

MEDNAX, INC.  
Form 10-Q  
November 02, 2009  
Table of Contents

**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, 2009

OR

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

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 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 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  N/A

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

Shares of common stock outstanding as of October 30, 2009: 46,533,296

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**Table of Contents**

**MEDNAX, INC.**

**INDEX**

|  | <b>Page</b> |
|--|-------------|
| <b><u>PART I - FINANCIAL INFORMATION</u></b>   |             |
| <b>ITEM 1. <u>Financial Statements</u></b>   | 3           |
| <u>Condensed Consolidated Balance Sheets as of September 30, 2009 and December 31, 2008 (Unaudited)</u>                        | 3           |
| <u>Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2009 and 2008 (Unaudited)</u> | 4           |
| <u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2009 and 2008 (Unaudited)</u>       | 5           |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>  | 6           |
| <b>ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>                    | 14          |
| <b>ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u></b>   | 19          |
| <b>ITEM 4. <u>Controls and Procedures</u></b>  | 19          |
| <b><u>PART II - OTHER INFORMATION</u></b>  |             |
| <b>ITEM 1. <u>Legal Proceedings</u></b>  | 20          |
| <b>ITEM 1A. <u>Risk Factors</u></b>  | 21          |
| <b>ITEM 6. <u>Exhibits</u></b>   | 21          |
| <b><u>SIGNATURES</u></b>   | 22          |
| <b><u>EXHIBIT INDEX</u></b>  | 23          |

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

|   | September 30, 2009  | December 31, 2008   |
|---|---------------------|---------------------|
|   | (in thousands)      |                     |
| <b>ASSETS</b>   |                     |                     |
| Current assets:   |                     |                     |
| Cash and cash equivalents   | \$ 20,865           | \$ 14,346           |
| Short-term investments  | 7,159               | 20,764              |
| Accounts receivable, net  | 164,023             | 162,395             |
| Prepaid expenses  | 5,846               | 5,813               |
| Deferred income taxes   | 78,358              | 70,384              |
| Other assets  | 12,395              | 11,199              |
| <b>Total current assets</b>   | <b>288,646</b>      | <b>284,901</b>      |
| Investments   | 31,382              | 16,241              |
| Property and equipment, net   | 42,158              | 38,807              |
| Goodwill  | 1,236,563           | 1,127,959           |
| Other assets, net   | 53,425              | 28,966              |
| <b>Total assets</b>   | <b>\$ 1,652,174</b> | <b>\$ 1,496,874</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                     |                     |
| Current liabilities:  |                     |                     |
| Accounts payable and accrued expenses   | \$ 333,497          | \$ 302,584          |
| Current portion of long-term debt and capital lease obligations   | 252                 | 258                 |
| Income taxes payable  | 15,405              | 14,283              |
| <b>Total current liabilities</b>  | <b>349,154</b>      | <b>317,125</b>      |
| Line of credit  | 85,500              | 139,500             |
| Long-term debt and capital lease obligations  | 262                 | 356                 |
| Deferred income taxes   | 56,905              | 46,873              |
| Other liabilities   | 43,520              | 27,882              |
| <b>Total liabilities</b>  | <b>535,341</b>      | <b>531,736</b>      |
| 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; 46,501 and 45,642 shares issued and outstanding, respectively | 465                 | 456                 |
| Additional paid-in capital  | 581,576             | 555,293             |
| Retained earnings   | 534,792             | 409,389             |

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|  |              |              |
|--|--------------|--------------|
| Total shareholders' equity                 | 1,116,833    | 965,138      |
| Total liabilities and shareholders' equity | \$ 1,652,174 | \$ 1,496,874 |

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

**Table of Contents****MEDNAX, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

|  | <b>Three Months Ended<br/>September 30,</b>  |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|--|-------------|--|-------------|
|  | <b>2009</b>                                  | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
|  | <b>(in thousands, except per share data)</b> |             |  |             |
| Net patient service revenue                              | \$ 331,276                                   | \$ 267,185  | \$ 954,976                                 | \$ 770,462  |
| Operating expenses:                                      |  |             |  |             |
| Practice salaries and benefits                           | 198,229                                      | 159,799     | 583,993                                    | 461,855     |
| Practice supplies and other operating expenses           | 13,100                                       | 11,145      | 38,539                                     | 31,388      |
| General and administrative expenses                      | 37,648                                       | 30,749      | 110,593                                    | 91,521      |
| Depreciation and amortization                            | 3,956  | 3,296       | 12,106                                     | 9,051       |
| Total operating expenses                                 | 252,933                                      | 204,989     | 745,231                                    | 593,815     |
| Income from operations                                   | 78,343                                       | 62,196      | 209,745                                    | 176,647     |
| Investment income  | 430  | 487         | 1,300                                      | 2,445       |
| Interest expense   | (570)  | (1,126)     | (2,405)                                    | (1,846)     |
| Income from continuing operations before income taxes    | 78,203                                       | 61,557      | 208,640                                    | 177,246     |
| Income tax provision                                     | 30,069                                       | 24,161      | 83,237                                     | 69,549      |
| Income from continuing operations                        | 48,134                                       | 37,396      | 125,403                                    | 107,697     |
| Income from discontinued operations, net of income taxes |  |             |  | 22,519      |
| Net income   | \$ 48,134                                    | \$ 37,396   | \$ 125,403                                 | \$ 130,216  |
| Per common and common equivalent share data:             |  |             |  |             |
| Income from continuing operations:                       |  |             |  |             |
| Basic  | \$ 1.05                                      | \$ 0.83     | \$ 2.76                                    | \$ 2.32     |
| Diluted  | \$ 1.03                                      | \$ 0.81     | \$ 2.71                                    | \$ 2.26     |
| Income from discontinued operations:                     |  |             |  |             |
| Basic  | \$   | \$          | \$   | \$ 0.49     |
| Diluted  | \$   | \$          | \$   | \$ 0.48     |
| Net income:  |  |             |  |             |
| Basic  | \$ 1.05                                      | \$ 0.83     | \$ 2.76                                    | \$ 2.81     |
| Diluted  | \$ 1.03                                      | \$ 0.81     | \$ 2.71                                    | \$ 2.74     |
| Weighted average shares:                                 |  |             |  |             |
| Basic  | 45,663                                       | 45,207      | 45,460                                     | 46,416      |

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|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Diluted | 46,664 | 46,178 | 46,279 | 47,584 |
|---------|--------|--------|--------|--------|

