	143
Income taxes payable	19,879	19,623
Total current liabilities	244,881	254,301
Line of credit	48,000	29,000
Long-term capital lease obligations	257	327
Long-term professional liabilities	123,692	109,629
Deferred income taxes	111,173	93,831
Other liabilities	55,857	54,544
Total liabilities	583,860	541,632
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; 49,795 and 48,933 shares issued and outstanding, respectively	498	489
Additional paid-in capital	767,926	724,646
Retained earnings	1,180,685	1,005,881

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Total shareholders' equity	1,949,109	1,731,016
Total liabilities and shareholders' equity	\$ 2,532,969	\$ 2,272,648

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)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net patient service revenue	\$ 473,134	\$ 407,665	\$ 1,345,280	\$ 1,183,350
Operating expenses:				
Practice salaries and benefits	292,030	246,687	840,242	725,873
Practice supplies and other operating expenses	17,606	16,718	52,547	48,061
General and administrative expenses	48,200	43,010	143,269	127,510
Depreciation and amortization	7,925	6,213	22,725	18,026
Total operating expenses	365,761	312,628	1,058,783	919,470
Income from operations	107,373	95,037	286,497	263,880
Investment income	422	337	1,215	991
Interest expense	(624)	(1,056)	(2,026)	(2,955)
Income before income taxes	107,171	94,318	285,686	261,916
Income tax provision	41,261	36,077	110,882	102,278
Net income	\$ 65,910	\$ 58,241	\$ 174,804	\$ 159,638
Per common and common equivalent share data:				
Net income:				
Basic	\$ 1.35	\$ 1.21	\$ 3.60	\$ 3.36
Diluted	\$ 1.32	\$ 1.19	\$ 3.53	\$ 3.28
Weighted average shares:				
Basic	48,938	47,990	48,569	47,564
Diluted	49,809	48,935	49,570	48,683

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)**

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 174,804	\$ 159,638
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	22,725	18,026
Accretion of contingent consideration liabilities	763	817
Stock-based compensation expense	20,441	20,037
Deferred income taxes	16,731	5,554
Changes in assets and liabilities:		
Accounts receivable	(20,119)	(25,665)
Prepaid expenses and other assets	1,789	(5,026)
Other assets	754	4,021
Accounts payable and accrued expenses	(14,699)	(13,182)
Income taxes payable	(158)	1,738
Long-term professional liabilities	14,063	11,907
Other liabilities	2,641	3,056
Net cash provided from operating activities	219,735	180,921
Cash flows from investing activities:		
Acquisition payments, net of cash acquired	(202,362)	(79,928)
Purchases of investments	(21,099)	(26,039)
Proceeds from maturities of investments	23,963	28,585
Purchases of property and equipment	(9,947)	(28,622)
Net cash used in investing activities	(209,445)	(106,004)
Cash flows from financing activities:		
Borrowings on line of credit	401,500	387,500
Payments on line of credit	(382,500)	(484,000)
Payment of contingent consideration liabilities	(4,903)	(3,700)
Payments on capital lease obligations	(121)	(413)
Excess tax benefit from exercises of stock options and vesting of restricted stock	4,435	6,886
Proceeds from issuance of common stock	18,827	28,308
Net cash provided from (used in) financing activities	37,238	(65,419)
Net increase in cash and cash equivalents	47,528	9,498
Cash and cash equivalents at beginning of period	18,596	26,251
Cash and cash equivalents at end of period	\$ 66,124	\$ 35,749

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, 2012

(Unaudited)

1. Basis of Presentation and New Accounting Pronouncements:

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

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

New Accounting Pronouncements

In May 2011, the accounting guidance related to fair value measurements was amended. The amendment provides guidance and clarification about the application of existing fair value measurements and disclosure requirements. The amendment became effective on January 1, 2012. The adoption of this guidance did not have a material impact on the Company s Condensed Consolidated Financial Statements.

