MEDNAX, INC.
Form 10-Q
May 02, 2013
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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, 2013

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	**26-3667538**
(State or other jurisdiction of	**(I.R.S. Employer**
Incorporation or organization)	**Identification No.)**
1301 Concord Terrace **Sunrise, Florida**	**33323**
(Address of principal executive offices)	**(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 x 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 x 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	x	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 x

On April 26, 2013, the registrant had outstanding 50,215,641 shares of Common Stock, par value $.01 per share.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

MEDNAX, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2013	December 31, 2012
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 34,425	$ 21,280
Short-term investments	5,535	6,584
Accounts receivable, net	263,820	248,066
Prepaid expenses	3,959	4,852
Deferred income taxes	77,631	69,034
Other assets	9,258	9,228
Total current assets	394,628	359,044
Investments	58,645	47,593
Property and equipment, net	60,275	59,738
Goodwill	2,165,169	2,165,672
Other assets, net	113,939	118,290
Total assets	$ 2,792,656	$ 2,750,337
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 150,725	$ 255,661
Current portion of long-term capital lease obligations	95	101
Income taxes payable	40,075	12,576
Total current liabilities	190,895	268,338
Line of credit	184,000	144,000
Long-term capital lease obligations	209	233
Long-term professional liabilities	126,718	119,570
Deferred income taxes	130,102	125,877
Other liabilities	54,976	56,951
Total liabilities	686,900	714,969
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; 50,169 and 50,019 shares issued and outstanding, respectively	502	500
Additional paid-in capital	803,099	788,080
Retained earnings	1,302,155	1,246,788

Total shareholders equity	2,105,756	2,035,368
Total liabilities and shareholders equity	$ 2,792,656	$ 2,750,337

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

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MEDNAX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

(Unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Net patient service revenue	$ 502,715	$ 422,616
Operating expenses:		
Practice salaries and benefits	329,201	272,261
Practice supplies and other operating expenses	19,500	16,985
General and administrative expenses	53,318	46,869
Depreciation and amortization	9,144	7,113
Total operating expenses	411,163	343,228
Income from operations	91,552	79,388
Investment income	402	428
Interest expense	(1,189)	(554)
Income before income taxes	90,765	79,262
Income tax provision	35,398	30,912
Net income	$ 55,367	$ 48,350
Per common and common equivalent share data:		
Net income:		
Basic	$ 1.12	$ 1.00
Diluted	$ 1.10	$ 0.98
Weighted average shares:		
Basic	49,309	48,269
Diluted	50,392	49,399

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

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MEDNAX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three Months Ended March 31, 2013	2012
Cash flows from operating activities:		
Net income	$ 55,367	$ 48,350
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	9,144	7,113
Accretion of contingent consideration liabilities	242	265
Stock-based compensation expense	7,284	7,036
Deferred income taxes	(4,372)	(11,136)
Changes in assets and liabilities:		
Accounts receivable	(15,754)	(6,329)
Prepaid expenses and other assets	1,363	2,155
Other assets	(87)	(21)
Accounts payable and accrued expenses	(107,724)	(114,362)
Income taxes payable	27,629	30,323
Long-term professional liabilities	7,148	2,934
Other liabilities	1,373	1,556
Net cash used in operating activities	(18,387)	(32,116)
Cash flows from investing activities:		
Acquisition payments, net of cash acquired	(1,295)	(28,095)
Purchases of investments	(12,018)	(5,576)
Proceeds from sales or maturities of investments	2,015	7,200
Purchases of property and equipment	(4,337)	(2,920)
Net cash used in investing activities	(15,635)	(29,391)
Cash flows from financing activities:		
Borrowings on line of credit	295,500	133,000
Payments on line of credit	(255,500)	(78,500)
Payment of contingent consideration liabilities	(410)	(410)
Payments on capital lease obligations	(30)	(43)
Excess tax benefit from exercises of stock options and vesting of restricted stock	2,414	1,990
Proceeds from issuance of common stock	5,193	9,262
Net cash provided from financing activities	47,167	65,299
Net increase in cash and cash equivalents	13,145	3,792
Cash and cash equivalents at beginning of period	21,280	18,596
Cash and cash equivalents at end of period	$ 34,425	$ 22,388

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(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

There were no new accounting pronouncements issued or effective during the three months ended March 31, 2013, that had or are expected to have a material impact on the Company s Condensed Consolidated Financial Statements.