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

**Table of Contents****MEDNAX, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

|  | <b>Nine Months Ended<br/>September 30,<br/>2009                  2008<br/>(in thousands)</b> |                  |
|--|--|------------------|
| <b>Cash flows from operating activities:</b>   |  |                  |
| Net income   | \$ 125,403   | \$ 130,216       |
| <b>Adjustments to reconcile net income to net cash provided from operating activities:</b> |  |                  |
| Depreciation and amortization  | 12,106   | 9,190            |
| Stock-based compensation expense   | 17,886   | 15,262           |
| Deferred income taxes  | (1,764)  | 6,766            |
| Gain on sale of assets   |  | (36,237)         |
| <b>Changes in assets and liabilities:</b>  |  |                  |
| Accounts receivable  | (1,628)  | (5,944)          |
| Prepaid expenses and other assets  | (1,229)  | (820)            |
| Other assets   | 439  | 366              |
| Accounts payable and accrued expenses  | 13,127   | (8,234)          |
| Income taxes payable   | 1,452  | 3,652            |
| Other liabilities  | 2,664  | (1,104)          |
| <b>Net cash provided from operating activities</b>   | <b>168,456</b>   | <b>113,113</b>   |
| <b>Cash flows from investing activities:</b>   |  |                  |
| Acquisition payments, net of cash acquired   | (103,371)  | (236,355)        |
| Purchase of investments  | (19,601)   | (20,612)         |
| Proceeds from maturities of investments  | 18,065   | 16,784           |
| Purchase of property and equipment   | (10,861)   | (12,951)         |
| Proceeds from sale of assets   |  | 66,000           |
| <b>Net cash used in investing activities</b>   | <b>(115,768)</b>   | <b>(187,134)</b> |
| <b>Cash flows from financing activities:</b>   |  |                  |
| Borrowings on line of credit   | 332,500  | 339,800          |
| Payments on line of credit   | (386,500)  | (168,800)        |
| Payments on capital lease obligations  | (245)  | (426)            |
| Payments on syndication of line of credit  |  | (1,542)          |
| Excess tax benefit related to stock option exercises and restricted stock vestings         | 877  | 4,036            |
| Repurchases of common stock  |  | (199,997)        |
| Proceeds from issuance of common stock   | 7,199  | 10,265           |
| <b>Net cash used in financing activities</b>   | <b>(46,169)</b>  | <b>(16,664)</b>  |
| <b>Net increase (decrease) in cash and cash equivalents</b>                                | <b>6,519</b>   | <b>(90,685)</b>  |
| Cash and cash equivalents at beginning of period   | 14,346   | 102,843          |
| Cash held by discontinued operating unit at beginning of period                            |  | 50               |
| Cash held by discontinued operating unit on sale date                                      |  | (72)             |
| <b>Cash and cash equivalents at end of period</b>  | <b>\$ 20,865</b>   | <b>\$ 12,136</b> |



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

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**Table of Contents**

**MEDNAX, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2009**

**(Unaudited)**

**1. Basis of Presentation:**

Effective December 31, 2008, MEDNAX, Inc. and Pediatrix Medical Group, Inc., a Florida corporation (Pediatrix), completed a holding company formation transaction that established MEDNAX, Inc. as the parent company of Pediatrix. In the transaction, each outstanding share of Pediatrix common stock, par value \$0.01 per share, and attached preferred share purchase right was converted into one share of MEDNAX, Inc. common stock, par value \$0.01 per share, and attached preferred share purchase right. The preferred share purchase rights and related plan expired on March 31, 2009.

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

On February 29, 2008, the Company completed the sale of its newborn metabolic screening laboratory business in a cash transaction. In accordance with Accounting Standards Codification (ASC) 205-20, Presentation of Financial Statements/Discontinued Operations, (Prior authoritative literature: Financial Accounting Standards No. 144 (FAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets), the business operations of the newborn metabolic screening laboratory are reported separately as income from discontinued operations, net of income taxes, for the nine months ended September 30, 2008. See Note 10 to the Condensed Consolidated Financial Statements for more information on the Company's discontinued operations.

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).

**2. Summary of Significant Accounting Policies:  
Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board (the FASB) issued ASC 105, Generally Accepted Accounting Principles, (Prior authoritative literature: Statement of Financial Accounting Standards No. 168 (FAS 168) The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles). ASC 105 has become the source of authoritative United States Generally Accepted Accounting Principles recognized by the FASB to be applied by nongovernmental entities. The Company adopted ASC 105 in the third quarter of 2009.

In July 2009, the FASB issued Statement of Financial Accounting Standards No. 167 (FAS 167), Amendments to FASB Interpretation No. 46(R). The new guidance provided under FAS 167 significantly amends the existing consolidation accounting model for variable interest entities and includes extensive new disclosure requirements. The provisions of FAS 167 are effective for fiscal years beginning after November 15, 2009, or January 1, 2010, for the Company. The Company is currently evaluating the impact of FAS 167 on its consolidation practices and disclosure requirements.

**Fair Value of Financial Instruments**

In accordance with ASC 820-10, Fair Value Measurements and Disclosures (Prior authoritative literature: Statement of Financial Accounting Standards No. 157 ( FAS 157 ), Fair Value Measurements ) the Company carries its money

**Table of Contents**

market funds and the cash surrender value of life insurance related to its deferred compensation arrangements at fair value. Under ASC 820-10, the fair value of these instruments is determined using a three-tier fair value hierarchy. Based on this hierarchy, the Company determined the fair value of its money market funds and the cash surrender value of life insurance using quoted market prices, which is defined as a Level 1, or an observable input, under ASC 820-10. The investments underlying the cash surrender value of life insurance consist primarily of exchange-traded equity securities and mutual funds with quoted prices in active markets. At September 30, 2009, the Company's money market funds and the cash surrender value of life insurance had carrying amounts of \$17.7 million and \$10.1 million, respectively. At December 31, 2008, the Company's money market funds and the cash surrender value of life insurance had carrying amounts of \$12.8 million and \$10.0 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 these items. The carrying value of long-term investments, long-term debt and capital lease obligations approximates fair value.

**3. Cash Equivalents and Investments:**

Effective January 1, 2008, certain cash equivalents carried by the Company became subject to the provisions of ASC 820-10 (Prior authoritative literature: FAS 157). Under ASC 820-10, the Company is required to measure the fair value of its financial assets using a three-tier fair value hierarchy. Based on this hierarchy, the Company determined the fair value of its money market funds using quoted market prices, which is defined as a Level 1, or an observable input, under ASC 820-10. As of September 30, 2009 and December 31, 2008, the Company's cash equivalents consisted entirely of money market funds with a fair value of \$17.7 million and \$12.8 million, respectively.

Investments consist primarily 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 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 ASC 320-10, Investments Debt and Equity Securities, (Prior authoritative literature: Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities). Held-to-maturity securities are not subject to the fair value requirements of ASC 820-10.