In September 2011, the accounting guidance related to goodwill impairment testing was amended to allow a company to first assess qualitative factors to determine whether performing the current two-step process is necessary. Under this option, the calculation of a reporting unit s fair value is not required unless, as a result of the qualitative assessment, it is more likely than not that the fair value of the reporting unit is less than the unit s carrying amount. The amendment became effective on January 1, 2012. The adoption of this guidance did not have an impact on the Company s Condensed Consolidated Financial Statements.

2. Cash Equivalents and Investments:

As of September 30, 2012 and December 31, 2011, the Company s cash equivalents consisted entirely of money market funds with a fair value of \$16.3 million and \$11.6 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 six 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.

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Investments held at September 30, 2012 and December 31, 2011 are summarized as follows (in thousands):

	September 30, 2012		December 31, 2011	
	Short-Term	Long-Term	Short-Term	Long-Term
Municipal debt securities	\$ 5,765	\$ 25,454	\$ 4,139	\$ 26,964
Federal home loan securities		965		18,027
Certificates of deposit		14,082		
	\$ 5,765	\$ 40,501	\$ 4,139	\$ 44,991

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, 2012 and December 31, 2011, the Company's money market funds had a carrying amount of \$16.3 million and \$11.6 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, 2012 and December 31, 2011, the Company's cash surrender value of life insurance had a carrying amount of \$14.3 million and \$12.7 million, respectively.

In addition, the Company carries its contingent consideration liabilities related to acquisitions completed after January 1, 2009 at fair value. In accordance with the three-tier fair value hierarchy, the Company determined the fair value of its contingent consideration liabilities using the income approach with assumed discount rates and payment probabilities. The income approach uses Level 3, or unobservable inputs as defined under the accounting guidance for fair value measurements. At September 30, 2012 and December 31, 2011, the Company's contingent consideration liabilities related to acquisitions completed after January 1, 2009 had a fair value of \$36.1 million and \$32.4 million, respectively. See Note 5 for more information regarding the Company's contingent consideration liabilities recorded during the nine months ended September 30, 2012.

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

4. Accounts Receivable:

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

	September 30, 2012	December 31, 2011
Gross accounts receivable	\$ 878,181	\$ 806,418
Allowance for contractual adjustments and uncollectibles	(627,674)	(576,030)
	\$ 250,507	\$ 230,388

5. Business Acquisitions:

During the nine months ended September 30, 2012, the Company completed the acquisition of 10 physician group practices for total consideration of \$205.7 million, consisting of \$197.9 million in cash and \$7.8 million of contingent consideration. In connection with these acquisitions, the Company recorded goodwill of approximately \$189.8 million, other intangible assets consisting primarily of physician and hospital agreements of approximately \$17.9 million, fixed assets of approximately \$0.5 million and other liabilities of \$2.5 million. These acquisitions expanded the Company's national network of physician practices. The Company expects to improve the results of these physician practices through improved managed care contracting, improved collections, identification of growth initiatives, as well as, operating and cost savings based upon the significant infrastructure it has developed.

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The contingent consideration of \$7.8 million recorded during the nine months ended September 30, 2012 is related to agreements to pay additional cash amounts based on the achievement of certain performance measures for up to five years ending after the acquisition dates. The accrued contingent consideration for each acquisition was recorded as a liability at acquisition-date fair value using the income approach with assumed discount rates ranging from 3.0% to 5.0% over the applicable terms and an assumed payment probability of 100% for each of the applicable years. The range of the undiscounted amount the Company could pay under the contingent consideration agreement is between \$0 and \$8.5 million.

During the nine months ended September 30, 2012, the Company paid approximately \$9.4 million for contingent consideration related to certain prior-period acquisitions, of which \$6.2 million was accrued as of December 31, 2011. The Company expects that \$51.6 million of the \$193.0 million of goodwill recorded during the nine months ended September 30, 2012 will be deductible for tax purposes.

