

MEDNAX, INC.  
Form 10-Q  
April 30, 2015  
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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 March 31, 2015**

**OR**

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

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

**Commission File Number: 001-12111**

**MEDNAX, INC.**

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

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

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

**1301 Concord Terrace**

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

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

**(954) 384-0175**

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

**Not Applicable**

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

On April 24, 2015, the registrant had outstanding 93,529,121 shares of Common Stock, par value \$.01 per share.



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

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
	<b>(in thousands)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 50,219	\$ 47,928
Short-term investments	6,769	6,035
Accounts receivable, net	360,874	352,191
Prepaid expenses	4,474	7,036
Deferred income taxes	47,157	45,961
Other assets	8,464	7,901
<b>Total current assets</b>	<b>477,957</b>	<b>467,052</b>
Investments	63,802	64,082
Property and equipment, net	67,274	66,048
Goodwill	2,813,673	2,776,188
Other assets, net	223,608	235,425
<b>Total assets</b>	<b>\$ 3,646,314</b>	<b>\$ 3,608,795</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 212,290	\$ 380,658
Current portion of long-term debt and capital lease obligations	10,435	10,465
Income taxes payable	44,702	25,150
<b>Total current liabilities</b>	<b>267,427</b>	<b>416,273</b>
Line of credit	698,500	368,000
Long-term debt and capital lease obligations	188,226	190,855
Long-term professional liabilities	153,596	148,651
Deferred income taxes	163,036	160,487
Other liabilities	61,467	58,963
<b>Total liabilities</b>	<b>1,532,252</b>	<b>1,343,229</b>

## Commitments and contingencies

## Shareholders' equity:

Preferred stock; \$.01 par value; 1,000 shares authorized; none issued

Common stock; \$.01 par value; 200,000 shares authorized; 93,448 and

96,030 shares issued and outstanding, respectively

Additional paid-in capital 875,411 886,877

Retained earnings 1,236,888 1,376,782

Total MEDNAX, Inc. shareholders' equity 2,113,233 2,264,619

Noncontrolling interests 829 947

Total equity 2,114,062 2,265,566

Total liabilities and equity \$ 3,646,314 \$ 3,608,795

*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 March 31,</b>	
	<b>2015</b>	<b>2014</b>
Net revenue	\$ 639,395	\$ 566,338
Operating expenses:		
Practice salaries and benefits	419,595	372,040
Practice supplies and other operating expenses	23,431	21,417
General and administrative expenses	67,936	58,414
Depreciation and amortization	13,612	10,370
Total operating expenses	524,574	462,241
Income from operations	114,821	104,097
Investment income	142	1,635
Interest expense	(3,267)	(1,371)
Equity in earnings of unconsolidated affiliate	821	
Total non-operating (expenses) income	(2,304)	264
Income before income taxes	112,517	104,361
Income tax provision	43,928	40,701
Net income	68,589	63,660
Net loss attributable to noncontrolling interests	118	
Net income attributable to MEDNAX, Inc.	\$ 68,707	\$ 63,660
Per common and common equivalent share data:		
Net income attributable to MEDNAX, Inc.:		
Basic	\$ 0.73	\$ 0.64
Diluted	\$ 0.72	\$ 0.63
Weighted average common shares:		
Basic	94,231	99,076

