MEDNAX, INC.
Form 10-Q
July 28, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

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 Incorporation or organization)	**(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 former fiscal year, if changed since last report)

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

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

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

On July 21, 2017, the registrant had outstanding 93,569,153 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

(in thousands)

(Unaudited)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 40,423	$ 55,698
Short-term investments	11,161	11,286
Accounts receivable, net	480,402	495,276
Prepaid expenses	12,315	11,051
Other current assets	13,269	13,817
Total current assets	557,570	587,128
Investments	86,286	78,975
Property and equipment, net	110,476	103,068
Goodwill	3,948,339	3,845,157
Intangible assets, net	643,002	668,529
Other assets	61,723	56,543
Total assets	$ 5,407,396	$ 5,339,400
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 320,051	$ 407,938
Current portion of long-term debt and capital lease obligations	27,040	22,054
Income taxes payable	3,057	18,957
Total current liabilities	350,148	448,949
Line of credit	860,500	783,500
Long-term debt and capital lease obligations, net	885,631	900,128
Long-term professional liabilities	176,416	173,080
Deferred income taxes	250,713	227,802
Other liabilities	45,740	45,174
Total liabilities	2,569,148	2,578,633
Commitments and contingencies		

Shareholders equity:				
Preferred stock; $.01 par value; 1,000 shares authorized; none issued				
Common stock; $.01 par value; 200,000 shares authorized; 93,480 and 93,718 shares issued and outstanding, respectively		935		937
Additional paid-in capital		991,106		974,304
Retained earnings		1,846,207		1,785,526
Total shareholders equity		2,838,248		2,760,767
Total liabilities and shareholders equity	$	5,407,396	$	5,339,400

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 June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Net revenue	$ 842,944	$ 771,759	$ 1,678,541	$ 1,524,383
Operating expenses:				
Practice salaries and benefits	561,418	484,625	1,133,803	976,436
Practice supplies and other operating expenses	30,872	26,992	58,668	54,038
General and administrative expenses	103,015	92,116	206,780	182,066
Depreciation and amortization	25,735	20,241	51,349	39,825
Total operating expenses	721,040	623,974	1,450,600	1,252,365
Income from operations	121,904	147,785	227,941	272,018
Investment and other income	365	410	941	1,028
Interest expense	(18,535)	(15,058)	(36,287)	(29,521)
Equity in earnings of unconsolidated affiliate	689	789	1,486	1,583
Total non-operating expenses	(17,481)	(13,859)	(33,860)	(26,910)
Income before income taxes	104,423	133,926	194,081	245,108
Income tax provision	40,725	51,601	75,692	95,012
Net income	63,698	82,325	118,389	150,096
Net loss attributable to noncontrolling interests		102		230
Net income attributable to MEDNAX, Inc.	$ 63,698	$ 82,427	$ 118,389	$ 150,326
Per common and common equivalent share data:				
Net income attributable to MEDNAX, Inc.:				
Basic	$ 0.69	$ 0.89	$ 1.28	$ 1.63
Diluted	$ 0.69	$ 0.89	$ 1.27	$ 1.62
Weighted average common shares:				
Basic	92,181	92,182	92,270	92,225
Diluted	92,812	92,945	92,977	93,018

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)

	Six Months Ended June 30, 2017	2016
Cash flows from operating activities:		
Net income	$ 118,389	$ 150,096
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	51,349	39,825
Amortization of premiums, discounts and issuance costs	2,740	2,693
Stock-based compensation expense	14,781	17,240
Deferred income taxes	18,454	18,081
Other	(3,407)	(1,089)
Changes in assets and liabilities:		
Accounts receivable	18,361	(16,228)
Prepaid expenses and other current assets	(666)	(2,225)
Other assets	(3,425)	795
Accounts payable and accrued expenses	(87,862)	(91,836)
Income taxes payable	(15,900)	(6,136)
Payments of contingent consideration liabilities	(299)	(501)
Long-term professional liabilities	1,016	3,522
Other liabilities	2,282	2,467
Net cash provided from operating activities	115,813	116,704
Cash flows from investing activities:		
Acquisition payments, net of cash acquired	(113,746)	(195,715)
Purchases of investments	(15,324)	(38,679)
Proceeds from maturities of investments	7,290	25,020
Purchases of property and equipment	(21,909)	(19,171)
Other	3,868	
Net cash used in investing activities	(139,821)	(228,545)
Cash flows from financing activities:		
Borrowings on credit agreement	821,000	902,000
Payments on credit agreement	(754,000)	(737,500)
Payments of contingent consideration liabilities	(1,961)	(4,393)
Payments on capital lease obligations	(998)	(927)
Excess tax benefit from vesting of restricted stock and exercises of stock options		3,354
Proceeds from issuance of common stock	13,990	11,455