The Company's investments held at September 30, 2009, and December 31, 2008, are summarized as follows (in thousands):

|  | September 30, 2009 |           | December 31, 2008 |           |
|--|--------------------|-----------|-------------------|-----------|
|  | Short-Term         | Long-Term | Short-Term        | Long-Term |
| Municipal Debt Securities              | \$ 7,159           | \$ 25,663 | \$ 18,756         | \$ 14,741 |
| Federal Home Loan Securities           |                    | 4,999     | 1,004             | 1,500     |
| Certificates of Deposit                |                    | 720       |                   |           |
| U.S. Treasury Securities               |                    |           | 504               |           |
| Federal Farm Credit Bank Discount Note |                    |           | 500               |           |
|  | \$ 7,159           | \$ 31,382 | \$ 20,764         | \$ 16,241 |

**4. Accounts Receivable:**

Accounts receivable consist of the following (in thousands):

|  | September 30, 2009 | December 31, 2008 |
|--|--------------------|-------------------|
| Gross accounts receivable                                | \$ 548,069         | \$ 531,841        |
| Allowance for contractual adjustments and uncollectibles | (384,046)          | (369,446)         |

|    |         |    |         |
|----|---------|----|---------|
| \$ | 164,023 | \$ | 162,395 |
|----|---------|----|---------|

**Table of Contents****5. Business Acquisitions:**

During the nine months ended September 30, 2009, the Company acquired eight physician group practices and certain intellectual property for total consideration of \$110.5 million, consisting of \$93.1 million in cash and \$17.4 million of contingent consideration. In connection with these acquisitions, the Company recorded goodwill of \$91.0 million, other identifiable intangible assets consisting of physician and hospital agreements and intellectual property of \$19.1 million and fixed assets of \$400,000. These acquisitions will expand the Company's national network of physician practices. The Company expects to improve the results of these physician practices through improved managed care contracting, improved collections, identification of growth initiatives, as well as, operating and cost savings based upon the significant infrastructure it has developed.

The contingent consideration of \$17.4 million recorded during the nine months ended September 30, 2009 is related to agreements to pay additional amounts based on the achievement of certain performance measures for up to five years ending after the acquisition date. The accrued contingent consideration related to these acquisitions was recorded at acquisition-date fair value using the income approach with assumed discount rates ranging from 3.0% to 5.25% 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 agreements is between \$0 and \$19.6 million.

During the nine months ended September 30, 2009, the Company paid and accrued for payments of approximately \$24.0 million for contingent consideration related to certain prior-period acquisitions. In connection with prior-period acquisitions, the Company also recorded identifiable intangible assets consisting of physician, hospital and non-compete agreements of \$9.9 million, additional liabilities of \$3.8 million and additional fixed assets of \$65,000 during the nine months ended September 30, 2009. The Company expects that approximately \$112.5 million of goodwill recorded during the nine months ended September 30, 2009 will be deductible for tax purposes. The Company is still in the process of evaluating fixed assets related to a certain physician practice acquisition completed during the past 12 months.

The results of operations of the eight practices acquired during the nine months ended September 30, 2009 have been included in the Company's Condensed Consolidated Financial Statements from their respective dates of acquisition. The following unaudited pro forma information combines the consolidated results of operations of the Company and the physician group practice operations acquired during 2009 and 2008 as if the transactions had occurred at the beginning of the respective periods (in thousands, except for per share data):

|  | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 2009                                | 2008       | 2009                               | 2008       |
| Net patient service revenue                  | \$ 338,125                          | \$ 315,325 | \$ 991,029                         | \$ 944,370 |
| Income from continuing operations            | \$ 48,681                           | \$ 44,586  | \$ 130,518                         | \$ 132,630 |
| Net income                                   | \$ 48,681                           | \$ 44,586  | \$ 130,518                         | \$ 155,149 |
| Income from continuing operations per share: |                                     |            |                                    |            |
| Basic  | \$ 1.06                             | \$ 0.99    | \$ 2.87                            | \$ 2.85    |
| Diluted                                      | \$ 1.04                             | \$ 0.97    | \$ 2.82                            | \$ 2.79    |
| Net income per share:                        |                                     |            |                                    |            |
| Basic  | \$ 1.06                             | \$ 0.99    | \$ 2.87                            | \$ 3.34    |
| Diluted                                      | \$ 1.04                             | \$ 0.97    | \$ 2.82                            | \$ 3.27    |

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

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

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

|  | September 30, 2009 | December 31, 2008 |
|--|--------------------|-------------------|
| Accounts payable                             | \$ 10,834          | \$ 10,585         |
| Accrued salaries and bonuses                 | 117,376            | 124,883           |
| Accrued payroll taxes and benefits           | 24,056             | 18,042            |
| Accrued professional liability risks         | 110,160            | 93,088            |
| Accrual for uncertain tax positions (Note 8) | 37,332             | 38,781            |
| Other accrued expenses                       | 33,739             | 17,205            |
|  | \$ 333,497         | \$ 302,584        |

The net increase in other accrued expenses from \$17.2 million at December 31, 2008, to \$33.7 million at September 30, 2009 is primarily due to contingent deferred purchase price accruals related to acquisitions.

**7. Stock Incentive Plans and Stock Purchase Plans:**

On May 23, 2008, the Company's shareholders approved the 2008 Incentive Compensation Plan (the 2008 Incentive Plan). The terms of the 2008 Incentive Plan provide for grants of stock options, stock appreciation rights, restricted stock, deferred stock, and other stock-related awards and performance awards that may be settled in cash, stock or other property. As provided in the 2008 Incentive Plan, no additional grants can be made from the Company's prior incentive plans, except that new awards will be permitted under the 2004 Incentive Compensation Plan (the 2004 Incentive Plan) to the extent that shares previously granted under the 2004 Incentive Plan are forfeited, expire or terminate. Under the 2008 Incentive Plan, a total of six million shares are available for the granting of awards, inclusive of the number of shares remaining available for grant under the 2004 Incentive Plan. 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.

On September 24, 2008, the Company's shareholders approved an amendment to the Company's 1996 Non-Qualified Employee Stock Purchase Plan (the Non-Qualified Plan) to increase the number of shares issuable under the Non-Qualified Plan from 1.5 million to 2.5 million shares. The approved amendment also expanded participation in the Non-Qualified Plan to all employees who formerly participated in the 1996 Qualified Employee Stock Purchase Plan (the Qualified Plan), which was terminated in August 2008. Collectively, the Non-Qualified Plan and the Qualified Plan are referred to as the Stock Purchase Plans. Under the Non-Qualified Plan, employees are permitted to purchase the Company's common stock at 85% of market value on January 1, April 1, July 1 and October 1 of each year.