2. Cash Equivalents and Investments:

As of March 31, 2013 and December 31, 2012, the Company s cash equivalents consisted entirely of money market funds with a fair value of $2.4 million and $11.1 million, respectively.

Investments consist of municipal debt securities, federal home loan securities and certificates of deposit. Investments with remaining maturities of less than one year are classified as short-term investments. Investments classified as long-term have maturities of one year to seven years.

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

Investments held at March 31, 2013 and December 31, 2012 are summarized as follows (in thousands):

	March 31, 2013		December 31, 2012	
	Short-Term	Long-Term	Short-Term	Long-Term
Municipal debt securities	$ 5,039	$ 32,631	$ 6,088	$ 27,563
Federal home loan securities		24,553		18,569
Certificates of deposit	496	1,461	496	1,461
	$ 5,535	$ 58,645	$ 6,584	$ 47,593

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, 2013 and December 31, 2012, the Company s money market funds had a carrying amount of $2.4 million and $11.1 million, respectively.

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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, 2013 and December 31, 2012, the Company s cash surrender value of life insurance had a carrying amount of $14.9 million and $13.8 million, respectively.

In addition, the Company carries its contingent consideration liabilities related to acquisitions at fair value. In accordance with the three-tier fair value hierarchy, the Company determined the fair value of its contingent consideration liabilities using the income approach with assumed discount rates and payment probabilities. The income approach uses Level 3, or unobservable inputs as defined under the accounting guidance for fair value measurements. At March 31, 2013 and December 31, 2012, the Company s contingent consideration liabilities had a fair value of $37.5 million and $37.7 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 values of long-term investments, line of credit and capital lease obligations approximate fair value. If the Company s line of credit were measured at fair value, it would be categorized as Level 2 in the fair value hierarchy.

4. Accounts Receivable:

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

	March 31, 2013	December 31, 2012
Gross accounts receivable	$ 917,818	$ 872,962
Allowance for contractual adjustments and uncollectibles	(653,998)	(624,896)
	$ 263,820	$ 248,066

5. Business Acquisitions:

During the three months ended March 31, 2013, the Company paid approximately $1.7 million for contingent consideration related to certain prior-period acquisitions, all of which was accrued as of December 31, 2012. In connection with a prior-period acquisition, the Company also recorded other assets of approximately $0.5 million during the three months ended March 31, 2013.

During the three months ended March 31, 2012, the Company completed the acquisition of four physician group practices for total consideration of $32.9 million, consisting of $26.8 million in cash and $6.1 million of contingent consideration. In connection with these acquisitions, the Company recorded goodwill of approximately $24.6 million and other intangible assets consisting primarily of physician and hospital agreements of approximately $8.3 million.

6. Accounts Payable and Accrued Expenses:

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

	March 31, 2013	December 31, 2012
Accounts payable	$ 9,584	$ 13,812
Accrued salaries and bonuses	53,742	160,495
Accrued payroll taxes and benefits	29,236	36,176
Accrued contingent consideration	18,896	16,109

Accrued professional liabilities		17,865		17,466
Other accrued expenses		21,402		11,603
	$	150,725	$	255,661

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The net decrease in accrued salaries and bonuses of $106.8 million, from $160.5 million at December 31, 2012 to $53.7 million at March 31, 2013, 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 three months ended March 31, 2013. 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 stock options and non-vested restricted and deferred stock calculated using the treasury stock method. Under the treasury stock method, the Company includes the assumed excess tax benefits related to the potential exercise or vesting of its stock-based awards using the difference between the average market price for the applicable period less the option price, if any, and the fair value of the stock-based award on the date of grant multiplied by the applicable tax rate.

The calculation of shares used in the basic and diluted net income per share calculation for the three months ended March 31, 2013 and 2012 is as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Weighted average number of common shares outstanding	49,309	48,269
Weighted average number of dilutive common share equivalents	1,083	1,130
Weighted average number of common and common equivalent shares outstanding	50,392	49,399
Antidilutive securities not included in the dilutive earnings per share calculation		28

8. Stock Incentive Plans and Stock Purchase Plans:

The Company s Amended and Restated 2008 Incentive Compensation Plan (the 2008 Incentive Plan) provides for grants of stock options, stock appreciation rights, restricted stock, deferred stock, and other stock-related awards and performance awards that may be settled in cash, stock or other property. 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. 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. 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. At March 31, 2013, the Company had approximately 4.3 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. In accordance with the provisions of the accounting guidance for stock-based compensation, the Company recognizes stock-based compensation expense for the 15% discount received by participating employees. During the three months ended March 31, 2013, 26,641 shares were issued under the Non-Qualified Plan. At March 31, 2013, the Company had approximately 396,800 shares reserved for issuance under the Non-Qualified Plan.