The results of operations of the practices acquired during the nine months ended September 30, 2012 and 2011 have been included in the Company's Condensed Consolidated Financial Statements from their respective dates of acquisition. The following unaudited pro forma information combines the consolidated results of operations of the Company on a GAAP basis and the acquisitions completed during 2012 and 2011 as if the transactions had occurred on January 1, 2011 and January 1, 2010, respectively (in thousands, except for per share data):

	Nine Months Ended	
	September 30,	
	2012	2011
Net patient service revenue	\$ 1,413,535	\$ 1,368,210
Net income ⁽¹⁾	\$ 184,384	\$ 181,623
Net income per share ⁽²⁾ :		
Basic	\$ 3.80	\$ 3.82
Diluted	\$ 3.72	\$ 3.73
Weighted average shares ⁽²⁾ :		
Basic	48,569	47,564
Diluted	49,570	48,683
Effective tax rate ⁽¹⁾ :	38.8%	39.0%

⁽¹⁾ The comparison of net income is affected by the change in the effective tax rate. The effective tax rate was 38.8% for the nine months ended September 30, 2012 as compared to 39.0% for the nine months ended September 30, 2011.

⁽²⁾ The comparison of net income per share is affected by the changes in the number of weighted average shares outstanding in each period. The basic and diluted weighted average shares outstanding for the nine months ended September 30, 2012 were 48.6 million and 49.6 million, respectively, as compared to 47.6 million and 48.7 million, respectively, for the nine months ended September 30, 2011.

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

Table of Contents**6. Accounts Payable and Accrued Expenses:**

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

	September 30, 2012	December 31, 2011
Accounts payable	\$ 9,970	\$ 12,264
Accrued salaries and bonuses	131,593	147,613
Accrued payroll taxes and benefits	37,488	29,443
Accrued contingent consideration	17,164	12,089
Accrued professional liabilities	13,821	13,218
Accrual for uncertain tax positions	3,242	3,242
Other accrued expenses	11,632	16,666
	\$ 224,910	\$ 234,535

The net decrease in accrued salaries and bonuses of \$16.0 million, from \$147.6 million at December 31, 2011 to \$131.6 million at September 30, 2012, is primarily due to the payment of performance-based incentive compensation, principally to the Company's physicians, partially offset by performance-based incentive compensation accrued during the nine months ended September 30, 2012. A majority of the Company's payments for performance-based incentive compensation is paid annually in the first quarter.

7. Common and Common Equivalent Shares:

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

The calculation of shares used in the basic and diluted net income per share calculation for the three and nine months ended September 30, 2012 and 2011 is as follows (in thousands):

	Three Months		Nine Months	
	Ended	Ended	Ended	Ended
	September 30,	September 30,	September 30,	September 30,
	2012	2011	2012	2011
Weighted average number of common shares outstanding	48,938	47,990	48,569	47,564
Weighted average number of dilutive common share equivalents	871	945	1,001	1,119
Weighted average number of common and common equivalent shares outstanding	49,809	48,935	49,570	48,683
Antidilutive securities not included in the dilutive earnings per share calculation	38	42	35	47

8. Stock Incentive Plans and Stock Purchase Plans:

On May 10 2012, the Company's shareholders approved the Amended and Restated 2008 Incentive Compensation Plan (the Amended and Restated 2008 Incentive Plan). The amendments increased the number of shares of common stock reserved for delivery under the Amended and Restated 2008 Incentive Plan as well as extended the expiration date to ten years from the effective date of approval. The Amended and Restated 2008 Incentive Plan provides for grants of stock options, stock appreciation rights, restricted stock, deferred stock, and other

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stock-related awards and performance awards that may be settled in cash, stock or other property. As provided in the Amended and Restated 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 Amended and Restated 2008 Incentive Plan, a total of 5,029,717 shares were available for the granting of awards as of May 10, 2012. Collectively, the Company's prior incentive plans and the Amended and Restated 2008 Incentive Plan are referred to as the Stock Incentive Plans.