Under the 2008 Incentive Plan, options to purchase shares of common stock may be granted at a price not less than the fair market value of the shares on the date of grant. The options must be exercised within 10 years from the date of grant and generally become exercisable on a pro rata basis over a three-year period from the date of grant. Restricted stock awards generally vest over periods of three years upon the fulfillment of specified service-based conditions and in certain instances performance-based conditions. Deferred stock awards vest on a cliff basis over a term of five years upon the fulfillment of specified service-based and performance-based conditions. The Company recognizes compensation expense related to its restricted stock and deferred stock awards ratably over the corresponding vesting periods. During the nine months ended September 30, 2009, the Company granted 552,632 shares of restricted stock and 162,269 stock options to its employees under the Stock Incentive Plans. At September 30, 2009, the Company had approximately 3.2 million shares available for future grants and awards under the 2008 Incentive Plan. During the nine months ended September 30, 2009, approximately 149,000 shares were issued under the Non-Qualified Plan. At September 30, 2009, the Company had approximately 830,000 shares reserved for issuance under the Non-Qualified Plan.

During the three and nine months ended September 30, 2009 and 2008, the Company recognized approximately \$6.5 million and \$17.9 million, and \$5.4 million and \$15.3 million, respectively, of stock-based compensation expense related to the Stock Incentive Plans and the Stock Purchase Plans. The excess tax benefit recognized in additional paid-in capital related to the vesting of restricted stock and the exercise of stock options for the nine months ended September 30, 2009 was approximately \$1.2 million.





**Table of Contents****8. Accounting for Uncertain Tax Positions:**

As of September 30, 2009 and December 31, 2008, the Company's liability for unrecognized tax benefits, excluding accrued interest and penalties, was \$46.6 million and \$47.6 million, respectively. The Company had approximately \$18.2 million and \$18.9 million of unrecognized tax benefits that, if recognized, would favorably impact its effective tax rate at September 30, 2009 and December 31, 2008, respectively.

During the nine months ended September 30, 2009, the Company decreased its liability for uncertain tax positions by a net total of approximately \$1.0 million consisting of an increase in its reserve for state tax positions of \$1.1 million and a decrease in its reserve of \$2.1 million as a result of a partial settlement with the Internal Revenue Service for federal tax positions.

At September 30, 2009, accounts payable and accrued expenses and other liabilities as presented in the Company's Condensed Consolidated Balance Sheet include \$37.3 million and \$21.1 million, respectively, related to the Company's total liability for unrecognized tax benefits of \$58.4 million. At December 31, 2008, accounts payable and accrued expenses and other liabilities as presented in the Company's Condensed Consolidated Balance Sheet include \$38.8 million and \$18.4 million, respectively, related to the Company's total liability for unrecognized tax benefits of \$57.2 million. As of September 30, 2009 and December 31, 2008, the Company's accrued liability for interest and penalties totaled \$11.9 million and \$9.6 million, respectively. The Company includes interest and penalties related to income tax liabilities in income tax expense.

The Company's liability for uncertain tax positions could be reduced over the next 12 months by approximately \$700,000, excluding accrued interest and penalties, due to the expiration of statutes of limitation or settlements with taxing authorities. Additionally, the Company anticipates that its liability for uncertain tax positions will be increased over the next 12 months by additional taxes of approximately \$2.1 million. Although the Company anticipates additional changes in its liability for uncertain tax positions related to certain temporary differences, an estimate of the range of such changes cannot be made at this time.

The Company is currently subject to U.S. Federal and various state income tax examinations for the tax years 2004 through 2008.

**9. 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 the dilutive effect of outstanding options and non-vested restricted and deferred stock calculated using the treasury stock method. Under the treasury stock method, the Company calculates the assumed excess tax benefits related to the potential exercise or vesting of its stock-based awards using the difference between the average market price for the applicable period less the option price, if any, and the fair value of the stock-based award on the date of grant multiplied by the applicable tax rate.

The calculation of shares used in the basic and diluted net income per share calculation for the three and nine months ended September 30, 2009 and 2008 is as follows (in thousands):

|  | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |        |
|--|-------------------------------------|--------|------------------------------------|--------|
|  | 2009                                | 2008   | 2009                               | 2008   |
| Weighted average number of common shares outstanding                       | 45,663                              | 45,207 | 45,460                             | 46,416 |
| Weighted average number of dilutive common shares equivalents              | 1,001                               | 971    | 819                                | 1,168  |
| Weighted average number of common and common equivalent shares outstanding | 46,664                              | 46,178 | 46,279                             | 47,584 |

For the three months ended September 30, 2009 and 2008, the Company had approximately 1.4 million and 1.3 million anti-dilutive outstanding employee stock options, respectively. For the nine months ended September 30, 2009 and 2008, the Company had approximately 1.9 million and 51,000 anti-dilutive outstanding employee stock options, respectively. For the three months ended September 30, 2008, the Company had approximately 101,000 shares of anti-dilutive unvested restricted and deferred stock. The Company had no anti-dilutive unvested restricted or deferred stock for the three months ended



**Table of Contents**

September 30, 2009. For the nine months ended September 30, 2009 and 2008, the Company had approximately 630,000 and 325,000 shares of anti-dilutive unvested restricted and deferred stock, respectively. All anti-dilutive stock options and shares of restricted and deferred stock are excluded from the computation of diluted earnings per share.

**10. Discontinued Operations:**

The Company completed the sale of its newborn metabolic screening laboratory business on February 29, 2008 in a cash transaction for gross proceeds of approximately \$66.0 million and recorded an after-tax gain on the sale of \$23.2 million during the three months ended March 31, 2008. During the three months ended June 30, 2008, the Company adjusted certain deferred taxes related to the sale of its newborn metabolic screening laboratory resulting in a decrease in the after-tax gain of \$1.2 million. In November 2008, the acquiring entity made certain tax elections that resulted in additional proceeds to the Company of \$2.3 million. The additional proceeds of \$2.3 million were directly offset by an increase in the Company's tax provision and had no impact on the Company's after-tax gain on the sale. The Company's gain on the sale of its newborn metabolic screening laboratory business, net of income taxes, was \$22.0 million for the year ended December 31, 2008. The Company has retained contingent liabilities relating to certain unresolved legal matters as of the sale date. The Company believes that the outcome of these legal matters will not have a material adverse effect on its business, financial condition or results of operations.

In accordance with ASC 205-20, the business operations of the newborn metabolic screening laboratory are considered discontinued operations for the nine months ended September 30, 2008.

Income from discontinued operations, net of income taxes, as reported in the Company's Condensed Consolidated Statements of Income for the nine months ended September 30, 2008, includes net patient service revenue of \$2.5 million. Pretax profit, excluding the pretax gain on sale, included in income from discontinued operations for the nine months ended September 30, 2008 was \$864,000. The pretax gain on sale included in income from discontinued operations for the nine months ended September 30, 2008 was \$36.2 million.