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During the three months ended March 31, 2013 and 2012, the Company recognized approximately $7.3 million and $7.0 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 for the three months ended March 31, 2013 was approximately $2.5 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 March 31, 2013 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.

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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

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 in many 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 three months ended March 31, 2012, we completed the acquisition of four physician group practices consisting of one neonatology practice, one maternal-fetal medicine 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 three months ended March 31, 2012 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 continues to be affected by unfavorable economic conditions and slow economic growth. The number of unemployed and under-employed workers remains significant. During the three months ended March 31, 2013, the percentage of patient services being reimbursed under government-sponsored healthcare programs increased as compared to the three months ended March 31, 2012. There could be additional shifts toward government-sponsored programs and patient volumes could decline if economic conditions do not improve or deteriorate further. Payments received from government-sponsored programs are substantially less for equivalent services than payments received from commercial insurance payors. In addition, many states continue to experience lower than anticipated revenue and are facing significant budget shortfalls. Although the shortfalls for the budget year beginning in July 2012 were lower than in recent years, they are still significant by historical standards. 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 Affordable Care Act), was enacted. The Affordable Care 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 requirements and 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. Additionally, in November 2012, the Centers for Medicare & Medicaid Services (CMS) adopted a rule under the Affordable Care Act that would allow physicians who provide eligible primary care services to generally be paid at the Medicare reimbursement rates in effect in calendar years 2013 and 2014 instead of state-established Medicaid reimbursement rates. Generally, state Medicaid reimbursement rates are lower than federally-established Medicare rates. State agencies were required to submit their state plan amendments outlining how they will implement the rule, including frequency and timing of payments, by March 31, 2013, however not all states have submitted their state plan amendments. Upon submission, CMS has 90 days to approve, disapprove or request additional information about the plans. There are still unanswered questions regarding the attestation process that is required to qualify for the enhanced payments as well as whether certain services under state specific programs are eligible for the enhanced payments. Given the uncertainty surrounding the implementation process, eligibility of certain services under state specific programs and the timing and frequency of any payments, at this time we cannot predict with any assurance the ultimate impact of the rule on us.

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The Affordable Care Act contains numerous other measures that could also affect us. For example, payment modifiers are to be developed that will differentiate payments to physicians under federal healthcare programs based on quality of care. In addition, other provisions authorize voluntary demonstration projects relating to the bundling of payments for episodes of hospital care and the sharing of cost savings achieved under the Medicare program.

Many of the Affordable Care Act s most significant reforms, such as the establishment of state-based and federally facilitated insurance exchanges, do not take effect until 2014 and thereafter, and their details will be shaped significantly by implementing regulations that have yet to be finalized. In 2012, the U.S. Supreme Court heard challenges to the constitutionality of the Affordable Care Act s individual mandate to purchase health insurance and to the viability of certain other provisions of the law. The Supreme Court issued a decision upholding most of the Affordable Care Act and determined that requiring individuals to maintain minimum essential health insurance coverage or pay a penalty to the Internal Revenue Service was within Congress constitutional taxing authority. However, the Supreme Court struck down a provision in the Affordable Care Act that penalized states that choose not to expand their Medicaid programs through an increase in the Medicaid eligibility income limit from a state s current eligibility levels to 133% of the federal poverty limit. As a result of the Supreme Court s ruling, it is unclear to what extent states will expand their Medicaid programs by raising the income limit to 133% of the federal poverty level and whether there will be more uninsured patients in 2014 than anticipated when the Affordable Care Act was enacted. All of the states in which we operate, however, already cover children in the first year of life and pregnant women if their household income is at or below 133% of the federal poverty level.