Under the Amended and Restated 2008 Incentive Plan, options to purchase shares of common stock may be granted at a price not less than the fair market value of the shares on the date of grant. The options must be exercised within 10 years from the date of grant and generally become exercisable on a pro rata basis over a three-year period from the date of grant. The Company issues new shares of its common stock upon exercise of its stock options. Restricted stock awards generally vest over periods of three years upon the fulfillment of specified service-based conditions and in certain instances performance-based conditions. Deferred stock awards vest on a cliff basis over a term of five years upon the fulfillment of specified service-based and performance-based conditions or upon the satisfaction of specified performance-based conditions through December 31, 2018. The Company recognizes compensation expense related to its restricted stock and deferred stock awards ratably over the corresponding vesting periods. During the nine months ended September 30, 2012, the Company granted 450,059 shares of restricted stock to its employees and 14,625 shares of restricted stock to its non-employee directors under the Stock Incentive Plans. At September 30, 2012, the Company had approximately 4.2 million shares available for future grants and awards under its Stock Incentive Plans.

Under the Company's 1996 Non-Qualified Employee Stock Purchase Plan, as amended (the Non-Qualified Plan), employees are permitted to purchase the Company's common stock at 85% of market value on January 1st, April 1st, July 1st and October 1st of each year. During the nine months ended September 30, 2012, 101,425 shares were issued under the Non-Qualified Plan. At September 30, 2012, the Company had approximately 454,000 shares reserved for issuance under the Non-Qualified Plan.

During the three and nine months ended September 30, 2012 and 2011, the Company recognized approximately \$7.3 million and \$20.4 million, and \$6.8 million and \$20.0 million, respectively, of stock-based compensation expense related to the Stock Incentive Plans and the Non-Qualified Plan. The net excess tax benefit recognized in additional paid-in capital related to the exercise of stock options and the vesting of restricted stock for the nine months ended September 30, 2012 was approximately \$4.0 million.

9. Commitments and Contingencies:

The Company expects that audits, inquiries and investigations from government authorities and agencies will occur in the ordinary course of business. Such audits, inquiries and investigations and their ultimate resolutions, individually or in the aggregate, could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows and the trading price of its common stock. The Company has not included an accrual for these matters as of September 30, 2012 in its Condensed Consolidated Financial Statements, as the variables affecting any potential eventual liability depend on the currently unknown facts and circumstances that arise out of, and are specific to, any particular future audit, inquiry and investigation and cannot be reasonably estimated at this time.

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

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

Table of Contents**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

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

During the nine months ended September 30, 2012, we completed the acquisition of 10 physician group practices consisting of five anesthesiology practices, two pediatric cardiology practices, one neonatology practice, one maternal-fetal medicine practice and one other pediatric subspecialty practice. During the nine months ended September 30, 2011, we completed the acquisition of seven physician group practices consisting of three maternal-fetal medicine practices, one neonatology practice, one anesthesiology practice, one pediatric cardiology practice and one other pediatric subspecialty practice. Based on past results, we expect that we can improve the results of these practices through improved managed care contracting, improved collections, identification of growth initiatives, as well as operating and cost savings, based upon the significant infrastructure we have developed.

Our results of operations for the nine months ended September 30, 2012 and 2011 include the results of operations for these physician group practices from their respective dates of acquisition and therefore are not comparable in some respects.

The United States is continuing to be affected by unfavorable economic conditions, and the number of unemployed workers remains significant. During the nine months ended September 30, 2012, the percentage of our patient services being reimbursed under government-sponsored healthcare programs increased as compared to the same period in 2011. We could experience additional payor shifts to government-sponsored programs if economic conditions do not improve or if they deteriorate further. Payments received from government-sponsored programs are substantially less for equivalent services than payments received from commercial insurance payors. In addition, although certain states are expecting some revenue increases when compared to the past few years, 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.