**11. Commitments and Contingencies:**

In July 2007, the Audit Committee of the Company's Board of Directors concluded a comprehensive review of the Company's historical practices related to the granting of stock options. At the commencement of the review, the Company voluntarily contacted the staff of the SEC regarding the Audit Committee's review and subsequently the SEC commenced a formal investigation into the Company's stock option granting practices. In March 2009, the Company reached a settlement with the SEC with respect to its investigation by consenting to the entry of a permanent injunction against future violations of the anti-fraud, reporting, books and records, and internal accounting control provisions of the federal securities laws. The settlement did not require the payment of any civil penalty, fine or money damages and resolves completely the SEC's investigation into the matter.

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

In September 2006, the Company completed a final settlement agreement with the Department of Justice and a relator who initiated a qui tam complaint against the Company relating to its billing practices for services reimbursed by Medicaid, the Federal Employees Health Benefit program, and the United States Department of Defense's TRICARE program for military dependents and retirees (Federal Settlement Agreement). In February 2007, the Company completed separate state settlement agreements with each state Medicaid program involved in the settlement (the State Settlement Agreements). Under the terms of the Federal Settlement Agreement and State Settlement Agreements, the Company paid \$25.1 million to the federal government and participating state Medicaid programs in connection with its billing for neonatal services provided from January 1996 through December 1999.

As part of the Federal Settlement Agreement, the Company is under a five-year Corporate Integrity Agreement with the Office of Inspector General of the Department of Health and Human Services (the OIG). The Corporate Integrity Agreement acknowledges the existence of the Company's comprehensive Compliance Plan, which provides for policies and procedures aimed at promoting the Company's adherence with FHC Program requirements and requires the Company to maintain the Compliance Plan in full operation for the term of the Corporate Integrity Agreement. In addition, the Corporate Integrity Agreement requires, among other things, that the Company must comply with the following integrity obligations during the term of the Corporate Integrity Agreement:

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

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**Table of Contents**

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

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

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

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

maintaining the Disclosure Program previously developed and implemented that includes a mechanism to enable individuals to disclose, to the Chief Compliance Officer or any person who is not in the disclosing individual's chain of command, issues or questions believed by the individual to be a potential violation of criminal, civil, or administrative laws;

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

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

reporting and returning overpayments received from FHC Programs;

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

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

Failure to comply with the Company's duties under the Corporate Integrity Agreement could result in substantial monetary penalties and in the case of a material breach, could even result in the Company being excluded from participating in FHC Programs. Management believes that the Company was in compliance with the Corporate Integrity Agreement as of September 30, 2009.

The Company expects that additional audits, inquiries and investigations from government authorities and agencies will continue to occur in the ordinary course of business. Such audits, inquiries and investigations and their ultimate resolutions, individually or in the aggregate, could have a material adverse effect on the Company's business, financial condition, results of operations, cash flows, or the trading price of its common stock.

In the ordinary course of business, the Company becomes involved in pending and threatened legal actions and proceedings, most of which involve claims of medical malpractice related to medical services provided by the Company's affiliated physicians. The Company's contracts with hospitals generally require the Company to indemnify them and their affiliates for losses resulting from the negligence of the Company's affiliated physicians. The Company may also become subject to other lawsuits which could involve large claims and significant defense costs.

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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 and the trading price of its common stock.

**Table of Contents**

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.

**12. Subsequent Events:**

The Company has performed a review of subsequent events through November 2, 2009, the date the financial statements were issued, and concluded there were no events or transactions that occurred during this period that required recognition or disclosure.

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## **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.

Effective December 31, 2008, MEDNAX, Inc. and Pediatrix Medical Group, Inc., a Florida corporation ( "Pediatrix"), completed a holding company formation transaction that established MEDNAX, Inc. as the parent company of Pediatrix. In the transaction, each outstanding share of Pediatrix common stock, par value \$0.01 per share, and attached preferred share purchase right was converted into one share of MEDNAX, Inc. common stock, par value \$0.01 per share, and attached preferred share purchase right. The preferred share purchase rights and related plan expired on March 31, 2009.

The United States is continuing to experience an economic slowdown. During this slowdown, there have been disruptions in the capital and credit markets, and the number of unemployed workers has increased dramatically. During 2008, our business was impacted by lower neonatal intensive care unit patient volume and a shift in our third-party payor mix toward government-sponsored healthcare programs. Although we have not experienced volume declines or an unexpected adverse change in payor mix during the first three quarters of 2009, our patient volume could decline during the fourth quarter of 2009 and there could be additional shifts toward government-sponsored programs if economic conditions in the United States do not improve.

In addition, federal and state governments continue to focus significant attention on healthcare reform and the possible creation of new government-sponsored programs and the expansion of existing ones. At the present time, various legislative proposals for reform are under consideration in the United States House of Representatives and Senate. See Item 1A, Risk Factors, in our most recently filed Form 10-K for additional discussion on possible healthcare reform, the decline of the United States economy and other potential developments in the healthcare industry that could affect our business.

During the nine months ended September 30, 2009, we completed the acquisition of eight physician group practices consisting of five neonatology physician practices, one multi-state pediatric subspecialty group, one maternal-fetal physician practice and one pediatric cardiology physician practice. During the nine months ended September 30, 2008, we completed the acquisition of 10 physician practices consisting of three pediatric cardiology physician practices, three maternal-fetal physician practices, two neonatal physician practices and two anesthesiology practices. 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, 2009 and 2008 include the results of operations for these physician group practices from their respective dates of acquisition and therefore are not comparable in some respects.

During 2008, we completed the sale of our newborn metabolic screening laboratory business in a cash transaction for approximately \$68.3 million. The sale of the laboratory has allowed us to focus more resources to support the continued expansion of our clinical and administrative competencies within physician services. See Note 10 to the Condensed Consolidated Financial Statements for more information regarding the sale of our newborn metabolic screening laboratory business.

The following discussion contains forward-looking statements. Please see the Company's most recent Annual Report on Form 10-K, including the section entitled "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, 2009 as Compared to Three Months Ended September 30, 2008***

Our net patient service revenue increased \$64.1 million, or 24.0%, to \$331.3 million for the three months ended September 30, 2009, as compared to \$267.2 million for the same period in 2008. Of this \$64.1 million increase, \$44.9 million, or 70.0%, was attributable to revenue generated from acquisitions completed after June 30, 2008. Same-unit net patient service revenue increased \$19.2 million, or 7.4%, for the three



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months ended September 30, 2009. The change in same-unit net patient service revenue was the result of increased revenue of \$12.5 million from higher patient service volumes across our specialties and \$6.7 million related to pricing and reimbursement factors. Increased revenue of \$12.5 million from higher patient service volumes includes \$6.4 million

**Table of Contents**

from a 4.0% increase in neonatal intensive care unit patient days and \$6.1 million from volume growth in maternal fetal, pediatric cardiology, anesthesiology and other services, including hearing screens and newborn nursery services. The net increase in revenue of \$6.7 million related to pricing and reimbursement factors is primarily due to improved managed care contracting and the flow through of revenue from price increases, partially offset by a decrease in revenue caused by an increase in the percentage of our patients being enrolled in government-sponsored programs. Payments received from government-sponsored programs are substantially less than payments received from commercial insurance payors for equivalent services. 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 \$38.4 million, or 24.0%, to \$198.2 million for the three months ended September 30, 2009, as compared to \$159.8 million for the same period in 2008. This \$38.4 million increase was attributable to increased costs of \$26.8 million associated with new physicians and other staff to support acquisition-related growth and increased costs of \$11.6 million related to growth at our existing units.