Federal and state agencies are expected to continue to implement provisions of the Affordable Care Act and to develop regulations following the Supreme Court s decision. However, given the complexity and the number of changes expected as a result of the Affordable Care Act, as well as the implementation timetable for many of them, we cannot predict the ultimate impacts of the Affordable Care Act as they may not be known for several years. The Affordable Care Act also remains subject to continuing legislative scrutiny, including efforts by Congress to amend or repeal a number of its provisions. As a result, we cannot predict with any assurance the ultimate effect of the Affordable Care Act on our Company, nor can we provide any assurance that its provisions will not have a material adverse effect on our business, financial condition, results of operations or cash flows.

In addition, the Budget Control Act of 2011 sets forth across-the-board cuts (sequestrations) to Medicare reimbursement rates for the years 2013 through 2021 that were scheduled to begin on April 1, 2013. To date, no Congressional action has been taken, and the sequestration has gone into effect. This 2% reduction in Medicare reimbursement rates that became effective on April 1, 2013 is not expected to have a material adverse effect on our business, financial condition, results of operations or cash flows.

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 March 31, 2013 as Compared to Three Months Ended March 31, 2012

Our net patient service revenue increased $80.1 million, or 19.0%, to $502.7 million for the three months ended March 31, 2013, as compared to $422.6 million for the same period in 2012. Of this $80.1 million increase, $70.8 million, or 88.4%, was attributable to revenue generated from acquisitions completed after December 31, 2011. Same-unit net patient service revenue increased $9.3 million, or 2.2%, for the three months ended March 31, 2013. The change in same-unit net patient service revenue was the result of an increase in revenue of $8.6 million, or 2.0%, related to net reimbursement-related factors and an increase of approximately $0.7 million, or 0.2%, from higher overall patient service volumes. The increase in revenue of
$8.6 million related to net reimbursement-related factors was primarily due to continued improvements in managed care contracting, partially offset by a decrease in revenue caused by an increase in the percentage of our patients being enrolled in government-sponsored programs. The increase in revenue of $0.7 million from higher patient service volumes is related to growth in our hospital-based other pediatric services, including newborn nursery and pediatric intensive care services, as well as in our anesthesia practices, offset by declines in our office-based pediatric cardiology practices. Volume in our hospital-based neonatal practices and our office-based maternal-fetal medicine practices was relatively flat. Excluding the additional calendar day in February for the 2012 leap year, the increase in same-unit net patient service revenue was 3.2% for the three months ended March 31, 2013, with same-unit volume growth adjusted to 1.2% and net reimbursement-related growth of 2.0% unaffected by the additional day in 2012. 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 $56.9 million, or 20.9%, to $329.2 million for the three months ended March 31, 2013, as compared to $272.3 million for the same period in 2012. This $56.9 million increase was primarily attributable to increased costs associated with new physicians and other staff to support acquisition-related growth and growth at existing units, of which $46.5 million was related to salaries and

$10.4 million was related to benefits and incentive compensation.

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Practice supplies and other operating expenses increased $2.5 million, or 14.8%, to $19.5 million for the three months ended March 31, 2013, as compared to $17.0 million for the same period in 2012. The increase was attributable to practice supply, rent and other costs of $1.4 million at our existing units and $1.1 million related to our acquisitions.

General and administrative expenses include all billing and collection functions and all other salaries, benefits, supplies and operating expenses not specifically related to the day-to-day operations of our physician group practices. General and administrative expenses increased $6.4 million, or 13.8%, to $53.3 million for the three months ended March 31, 2013, as compared to $46.9 million for the same period in 2012, and grew at a rate slower than the rate of revenue growth. The increase of $6.4 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 10.6% for the three months ended March 31, 2013, as compared to 11.1% for the three months ended March 31, 2012.

Depreciation and amortization expense increased $2.0 million, or 28.6%, to $9.1 million for the three months ended March 31, 2013, as compared to $7.1 million for the same period in 2012. The increase was primarily attributable to the amortization of intangible assets related to acquisitions.

Income from operations increased $12.2 million, or 15.3%, to $91.6 million for the three months ended March 31, 2013, as compared to $79.4 million for the same period in 2012. Our operating margin was 18.2% for the three months ended March 31, 2013, as compared to 18.8% for the same period in 2012. This decrease of 57 basis points was primarily due to an increase in operating expenses during the three months ended March 31, 2013 as compared to the three months ended March 31, 2012, as well as the variability in margins due to the mix of practices acquired after December 31, 2011.