In March 2010, the Patient Protection and Affordable Care Act, (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. Additionally, in May 2012, the Centers for Medicare & Medicaid Services published a proposed rule under the Healthcare Reform Act that certain physicians who provide eligible primary care services would generally be paid at Medicare rates in effect in calendar years 2013 and 2014 instead of state-established Medicaid rates. Generally, state Medicaid rates are lower than federally-established Medicare rates. We are currently evaluating the proposed rule, but we cannot predict with any assurance whether the rule will be adopted as proposed.

Many of the Healthcare Reform Act's most significant reforms do not take effect until 2014 and thereafter, and their details will be shaped significantly by additional regulations that have yet to be proposed. Moreover, enactment of the Healthcare Reform Act has been controversial and has prompted numerous legal challenges to its constitutionality. In June 2012, the Supreme Court upheld most of the Healthcare Reform Act; however, it remains unclear whether there will be any changes made to certain provisions of the Healthcare Reform Act through future acts of Congress or executive actions and implementations. As a result, we cannot predict with any assurance the ultimate effect of the Healthcare Reform Act and related regulations and interpretive legislation on our Company, nor can we provide any assurance that its provisions will not have a material adverse effect on our business, financial condition, results of operations or cash flows.

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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.

Results of Operations***Three Months Ended September 30, 2012 as Compared to Three Months Ended September 30, 2011***

Our net patient service revenue increased \$65.4 million, or 16.1%, to \$473.1 million for the three months ended September 30, 2012, as compared to \$407.7 million for the same period in 2011. Of this \$65.4 million increase, \$55.5 million, or 84.9%, was attributable to revenue generated from acquisitions completed after June 30, 2011. Same-unit net patient service revenue increased \$9.9 million, or 2.5%, for the three months ended September 30, 2012. The change in same-unit net patient service revenue was the result of an increase in revenue of \$7.5 million, or 1.9%, from higher overall patient service volumes and an increase of \$2.4 million, or 0.6%, related to net reimbursement-related factors. The increase in revenue of \$7.5 million from higher patient service volumes is related to growth in our hospital-based neonatal and other pediatric physician services, primarily newborn nursery services, as well as anesthesia services partially offset by declines in our office-based pediatric cardiology and maternal-fetal services. The increase in revenue of \$2.4 million related to net reimbursement-related factors was primarily due to continued modest improvements in managed care contracting, the flow through of revenue from moderate price increases and an increase in the administrative fees received from our hospital partners due to the expansion of our services resulting from internal growth, partially offset by a decrease in revenue caused by an increase in the percentage of our patients being enrolled in government-sponsored programs. 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 \$45.3 million, or 18.4%, to \$292.0 million for the three months ended September 30, 2012, as compared to \$246.7 million for the same period in 2011. This \$45.3 million increase was primarily attributable to increased costs associated with new physicians and other staff to support acquisition-related growth and growth at existing units, of which \$36.6 million was related to salaries and \$8.7 million was related to benefits and incentive compensation.

Practice supplies and other operating expenses increased \$0.9 million, or 5.3%, to \$17.6 million for the three months ended September 30, 2012, as compared to \$16.7 million for the same period in 2011. The increase was primarily attributable to rent, practice supply and other costs related to our acquisitions.

General and administrative expenses include all billing and collection functions and all other salaries, benefits, supplies and operating expenses not specifically related to the day-to-day operations of our physician group practices. General and administrative expenses increased \$5.2 million, or 12.1%, to \$48.2 million for the three months ended September 30, 2012, as compared to \$43.0 million for the same period in 2011. This increase of \$5.2 million is attributable to the overall growth of the Company including acquisition-related growth. General and administrative expenses as a percentage of net patient service revenue were 10.2% for the three months ended September 30, 2012, as compared to 10.6% for the three months ended September 30, 2011, and grew at a rate slower than the rate of revenue growth.

Depreciation and amortization expense increased \$1.7 million, or 27.6%, to \$7.9 million for the three months ended September 30, 2012, as compared to \$6.2 million for the same period in 2011. The increase was primarily attributable to the amortization of intangible assets related to acquisitions and the depreciation of fixed asset additions.