Practice supplies and other operating expenses increased \$2.0 million, or 17.5%, to \$13.1 million for the three months ended September 30, 2009, as compared to \$11.1 million for the same period in 2008. The increase was attributable to rent, medical supply and other costs of \$900,000 related to our office-based acquisitions, and practice supply and other costs of \$1.1 million related to anesthesiology and other hospital-based acquisitions and growth at our existing units.

General and administrative expenses include all billing and collection functions and all other salaries, benefits, supplies and operating expenses not specifically related to the day-to-day operations of our physician group practices. General and administrative expenses increased \$6.9 million, or 22.4%, to \$37.6 million for the three months ended September 30, 2009, as compared to \$30.7 million for the same period in 2008. This increase of \$6.9 million is attributable to \$5.0 million of salaries, benefits and other general and administrative costs related to the overall growth of the Company and \$1.9 million of salaries, benefits and other general and administrative costs specifically related to the Company's expansion into anesthesia services. General and administrative expenses as a percentage of net patient service revenue were 11.4% for the three months ended September 30, 2009, as compared to 11.5% for the same period in 2008.

Depreciation and amortization expense increased by \$660,000, or 20.0%, to \$4.0 million for the three months ended September 30, 2009, as compared to \$3.3 million for the same period in 2008. This increase was attributable to the amortization of intangible assets related to acquisitions and the depreciation of fixed asset additions.

Income from operations increased \$16.1 million, or 26.0%, to \$78.3 million for the three months ended September 30, 2009, as compared to \$62.2 million for the same period in 2008. Our operating margin increased to 23.7% for the three months ended September 30, 2009, as compared to 23.3% for the same period in 2008. This net increase of almost 40 basis points is primarily due to revenue growth with continued operating efficiencies at the practice and administrative service levels.

We recorded net interest expense of \$140,000 for the three months ended September 30, 2009, as compared to \$639,000 for the same period in 2008. The decrease in interest expense is primarily due to the decline in interest rates since late 2008 associated with borrowings under our \$350 million revolving credit facility ( Line of Credit ). Interest expense for the three months ended September 30, 2009 and 2008, consisted of interest charges, commitment fees and amortized debt costs associated with our Line of Credit.

Our effective income tax rate was 38.45% for the three months ended September 30, 2009, as compared to 39.25% for the same period in 2008. The decrease in our effective income tax rate is related to a reduction in our reserve requirements for uncertain tax positions due to the expiration of the statute of limitations on certain items.

Net income increased \$10.7 million, or 28.7%, to \$48.1 million for the three months ended September 30, 2009, as compared to \$37.4 million for the same period in 2008.

Diluted net income per common and common equivalent share was \$1.03 on weighted average shares outstanding of 46.7 million for the three months ended September 30, 2009, as compared to \$0.81 on weighted average shares outstanding of 46.2 million for the same period in 2008. The increase in weighted average shares outstanding was primarily due to an increase in weighted average shares from the vesting of restricted stock, the exercise of employee stock options, and the issuance of shares under our Stock Purchase Plans.

***Nine Months Ended September 30, 2009 as Compared to Nine Months Ended September 30, 2008***

Our net patient service revenue increased \$184.5 million, or 24.0%, to \$955.0 million for the nine months ended September 30, 2009, as compared to \$770.5 million for the same period in 2008. Of this \$184.5 million increase, \$145.5 million, or 78.9%, was attributable to revenue generated from acquisitions completed after December 31, 2007. Same-unit net patient service revenue increased \$39.0 million, or 5.2%, for the

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nine months ended September 30, 2009. The change in same-unit net patient service revenue

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**Table of Contents**

was the result of increased revenue of \$29.0 million from higher patient service volumes across our subspecialties and \$10.0 million related to pricing and reimbursement factors. Increased revenue of \$29.0 million from higher patient service volumes includes \$11.0 million from a 2.3% increase in neonatal intensive care unit patient days and \$18.0 million from volume growth in maternal fetal, pediatric cardiology, anesthesiology and other services, including hearing screens and newborn nursery services. Excluding the additional calendar day in February for the 2008 leap year, the increase in neonatal intensive care unit patient days was 2.7%. The net increase in revenue of \$10.0 million related to pricing and reimbursement factors is primarily due to improved managed care contracting and the flow through of revenue from price increases, partially offset by a decrease in revenue caused by an increase in the percentage of our patients being enrolled in government-sponsored programs. Payments received from government-sponsored programs are substantially less than payments received from commercial insurance payors for equivalent services. 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 \$122.1 million, or 26.5%, to \$584.0 million for the nine months ended September 30, 2009, as compared to \$461.9 million for the same period in 2008. This \$122.1 million increase was attributable to increased costs of \$92.2 million associated with new physicians and other staff to support acquisition-related growth and increased costs of \$29.9 million related to growth at existing units.

Practice supplies and other operating expenses increased \$7.1 million, or 22.8%, to \$38.5 million for the nine months ended September 30, 2009, as compared to \$31.4 million for the same period in 2008. The increase was attributable to practice supply and other costs of \$3.7 million related to anesthesiology and other hospital-based acquisitions and growth at our existing units, and rent, medical supply and other costs of \$3.4 million related to our office-based 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 \$19.1 million, or 20.8%, to \$110.6 million for the nine months ended September 30, 2009, as compared to \$91.5 million for the same period in 2008. This increase of \$19.1 million is attributable to \$12.2 million of salaries, benefits and other general and administrative costs related to the overall growth of the Company, and \$6.9 million of salaries, benefits and other general and administrative costs specifically related to the Company's expansion into anesthesia services. General and administrative expenses as a percentage of net patient service revenue were 11.6% for the nine months ended September 30, 2009, as compared to 11.9% for the same period in 2008.

Depreciation and amortization expense increased by \$3.0 million, or 33.8%, to \$12.1 million for the nine months ended September 30, 2009, as compared to \$9.1 million for the same period in 2008. This increase was attributable to the amortization of intangible assets related to acquisitions and the depreciation of fixed asset additions.