Diluted

95,325

100,696

*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>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 68,589	\$ 63,660
<b>Adjustments to reconcile net income to net cash used in operating activities:</b>		
Depreciation and amortization	13,612	10,370
Net change in fair value of contingent consideration liabilities	289	346
Stock-based compensation expense	7,836	8,071
Equity in earnings of unconsolidated affiliate	(821)	
Distribution of earnings from unconsolidated affiliate	2,062	
Deferred income taxes	2,023	(387)
<b>Changes in assets and liabilities:</b>		
Accounts receivable	(8,683)	(30,292)
Prepaid expenses and other assets	1,999	(1,480)
Other assets	705	341
Accounts payable and accrued expenses	(169,622)	(131,370)
Income taxes payable	19,552	26,076
Payments of contingent consideration liabilities	(34)	(2,779)
Long-term professional liabilities	4,945	6,419
Other liabilities	3,864	1,203
<b>Net cash used in operating activities</b>	<b>(53,684)</b>	<b>(49,822)</b>
<b>Cash flows from investing activities:</b>		
Acquisition payments, net of cash acquired	(37,724)	(69,375)
Purchases of investments	(3,719)	(3,904)
Proceeds from sales or maturities of investments	3,265	3,635
Purchases of property and equipment	(5,388)	(4,570)
<b>Net cash used in investing activities</b>	<b>(43,566)</b>	<b>(74,214)</b>
<b>Cash flows from financing activities:</b>		
Borrowings on credit facility	634,500	371,500
Payments on credit facility	(306,500)	(150,500)
Payments of contingent consideration liabilities	(371)	(645)
Payments on capital lease obligations	(159)	(25)
Excess tax benefit from exercises of stock options and vesting of restricted stock	1,076	1,935
Proceeds from issuance of common stock	4,596	7,398

Repurchases of common stock	(233,601)	(116,989)
Net cash provided from financing activities	99,541	112,674
Net increase (decrease) in cash and cash equivalents	2,291	(11,362)
Cash and cash equivalents at beginning of period	47,928	31,137
Cash and cash equivalents at end of period	\$ 50,219	\$ 19,775

*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**

**March 31, 2015**

**(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 business corporations or professional associations, professional corporations, limited liability companies and partnerships (the affiliated professional contractors ). Certain subsidiaries of MDX have 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 Company has a joint venture in which it owns a 75% economic interest. The Company has a management agreement with the joint venture and, based on the terms of the agreement, the Company has determined that the joint venture is a variable interest entity for which the Company is the primary beneficiary as defined in the accounting guidance for consolidation. Accordingly, the financial results of the joint venture are fully consolidated into the Company s operating results. The equity interests of the outside investor in the equity and results of operations of this consolidated entity are accounted for and presented as noncontrolling interests. The Company has a second joint venture in which it owns a 37.5% economic interest. The Company accounts for this joint venture under the equity method of accounting because the Company exercises significant influence over, but does not control, this entity.

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

**New Accounting Pronouncements**

In March 2015, the accounting guidance related to the presentation of debt issuance costs was amended to require that such costs be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability. The new guidance is required to be adopted on a retrospective basis as a change in accounting principle and will become effective for the Company on January 1, 2016 with early adoption permitted. The adoption of this guidance will affect financial statement presentation only, and therefore will not have a material impact on the Company s Condensed Consolidated Financial Statements.

In February 2015, the accounting guidance related to consolidation was amended to include changes to both the variable and voting interest models used by companies to evaluate whether an entity should be consolidated. The new guidance will become effective for the Company on January 1, 2016, and early adoption is permitted. The adoption of this guidance is not expected to have an impact on the Company's Condensed Consolidated Financial Statements.

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

**2. Cash Equivalents and Investments:**

As of March 31, 2015 and December 31, 2014, the Company's cash equivalents consisted entirely of money market funds with a fair value of \$5.3 million and \$5.1 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 one year to seven years.

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

Investments held at March 31, 2015 and December 31, 2014 are summarized as follows (in thousands):

	March 31, 2015		December 31, 2014	
	Short-Term	Long-Term	Short-Term	Long-Term
Municipal debt securities	\$ 6,273	\$ 35,316	\$ 5,539	\$ 35,827
Federal home loan securities		27,261		27,030
Certificates of deposit	496	1,225	496	1,225
	\$ 6,769	\$ 63,802	\$ 6,035	\$ 64,082

Contractual maturities of long-term investments are summarized as follows (in thousands):

	March 31, 2015	December 31, 2014
Due after one year through five years	\$ 59,552	\$ 54,959
Due after five years through seven years	4,250	9,123
	\$ 63,802	\$ 64,082

**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 March 31, 2015 and December 31, 2014, the Company's money market funds had a carrying amount of \$5.3 million and \$5.1 million, respectively.