Income from operations increased \$12.4 million, or 13.0%, to \$107.4 million for the three months ended September 30, 2012, as compared to \$95.0 million for the same period in 2011. Our operating margin decreased to 22.7% for the three months ended September 30, 2012, as compared to 23.3% for the same period in 2011. This decrease of 62 basis points was primarily due to an increase in operating expenses during the three months ended September 30, 2012 as compared to the three months ended September 30, 2011, as well as the variability in margins due to the mix of practices acquired after June 30, 2011.

We recorded net interest expense of \$0.2 million for the three months ended September 30, 2012, as compared to \$0.7 million for the same period in 2011. The decrease in net interest expense was primarily due to market value increases in the investments underlying our deferred compensation arrangements and lower average borrowings under our \$500 million amended and restated revolving credit facility (Line of Credit) as well as a lower effective borrowing interest rate. Interest expense for the three months ended September 30, 2012 and 2011 consisted primarily of interest charges, commitment fees and amortized debt costs related to our Line of Credit and accretion expense.

Our effective income tax rate was 38.5% for the three months ended September 30, 2012, as compared to 38.3% for the same period in 2011.

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Net income increased by 13.2% to \$65.9 million for the three months ended September 30, 2012, as compared to \$58.2 million for the same period in 2011.

Diluted net income per common and common equivalent share was \$1.32 on weighted average shares outstanding of 49.8 million for the three months ended September 30, 2012, as compared to \$1.19 on weighted average shares outstanding of 48.9 million for the same period in 2011.

Nine Months Ended September 30, 2012 as Compared to Nine Months Ended September 30, 2011

Our net patient service revenue increased \$161.9 million, or 13.7%, to \$1.35 billion for the nine months ended September 30, 2012, as compared to \$1.18 billion for the same period in 2011. Of this \$161.9 million increase, \$125.1 million, or 77.3%, was attributable to revenue generated from acquisitions completed after December 31, 2010. Same-unit net patient service revenue increased \$36.8 million, or 3.2%, for the nine months ended September 30, 2012. The change in same-unit net patient service revenue was the result of an increase in revenue of \$21.7 million, or 1.9%, from higher overall patient service volumes and an increase of approximately \$15.1 million, or 1.3%, related to net reimbursement-related factors. The increase in revenue of \$21.7 million from higher patient service volumes is related to growth primarily in our hospital-based neonatal and anesthesia practices, as well as our other pediatric physician services, primarily newborn nursery services. The increase in revenue of \$15.1 million related to net reimbursement-related factors was primarily due to continued modest improvements in managed care contracting, an increase in the administrative fees received from our hospital partners due to the expansion of our services resulting from internal growth and the flow through of revenue from moderate 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. 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 \$114.3 million, or 15.8%, to \$840.2 million for the nine months ended September 30, 2012, as compared to \$725.9 million for the same period in 2011. This \$114.3 million increase was primarily attributable to increased costs associated with new physicians and other staff to support acquisition-related growth and growth at existing units, of which \$87.2 million was related to salaries and \$27.1 million was related to benefits and incentive compensation.

Practice supplies and other operating expenses increased \$4.4 million, or 9.3%, to \$52.5 million for the nine months ended September 30, 2012, as compared to \$48.1 million for the same period in 2011. The increase was attributable to practice supply and other costs of \$2.2 million related to anesthesiology, hospital-based and hearing screen program acquisitions and rent, medical supply and other costs of \$1.3 million related to our office-based acquisitions. In addition, practice supply and other costs at our existing units increased by \$0.9 million.

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 \$15.8 million, or 12.4%, to \$143.3 million for the nine months ended September 30, 2012, as compared to \$127.5 million for the same period in 2011. This increase of \$15.8 million is attributable to the overall growth of the Company, including acquisition-related growth. General and administrative expenses as a percentage of net patient service revenue was 10.7% for the nine months ended September 30, 2012, as compared to 10.8% for the nine months ended September 30, 2011, and grew at a rate slower than the rate of revenue growth.