Income from operations increased \$33.1 million, or 18.7%, to \$209.7 million for the nine months ended September 30, 2009, as compared to \$176.6 million for the same period in 2008. Our operating margin decreased to 22.0% for the nine months ended September 30, 2009, as compared to 22.9% for the same period in 2008. The decrease of over 90 basis points is primarily due to the addition of anesthesia services and growth in our office-based practices which have lower operating margins than neonatal services.

We recorded net interest expense of \$1.1 million for the nine months ended September 30, 2009, as compared to net investment income of \$599,000 for the same period in 2008. The decrease in investment income and the corresponding increase in interest expense are primarily due to the use of available funds and borrowings under our \$350 million Line of Credit to complete stock repurchase programs in 2008 and acquire physician practices in late 2008 and during 2009, combined with a lower rate of return on our investments. Interest expense for the nine months ended September 30, 2009 and 2008, consisted of interest charges, commitment fees and amortized debt costs associated with our Line of Credit.

Our effective income tax rate was 39.9% for the nine months ended September 30, 2009, as compared to 39.2% for the same period in 2008. The net increase in our effective income tax rate is related to the recognition of a non-deductible loss and a net decrease in reserve requirements for uncertain tax positions.

Income from continuing operations increased \$17.7 million, or 16.4%, to \$125.4 million for the nine months ended September 30, 2009, as compared to \$107.7 million for the same period in 2008.

Diluted income from continuing operations per common and common equivalent share was \$2.71 on weighted average shares outstanding of 46.3 million for the nine months ended September 30, 2009, as compared to \$2.26 on weighted average shares outstanding of 47.6 million for the same period in 2008. The net decrease in weighted average shares outstanding was primarily due to the impact of shares repurchased in 2008 under repurchase programs approved by our Board of Directors in December 2007 and May 2008, partially offset by an increase in weighted average shares from the vesting of restricted stock, the exercise of employee stock options, and the issuance of shares under our Stock Purchase

Plans.

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**Table of Contents**

In February 2008, we completed the sale of our newborn metabolic screening laboratory business in a cash transaction. Income from discontinued operations, net of income taxes, of \$22.5 million for the nine months ended September 30, 2008 includes \$22.0 million related to the after-tax gain on the sale of this business and approximately \$500,000 related to its operating results. See Note 10 to the Condensed Consolidated Financial Statements for more information regarding the sale of our newborn metabolic screening laboratory business.

Net income decreased \$4.8 million, or 3.7%, to \$125.4 million for the nine months ended September 30, 2009, as compared to \$130.2 million for the same period in 2008. Net income for the nine months ended September 30, 2008 includes \$22.0 million related to the after-tax gain on the sale of our newborn metabolic screening laboratory and approximately \$500,000 related to the operations of this business.

Diluted net income per common and common equivalent share was \$2.71 on weighted average shares outstanding of 46.3 million for the nine months ended September 30, 2009, as compared to \$2.74 on weighted average shares outstanding of 47.6 million for the same period in 2008.

**Liquidity and Capital Resources**

As of September 30, 2009, we had \$20.9 million of cash and cash equivalents as compared to \$14.3 million at December 31, 2008. In addition, we had a working capital deficit of \$60.5 million at September 30, 2009, an increase of \$28.3 million from our working capital deficit of \$32.2 million at December 31, 2008. This net increase in our working capital deficit is primarily due to the use of funds for physician practice acquisition payments and payments on our Line of Credit, partially offset by year-to-date earnings.

Our net cash provided from operating activities was \$168.5 million for the nine months ended September 30, 2009, as compared to net cash provided from operating activities of \$113.1 million for the same period in 2008. This \$55.4 million net improvement in our cash flow from operating activities for the nine months ended September 30, 2009 is primarily due to: (i) improved results from continuing operations; (ii) a net improvement in cash flow from operations related to changes in the components of our accounts payable and accrued expenses; (iii) a net improvement in cash flow from operations related to changes in our deferred income taxes and income tax liabilities; and (iv) an increase in cash flow from operations related to accounts receivable.

During the nine months ended September 30, 2009, cash used in operating activities related to accounts receivable was \$1.6 million, compared to \$5.9 million for the same period in 2008. This increase in cash flow from operations of \$4.3 million for the nine months ended September 30, 2009 is due to improved cash collections.

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 has decreased from 50.2 days at December 31, 2008 to 45.6 days at September 30, 2009.

During the nine months ended September 30, 2009, cash provided from operating activities related to accounts payable and accrued expenses was \$13.1 million, compared to cash used in operating activities of \$8.2 million for the same period in 2008. This net improvement of \$21.3 million in cash flow from operations related to the components of our accounts payable and accrued expenses is primarily due to increases in our accruals during the nine months ended September 30, 2009, compared to the same period in 2008, for bonuses, salary and other liabilities associated with the overall growth of the Company.

The cash flow changes related to our long-term liability for uncertain tax positions are included under the caption Other liabilities in our Condensed Consolidated Statements of Cash Flows. During the nine months ended September 30, 2009, cash provided from operating activities related to the change in our long-term liability for uncertain tax positions combined with the changes in our deferred income taxes and income taxes payable was \$2.4 million, compared to \$9.3 million for the same period in 2008. The \$9.3 million in net cash provided from operating activities for the nine months ended September 30, 2008 includes an increase in our current taxes payable of \$14.2 million related to the gain on the sale of our newborn metabolic screening laboratory in February 2008. See Note 8 to the Condensed Consolidated Financial Statements for more information on the changes in our liability for uncertain tax positions.



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## **Table of Contents**

During the nine months ended September 30, 2009, our net cash used in investing activities of \$115.8 million included physician practice acquisition payments and contingent purchase price payments of \$103.4 million, capital expenditures of \$10.9 million, and net purchases of \$1.5 million related to the purchase and maturity of investments. Our acquisition payments were primarily related to the purchase of five neonatology physician practices, one multi-state pediatric subspecialty group, one maternal-fetal physician practice and one pediatric cardiology physician practice. Our capital expenditures were for medical equipment, leasehold improvements, computer and office equipment, software, furniture and fixtures and other improvements at our office-based practices and our corporate and regional offices.

During the nine months ended September 30, 2009, our net cash used in financing activities of \$46.2 million consisted primarily of net payments on our Line of Credit of \$54.0 million and proceeds from the issuance of common stock under our Stock Purchase Plans and from the exercise of employee stock options of \$7.2 million.