Repurchases of common stock	(70,192)	(61,828)
Contribution from noncontrolling interests	894	
Net cash provided from financing activities	8,733	112,161
Net (decrease) increase in cash and cash equivalents	(15,275)	320
Cash and cash equivalents at beginning of period	55,698	51,572
Cash and cash equivalents at end of period	$ 40,423	$ 51,892

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

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MEDNAX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

(Unaudited)

1. Basis of Presentation and New Accounting Pronouncements:

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

The Company has a joint venture in which it owns a 37.5% economic interest. The Company accounts for this joint venture under the equity method of accounting because the Company exercises significant influence over, but does not control, this entity. On March 31, 2017, the Company sold its 75% economic interest in a second joint venture. See Note 5 for more information regarding the deconsolidation of this joint venture.

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).

Recently Adopted Accounting Pronouncements

In March 2016, the accounting guidance related to various aspects of share-based payment transactions was amended, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under the new guidance, excess tax benefits and deficiencies are to be recognized as income tax benefits or expenses in the income statement as discrete items in the reporting period in which they occur instead of increases or decreases to shareholders equity. Excess tax benefits should be classified along with other income tax cash flows as operating activities. With regard to forfeitures, the entity may make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. This guidance became effective for the Company on January 1, 2017. The Company adopted this guidance prospectively for both the income statement and statement of cash flows, and the adoption of this guidance did not have a material impact on the Company s Consolidated Financial Statements. The Company continues to estimate forfeitures based on the number of awards that are expected to vest.

New Accounting Pronouncements

In January 2017, the accounting guidance related to goodwill impairment was amended to remove step two of the impairment test that requires a hypothetical purchase price allocation in order to measure the amount of any impairment. Under the new guidance, only a single-step quantitative test is required and any goodwill impairment will now be the amount by which a reporting unit s carrying value exceeds its fair value. The new guidance does not amend the optional alternative to perform a qualitative assessment to determine if a quantitative goodwill impairment test is necessary. This guidance will become effective for the Company on January 1, 2020, with early adoption permitted. The Company does not believe the adoption of this guidance will have an impact on its Consolidated Financial Statements.

In January 2017, the accounting guidance related to business combinations was amended to clarify the definition of a business. This guidance will become effective for the Company on January 1, 2018, with early adoption permitted. The Company does not believe the adoption of this guidance will have an impact on its Consolidated Financial Statements.

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In August 2016, the accounting guidance related to the statement of cash flows was amended with the intent of reducing diversity in practice as to the classification of certain transactions in the statement of cash flows. This guidance will become effective for the Company on January 1, 2018, with early adoption permitted. The Company does not believe the adoption of this guidance will have a material impact on its Consolidated Financial Statements.

In February 2016, accounting guidance related to leases was issued that will require an entity to recognize leased assets and the rights and obligations created by those leased assets on the balance sheet and to disclose key information about the entity s leasing arrangements. This guidance will become effective for the Company on January 1, 2019, with early adoption permitted. The Company expects that the adoption of this guidance will have a material impact on its Consolidated Balance Sheets and related disclosures, resulting from the recognition of significant right of use assets and related liabilities primarily related to its operating lease arrangements for space in hospitals and certain other facilities for its business and medical offices. The Company s evaluation of this guidance and its impacts will continue throughout 2017.

In May 2014, the accounting guidance related to revenue recognition was amended to outline a single, comprehensive model for accounting for revenue from contracts with customers. The new guidance will become effective for the Company on January 1, 2018. The Company s current revenue recognition policies for its significant revenue streams materially comply with the amended guidance; therefore, the Company does not believe the adoption of this guidance will have a material impact on its Consolidated Financial Statements. The Company s evaluation of the impact the adoption of this guidance will have on its Consolidated Financial Statements will continue through the third quarter of 2017.

2. Cash Equivalents and Investments:

As of June 30, 2017 and December 31, 2016, the Company s cash equivalents consisted entirely of money market funds totaling $4.6 million and $12.4 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 June 30, 2017 and December 31, 2016 are summarized as follows (in thousands):

	June 30, 2017		December 31, 2016	
	Short-Term	**Long-Term**	**Short-Term**	**Long-Term**
Municipal debt securities	$ 7,686	$ 49,316	$ 10,306	$ 46,513
Federal home loan securities	2,250	32,500		28,747
Certificates of deposit	1,225	4,470	980	3,715
	$ 11,161	$ 86,286	$ 11,286	$ 78,975

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

	June 30, 2017	December 31, 2016
Due after one year through five years	$ 79,718	$ 70,005
Due after five years through seven years	6,568	8,970
	$ 86,286	$ 78,975

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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 June 30, 2017 and December 31, 2016, the Company s money market funds had a carrying amount of $4.6 million and $12.4 million, respectively.