Depreciation and amortization expense increased \$4.7 million, or 26.1%, to \$22.7 million for the nine months ended September 30, 2012, as compared to \$18.0 million for the same period in 2011. The increase was primarily attributable to the amortization of intangible assets related to acquisitions and the depreciation of fixed asset additions.

Income from operations increased \$22.6 million, or 8.6%, to \$286.5 million for the nine months ended September 30, 2012, as compared to \$263.9 million for the same period in 2011. Our operating margin decreased to 21.3% for the nine months ended September 30, 2012, as compared to 22.3% for the same period in 2011. This decrease of 100 basis points was primarily due to an increase in operating expenses during the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011, as well as the variability in margins due to the mix of practices acquired after December 31, 2010.

We recorded net interest expense of \$0.8 million for the nine months ended September 30, 2012, as compared to \$2.0 million for the same period in 2011. The decrease in net interest expense was primarily due to lower average borrowings under our Line of Credit as well as market value increases in the investments underlying our deferred compensation arrangements. Interest expense for the nine months ended September 30, 2012 and 2011, consisted primarily of interest charges, commitment fees and amortized debt costs related to our Line of Credit and accretion expense.

Our effective income tax rate was 38.8% for the nine months ended September 30, 2012, as compared to 39.0% for the same period in 2011.

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Net income increased by 9.5% to \$174.8 million for the nine months ended September 30, 2012, as compared to \$159.6 million for the same period in 2011.

Diluted net income per common and common equivalent share was \$3.53 on weighted average shares outstanding of 49.6 million for the nine months ended September 30, 2012, as compared to \$3.28 on weighted average shares outstanding of 48.7 million for the same period in 2011.

Liquidity and Capital Resources

As of September 30, 2012, we had \$66.1 million of cash and cash equivalents on hand as compared to \$18.6 million at December 31, 2011. In addition, we had working capital of \$157.9 million at September 30, 2012, an increase of \$74.9 million from working capital of \$83.0 million at December 31, 2011. This net increase in working capital is primarily due to year-to-date earnings, net borrowings on our Line of Credit 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 acquisitions and contingent purchase price payments.

Our net cash provided from operating activities was \$219.7 million for the nine months ended September 30, 2012, as compared to net cash provided from operating activities of \$180.9 million for the same period in 2011. This net improvement of \$38.8 million for the nine months ended September 30, 2012 is primarily due to: (i) improved operating results, (ii) a net increase in cash flow related to changes in our income tax accounts and (iii) a net increase in cash flow related to our accounts receivable, primarily due to improved cash collections at our existing units.

During the nine months ended September 30, 2012, accounts receivable increased by \$20.1 million, as compared to an increase of \$25.7 million for the same period in 2011. The net change in the increase of accounts receivable is due to improvements in cash collections at existing units, partially offset by increases in accounts receivable related to recent acquisitions.

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

Days sales outstanding (DSO) is one of the key factors that we use to evaluate the condition of our accounts receivable and the related allowances for contractual adjustments and uncollectibles. DSO reflects the timeliness of cash collections on billed revenue and the level of reserves on outstanding accounts receivable. Our DSO improved to 48.7 days at September 30, 2012 as compared to 52.3 days at December 31, 2011, primarily as a result of improvements in cash collections at existing units as well as the continued integration of our recent acquisitions.