Our \$350 million Line of Credit is guaranteed by substantially all of our subsidiaries and includes a \$50 million limit on the issuance of letters of credit and a \$25 million limit on the issuance of swingline loans. In addition, our Line of Credit may be increased to \$400 million subject to the satisfaction of specified conditions. At our option, our Line of Credit (other than swingline loans) bears interest at (1) the alternate base rate, which is defined as the higher of (i) the Federal Funds Rate plus one half of 1% and (ii) the Wachovia Bank, N.A prime rate or (2) the LIBOR rate, plus, in either case, an applicable margin rate of up to 1.5% based on our consolidated leverage ratio. Swingline loans bear interest at the alternate base rate plus the applicable margin. Our Line of Credit matures on September 3, 2013. We are subject to certain covenants and restrictions specified in our Line of Credit, including covenants that require us to maintain a minimum fixed charge coverage ratio and to not exceed a specified consolidated leverage ratio, to comply with laws, and restrict us from paying dividends and making certain other distributions, as specified therein. Failure to comply with these covenants would constitute an event of default under our Line of Credit, notwithstanding our ability to meet our debt service obligations. Our Line of Credit includes various customary remedies for the lenders following an event of default. Wachovia Bank, N.A., an affiliate of Wells Fargo & Company, as administrative agent, Bank of America, N.A., as syndication agent, and U.S. Bank, N.A., as documentation agent, have aggregate commitments of \$205 million under our Line of Credit, and the remaining commitments of \$145 million are held by seven other lenders.

At September 30, 2009, we had an outstanding principal balance of \$85.5 million on our Line of Credit. We also had outstanding letters of credit associated with our professional liability insurance program of \$9.0 million which reduced the amount available on our Line of Credit at September 30, 2009. At September 30, 2009, we believe we were in compliance 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 2009.

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 patterns. Our total liability related to professional liability risks at September 30, 2009 was \$110.2 million.

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

### **Caution Concerning Forward-Looking Statements**

Certain information included or incorporated by reference in this Quarterly Report may be deemed to be forward-looking statements.

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



## **Table of Contents**

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Our Line of Credit is subject to market risk and interest rate changes. Our Line of Credit bears interest at (1) the alternate base rate, which is defined as the higher of (i) the Federal Funds Rate plus one half of 1% and (ii) the Wachovia Bank, N.A. prime rate or (2) the LIBOR rate, plus, in either case, an applicable margin rate of up to 1.5% based on our consolidated leverage ratio. The outstanding principal balance on our Line of Credit was \$85.5 million at September 30, 2009. Considering the total outstanding balance of \$85.5 million, a 1% change in interest rates would result in an impact to income before taxes of approximately \$855,000 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 (the Exchange Act)) 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 Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

#### **Changes in Internal Controls Over Financial Reporting**

No changes in our internal control over financial reporting occurred during the quarter ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**Table of Contents**

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

In July 2007, the Audit Committee of our Board of Directors concluded a comprehensive review of our historical practices related to the granting of stock options. At the commencement of the review, we voluntarily contacted the staff of the Securities and Exchange Commission ( SEC ) regarding the Audit Committee's review and subsequently the SEC commenced a formal investigation into our stock option granting practices. In March 2009, we reached a settlement with the SEC with respect to its investigation by consenting to the entry of a permanent injunction against future violations of the anti-fraud, reporting, books and records, and internal accounting control provisions of the federal securities laws. The settlement did not require the payment of any civil penalty, fine or money damages and resolves completely the SEC's investigation into the matter.

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

In September 2006, we completed a final settlement agreement with the Department of Justice and a relator who initiated a qui tam complaint against us relating to our billing practices for services reimbursed by Medicaid, the Federal Employees Health Benefit program, and the United States Department of Defense's TRICARE program for military dependents and retirees ( Federal Settlement Agreement ). In February 2007, we completed separate state settlement agreements with each state Medicaid program involved in the settlement (the State Settlement Agreements ). Under the terms of the Federal Settlement Agreement and State Settlement Agreements, we paid \$25.1 million to the federal government and participating state Medicaid programs in connection with our billing for neonatal services provided from January 1996 through December 1999.

As part of the Federal Settlement Agreement, we are under a five-year Corporate Integrity Agreement with the OIG. The Corporate Integrity Agreement acknowledges the existence of our comprehensive Compliance Plan, which provides for policies and procedures aimed at promoting our adherence with FHC Program requirements and requires us to maintain the Compliance Plan in full operation for the term of the Corporate Integrity Agreement. In addition, the Corporate Integrity Agreement requires, among other things, that we must comply with the following integrity obligations during the term of the Corporate Integrity Agreement:

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

maintaining the Code of Conduct previously developed, implemented, and distributed to our officers, directors, employees, contractors, subcontractors, agents, or other persons who provide patient care items or services (the Covered Persons );

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

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

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

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maintaining the Disclosure Program previously developed and implemented that includes a mechanism to enable individuals to disclose, to the Chief Compliance Officer or any person who is not in the disclosing individual's chain of command, issues or questions believed by the individual to be a potential violation of criminal, civil, or administrative laws;

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

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

**Table of Contents**

reporting and returning overpayments received from FHC Programs;

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

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

Failure to comply with our duties under the Corporate Integrity Agreement could result in substantial monetary penalties and in the case of a material breach, could even result in us being excluded from participating in FHC Programs. We believe that we were in compliance with the Corporate Integrity Agreement as of September 30, 2009.

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

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

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

**Item 1A. Risk Factors**

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

**Item 6. Exhibits**

See Exhibit Index.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**MEDNAX, INC.**

Date: November 2, 2009

By: */s/* ROGER J. MEDEL, M.D.  
**Roger J. Medel, M.D., Chief Executive Officer (principal executive officer)**

Date: November 2, 2009

By: */s/* KARL B. WAGNER  
**Karl B. Wagner, Chief Financial Officer (principal financial officer)**

**Table of Contents**

**EXHIBIT INDEX**

| <b>Exhibit<br/>No.</b> | <b>Description</b>   |
|------------------------|--|
| 2.1                    | Agreement and Plan of Merger, dated as of December 29, 2008, between MEDNAX, Inc., Pediatrix Medical Group, Inc. and PMG Merger Sub, Inc. (incorporated by reference to Exhibit 2.1 to MEDNAX's Current Report on Form 8-K dated January 2, 2009). |
| 3.1                    | Amended and Restated Articles of Incorporation of MEDNAX, Inc. (incorporated by reference to Exhibit 3.1 to MEDNAX's Current Report on Form 8-K dated January 2, 2009).  |
| 3.2                    | Articles of Amendment Designating Series A Junior Participating Preferred Stock of MEDNAX, Inc. (incorporated by reference to Exhibit 3.2 to MEDNAX's Current Report on Form 8-K dated January 2, 2009).   |
| 3.3                    | Amended and Restated By-laws of MEDNAX, Inc. (incorporated by reference to Exhibit 3.3 to MEDNAX's Current Report on Form 8-K dated January 2, 2009).  |
| 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.  |

+ Filed herewith.