The Company also carries the cash surrender value of life insurance related to its deferred compensation arrangements at fair value. The investments underlying the life insurance contracts consist primarily of exchange-traded equity securities and mutual funds with quoted prices in active markets. In accordance with the three-tier fair value hierarchy, the Company determined the fair value using the cash surrender value of the life insurance, a Level 2 input as defined under the accounting guidance for fair value measurements. At March 31, 2015 and December 31, 2014, the Company's cash surrender value of life insurance had a carrying amount of \$16.0 million.

In addition, the Company carries its contingent consideration liabilities related to acquisitions at fair value. In accordance with the three-tier fair value hierarchy, the Company determined the fair value of its contingent consideration liabilities using the income approach with assumed discount rates and payment probabilities. The income approach uses Level 3, or unobservable inputs as defined under the accounting guidance for fair value measurements. At March 31, 2015 and December 31, 2014, the Company's contingent consideration liabilities had a fair value of \$35.2 million and \$35.3 million, respectively. See Note 5 for more information regarding the Company's contingent consideration liabilities.

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, long-term debt and capital lease obligations approximate fair value. If the Company's line of credit and long-term debt were measured at fair value, they would be categorized as Level 2 in the fair value hierarchy.

**Table of Contents****4. Accounts Receivable:**

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

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Gross accounts receivable	\$ 1,251,666	\$ 1,200,958
Allowance for contractual adjustments and uncollectibles	(890,792)	(848,767)
	<b>\$ 360,874</b>	<b>\$ 352,191</b>

**5. Business Acquisitions:**

During the three months ended March 31, 2015, the Company completed the acquisition of three physician group practices for total cash consideration of \$37.1 million. In connection with these acquisitions, the Company recorded goodwill of \$33.6 million, other intangible assets consisting primarily of physician and hospital agreements of \$4.8 million and other liabilities of \$1.3 million. These acquisitions expanded the Company's national network of physician practices.

In addition, during the three months ended March 31, 2015, the Company paid \$0.4 million for contingent consideration related to certain prior-period acquisitions, of which all but the accretion recorded during 2015 was accrued as of December 31, 2014. In connection with prior-period acquisitions, the Company also recorded a net increase of \$3.9 million to goodwill composed of a decrease in intangible assets of \$5.3 million, a decrease of \$2.0 million in other long-term liabilities and \$0.6 million in additional cash consideration related to a working capital true-up adjustment. These measurement period adjustments did not have a material impact on the Company's Condensed Consolidated Financial Statements in any period; therefore, the Company has not retrospectively adjusted such statements. The Company expects that \$10.8 million of the goodwill recorded during the three months ended March 31, 2015 will be deductible for tax purposes.

During the three months ended March 31, 2014, the Company paid \$3.4 million for contingent consideration related to certain prior-period acquisitions, of which all but the accretion recorded during 2014 was accrued as of December 31, 2013.

The results of operations of the practices acquired during the three months ended March 31, 2015 and 2014 have been included in the Company's Condensed Consolidated Financial Statements from the 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 2015 and 2014, including adjustments for pro forma amortization and interest expense, as if the transactions had occurred on January 1, 2014 and January 1, 2013, respectively (in thousands, except per share data):

**Three Months Ended  
March 31,  
2015                  2014**

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Net revenue	\$ 643,718	\$ 632,774
Net income	\$ 69,371	\$ 68,446
Net income per common share <sup>(1)</sup> :		
Basic	\$ 0.74	\$ 0.69
Diluted	\$ 0.73	\$ 0.68
Weighted average common shares <sup>(1)</sup> :		
Basic	94,231	99,076