The Company also carries the cash surrender value of life insurance related to its deferred compensation arrangements at fair value. The investments underlying the life insurance contracts consist primarily of exchange-traded equity securities and mutual funds with quoted prices in active markets. In accordance with the three-tier fair value hierarchy, the Company determined the fair value using the cash surrender value of the life insurance, a Level 2 input as defined under the accounting guidance for fair value measurements. At June 30, 2017 and December 31, 2016, the Company s cash surrender value of life insurance had a carrying amount of $17.3 million and $15.8 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 June 30, 2017 and December 31, 2016, the Company s contingent consideration liabilities had a fair value of $15.4 million and $17.3 million, respectively. See Note 5 for more information regarding the Company s contingent consideration liabilities.

The carrying amounts of cash equivalents, short-term investments, accounts receivable and accounts payable and accrued expenses approximate fair value due to the short maturities of the respective instruments. The carrying values of long-term investments, line of credit, variable rate long-term debt and capital lease obligations approximate fair value. If the Company s investments were measured at fair value, they would be categorized as Level 2 in the fair value hierarchy. If the Company s line of credit and variable long-term debt were measured at fair value, they would be categorized as Level 2 in the fair value hierarchy. The estimated fair value of the Company s 5.25% senior unsecured notes due 2023 was $774.4 million and $773.4 million, at June 30, 2017 and December 31, 2016, respectively, and was estimated using trading prices as of June 30, 2017 and December 31, 2016 as Level 2 inputs to estimate fair value.

4. Accounts Receivable:

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

	June 30, 2017	December 31, 2016
Gross accounts receivable	$ 1,688,731	$ 1,719,642
Allowance for contractual adjustments and uncollectibles	(1,208,329)	(1,224,366)
	$ 480,402	$ 495,276

5. Business Acquisitions:

During the six months ended June 30, 2017, the Company completed the acquisition of six physician group practices, including two maternal-fetal medicine practices, one radiology practice, one neonatology practice, one pediatric multi-specialty practice and one pediatric ophthalmology practice. The acquisition-date fair value of the total consideration for the six acquisitions was $115.2 million. Approximately $113.7 million was paid in cash, $0.5 million was paid by issuing 8,804 shares of the Company s common stock and $1.0 million was recorded as accrued purchase consideration within other current liabilities.

These acquisitions expanded the Company s national network of physician practices, including the Company s first acquisition of a radiology physician group practice. The Company expects to improve the results of physician practices through improved managed care contracting, improved collections and identification of growth initiatives, as well as operating and cost savings based on the significant infrastructure it has developed. With respect to the Company s initial acquisition of a radiology physician practice, the Company believes that it brings a unique value proposition to radiology physician groups, in that the Company can provide not only practice support, but also teleradiology capabilities that can enhance a physician group s

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efficiency, provide subspecialty access and help them grow and remain competitive. In addition, the Company believes that radiology physician group practice physicians can complement the staffing needs for its teleradiology services business during certain times, such as nights and weekends, when such physicians are not providing services at their practices.

The 8,804 shares of the Company s common stock issued as a component of the purchase consideration for an acquisition completed during the first quarter of 2017 had an acquisition-date fair value of $0.5 million. The fair value of such shares was determined using the closing price on the New York Stock Exchange of the Company s common stock less a discount for lack of marketability, reflecting a three year contractual restriction on the disposition or assignment of such common stock.

The Company s preliminary allocation of purchase price for the six acquisitions is as follows (in thousands):

Current assets	$ 5,469
Property and equipment	1,635
Other noncurrent assets	1,295
Goodwill	104,198
Other intangible assets	9,456
Current liabilities	(167)
Deferred income tax liabilities long-term	(3,993)
Other long-term liabilities	(2,671)
	$ 115,222

Other intangible assets consist primarily of physician and hospital agreements. The Company recorded provisional amounts for certain assets acquired during the six months ended June 30, 2017. Any adjustment for these assets will be recorded during the measurement period and is not expected to be material. The Company expects that $47.6 million of the goodwill recorded during the six months ended June 30, 2017 will be deductible for tax purposes. In addition, during the six months ended June 30, 2017, the Company paid $2.3 million for contingent consideration related to certain prior-period acquisitions, of which all but the accretion recorded during 2017 was accrued as of December 31, 2016.

In connection with a certain prior period acquisition, the Company recorded an increase in deferred tax liabilities of $0.5 million with a corresponding increase in goodwill of $0.5 million resulting from the finalization of certain income tax acquisition accounting.

On March 31, 2017, the Company sold its 75% economic interest in a joint venture that was previously consolidated. The deconsolidation and removal of 100% of the carrying value of the joint venture s net assets resulted in a gain on sale that was not material.