We recorded net interest expense of $0.8 million for the three months ended March 31, 2013, as compared to $0.1 million for the same period in 2012. The increase in net interest expense was primarily due to higher average borrowings at a higher effective borrowing interest rate as well as an increase in commitment fees related to our $800 million amended and restated revolving credit facility (Line of Credit). Interest expense for the three months ended March 31, 2013 and 2012, consisted primarily of interest charges, commitment fees and amortized debt costs related to our Line of Credit and accretion expense related to our contingent consideration liabilities.

Our effective income tax rate was 39.0% for the three months ended March 31, 2013 and 2012.

Net income increased by 14.5% to $55.4 million for the three months ended March 31, 2013, as compared to $48.4 million for the same period in 2012.

Diluted net income per common and common equivalent share was $1.10 on weighted average shares outstanding of 50.4 million for the three months ended March 31, 2013, as compared to $0.98 on weighted average shares outstanding of 49.4 million for the same period in 2012.

Liquidity and Capital Resources

As of March 31, 2013, we had $34.4 million of cash and cash equivalents on hand as compared to $21.3 million at December 31, 2012. In addition, we had working capital of $203.7 million at March 31, 2013, an increase of $113.0 million from working capital of $90.7 million at December 31, 2012. 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 the purchase of investments.

Our net cash used in operating activities was $18.4 million for the three months ended March 31, 2013, as compared to $32.1 million for the same period in 2012. This net decrease in cash used of $13.7 million for the three months ended March 31, 2013 is primarily due to (i) improved operating results; (ii) a net increase in cash flow related to changes in the components of our accounts payable and accrued expenses; and (iii) an increase in cash flow related to changes in our income tax liabilities; partially offset by (iv) a net decrease in cash flow related to accounts receivable, primarily due to higher balances related to recent acquisitions.

During the three months ended March 31, 2013, accounts receivable increased by $15.8 million, as compared to an increase of $6.3 million for the same period in 2012. The net increases in accounts receivable for the three months ended March 31, 2013 and 2012 are primarily due to increases in accounts receivable related to recent acquisitions.

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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 47.2 days at March 31, 2013 as compared to 48.4 days at December 31, 2012.

During the three months ended March 31, 2013, our net cash used in investing activities of $15.6 million included net purchases of $10.0 million related to the purchase and maturity of investments, capital expenditures of $4.3 million and contingent purchase price payments of $1.3 million. Our capital expenditures were for leasehold and other improvements, medical equipment, 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 three months ended March 31, 2013, our net cash provided from financing activities of $47.2 million consisted primarily of net borrowings on our Line of Credit of $40.0 million, proceeds from the exercise of employee stock options and the issuance of common stock under our stock purchase plans of $5.2 million, and excess tax benefits related to the exercise of employee stock options of $2.4 million, partially offset by the payment of $0.4 million for contingent consideration liabilities.

Our Line of Credit, which is guaranteed by substantially all of our subsidiaries and affiliated professional contractors, includes (1) a $75 million sub-facility for the issuance of letters of credit and (2) a $37.5 million sub-facility for swingline loans. The Line of Credit may be increased from $800.0 million up to $1.0 billion, 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, National Association prime rate, (ii) the Federal Funds Rate plus 1/2 of 1.00% and (iii) one month LIBOR plus 1.00%) or (2) the LIBOR rate, as defined in the Line of Credit, plus an applicable margin rate ranging from 0.125% to 0.750% for alternate base rate borrowings and 1.125% to 1.750% 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 March 31, 2013, we had an outstanding principal balance of $184.0 million on our Line of Credit. We also had outstanding letters of credit associated with our professional liability insurance program of $5.3 million which reduced the amount available on our Line of Credit to $610.7 million at March 31, 2013. At March 31, 2013, 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. We believe we will be in compliance with these covenants throughout 2013.

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 March 31, 2013 was $144.6 million, of which $17.9 million is classified as a current liability within accounts payable and accrued expenses in the Condensed Consolidated Balance Sheets.

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 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 0.750% for alternate base rate borrowings and 1.125% to 1.750% 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 $184.0 million at March 31, 2013. Considering the total outstanding balance of $184.0 million, a 1% change in interest rates would result in an impact to income before taxes of approximately $1.8 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 March 31, 2013 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: May 2, 2013	By: /s/ Roger J. Medel, M.D. Roger J. Medel, M.D. Chief Executive Officer (Principal Executive Officer)
Date: May 2, 2013	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.