During the nine months ended September 30, 2012, our net cash used in investing activities of \$209.4 million included physician practice acquisition payments and contingent purchase price payments of \$202.4 million and capital expenditures of \$9.9 million, partially offset by net proceeds of \$2.9 million related to the purchase and maturity of investments. Our acquisition payments were primarily related to the purchase of five anesthesiology practices, two pediatric cardiology practices, one neonatology practice, one maternal-fetal medicine practice and one other pediatric subspecialty practice. Our capital expenditures were for medical equipment, leasehold and other improvements, computer and office equipment, software and furniture and fixtures at our office-based practices and our corporate and regional offices. Under the current accounting guidance for business combinations, payments of contingent consideration liabilities related to acquisitions completed prior to January 1, 2009 are presented as cash flows from investing activities. Payments of contingent consideration liabilities related to acquisitions completed after January 1, 2009 are presented as cash flows from financing activities.

During the nine months ended September 30, 2012, our net cash provided from financing activities of \$37.2 million consisted primarily of net borrowings on our Line of Credit of \$19.0 million, proceeds from the exercise of employee stock options and the issuance of common stock under our stock purchase plans of \$18.8 million and excess tax benefits related to the vesting of restricted stock and the exercise of employee stock options of \$4.4 million, partially offset by the payment of \$4.9 million for contingent consideration liabilities. 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 \$500 million Line of Credit, which is guaranteed by substantially all of our subsidiaries and affiliated professional contractors, includes (1) a \$50 million sub-facility for the issuance of letters of credit and (2) a \$25 million sub-facility for swingline loans. The Line of Credit may be

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increased to \$570 million, subject to the satisfaction of specified conditions. At our option, borrowings under the Line of Credit (other than swingline loans) bear interest at (1) the alternate base rate (defined as the highest of (i) the Wells Fargo Bank,

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National Association prime rate, (ii) the Federal Funds Rate plus 1/2 of 1.000% and (iii) one month LIBOR plus 1.000%) or (2) the LIBOR rate, as defined in the Line of Credit, plus an applicable margin rate ranging from 0.125% to 0.500% for alternate base rate borrowings and 1.125% to 1.500% for LIBOR rate borrowings, in each case based on our consolidated leverage ratio. Swingline loans bear interest at the alternate base rate plus the applicable margin rate. We are subject to certain covenants and restrictions specified in the Line of Credit, including covenants that require us to maintain a minimum fixed charge coverage ratio and not to exceed a specified consolidated leverage ratio, to comply with laws, and restrict us from paying dividends and making certain other distributions, as specified therein. Failure to comply with these covenants would constitute an event of default under the Line of Credit, notwithstanding our ability to meet our debt service obligations. The Line of Credit includes various customary remedies for the lenders following an event of default.

At September 30, 2012, we had an outstanding principal balance of \$48.0 million on our Line of Credit. We had outstanding letters of credit associated with our professional liability insurance program of \$5.5 million which reduced the amount available on our Line of Credit to \$446.5 million at September 30, 2012. At September 30, 2012, 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 2012.

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, 2012 was \$137.5 million, of which \$13.8 million is classified as a current liability within accounts payable and accrued expenses in the Condensed Consolidated Balance Sheet.

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

Caution Concerning Forward-Looking Statements

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

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our Line of Credit is subject to market risk and interest rate changes. Our Line of Credit bears interest at (1) the alternate base rate, which is defined as the highest of (i) the Wells Fargo Bank, National Association prime rate, (ii) the Federal Funds Rate plus 1/2 of 1.000% and (iii) one month LIBOR plus 1.000% or (2) the LIBOR rate, as defined in the Line of Credit, plus, an applicable margin rate ranging from 0.125% to 0.500% for alternate base rate borrowings and 1.125% to 1.500% for LIBOR rate borrowings, in each case based on the Company's consolidated leverage ratio. The outstanding principal balance on our Line of Credit was \$48.0 million at September 30, 2012. Considering the total outstanding balance of \$48.0 million, a 1% change in interest rates would result in an impact to income before taxes of approximately \$0.5 million per year.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Controls Over Financial Reporting

No changes in our internal control over financial reporting occurred during the quarter ended September 30, 2012 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

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

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

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

Item 1A. Risk Factors

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

Item 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 1, 2012

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

Date: November 1, 2012

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

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

+ Filed herewith.