6. Accounts Payable and Accrued Expenses:

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

	June 30, 2017	December 31, 2016
Accounts payable	$ 30,365	$ 28,474
Accrued salaries and bonuses	133,698	220,635
Accrued payroll taxes and benefits	62,815	67,830
Accrued professional liabilities	37,393	28,972
Accrued contingent consideration	6,335	6,566
Accrued interest	4,460	4,511
Other accrued expenses	44,985	50,950
	$ 320,051	$ 407,938

The net decrease in accrued salaries and bonuses of $86.9 million from December 31, 2016 to June 30, 2017 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 six months ended June 30, 2017. A majority of the Company s payments for performance-based incentive compensation is paid annually during the first quarter.

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7. Common and Common Equivalent Shares:

Basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share is calculated by dividing net income by the weighted average number of common and potential common shares outstanding during the period. Potential common shares consist of outstanding restricted stock and stock options and is calculated using the treasury stock method. In the first quarter of 2017, the Company adopted new accounting guidance that no longer permits the Company to include the assumed excess tax benefits related to the potential exercise or vesting of its stock-based awards in the treasury stock method computation. The impact on the weighted average number of common and common equivalent shares outstanding from excluding such assumed excess tax benefits for the three and six months ended June 30, 2017 was not material. See Note 1 for additional information on the adoption of the new accounting guidance.

The calculation of shares used in the basic and diluted net income per common share calculation for the three and six months ended June 30, 2017 and 2016 is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Weighted average number of common shares outstanding	92,181	92,182	92,270	92,225
Weighted average number of dilutive common share equivalents	631	763	707	793
Weighted average number of common and common equivalent shares outstanding	92,812	92,945	92,977	93,018
Antidilutive securities not included in the diluted net income per common share calculation	8		5	3

8. Stock Incentive Plans and Stock Purchase Plans:

The Company s Amended and Restated 2008 Incentive Compensation Plan, as amended (the Amended and Restated 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.

Under the Amended and Restated 2008 Incentive Plan, options to purchase shares of common stock may be granted at a price not less than the fair market value of the shares on the date of grant. The options must be exercised within 10 years from the date of grant and generally become exercisable on a pro rata basis over a three-year period from the date of grant. The Company issues new shares of its common stock upon exercise of its stock options. Restricted stock awards generally vest over periods of three years upon the fulfillment of specified service-based conditions and in certain instances performance-based conditions. The Company recognizes compensation expense related to its restricted stock awards ratably over the corresponding vesting periods. During the six months ended June 30, 2017, the Company granted 521,621 shares of restricted stock to its employees and non-employee directors under the Amended and Restated 2008 Incentive Plan. At June 30, 2017, the Company had 3.5 million shares available for future grants and awards under its Amended and Restated 2008 Incentive Plan.

Under the Company s 1996 Non-Qualified Employee Stock Purchase Plan, as amended (the ESPP), 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. Under the Company s 2015 Non-Qualified Stock Purchase Plan (the SPP), certain eligible non-employee service providers are permitted to purchase the Company s common stock at 90% of market value on January 1st, April 1st, July 1st and October 1st of each year.

Each of the ESPP and the SPP provide for the issuance of an aggregate of 2.6 million shares of the Company s common stock less the number of shares of common stock purchased under the other plan. In accordance with the provisions of the accounting guidance for stock-based compensation, the Company recognizes stock-based compensation expense for the discount received by participating employees and non-employee service providers. During the six months ended June 30, 2017, 172,291 shares in aggregate were issued under the ESPP and SPP. At June 30, 2017, the Company had approximately 2.1 million shares in aggregate reserved for issuance under the ESPP and SPP.

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During the three and six months ended June 30, 2017 and 2016, the Company recognized $7.3 million and $14.8 million, and $8.3 million and $17.2 million, respectively, of stock-based compensation expense.

9. Common Stock Repurchase Program:

In July 2013, the Company s Board of Directors authorized the repurchase of shares of the Company s common stock up to an amount sufficient to offset the dilutive impact from the issuance of shares under the Company s equity compensation programs. The share repurchase program allows the Company to make open market purchases from time-to-time based on general economic and market conditions and trading restrictions. The repurchase program also allows for the repurchase of shares of the Company s common stock to offset the dilutive impact from the issuance of shares, if any, related to the Company s acquisition program. During the six months ended June 30, 2017, the Company repurchased 1.0 million shares of its common stock for $70.2 million, inclusive of 38,257 shares withheld to satisfy minimum statutory withholding obligations of $2.1 million in connection with the vesting of restricted stock during the three months ended June 30, 2017. The shares repurchased by the Company during the first quarter of 2017 completed the repurchases under the program with respect to issuances of shares under the Company s equity compensation programs during 2017. The Company intends to utilize various methods to effect any future share repurchases, including, among others, open market purchases and accelerated share repurchase programs. The amount and timing of repurchases will depend upon several factors, including general economic and market conditions and trading restrictions.

10. 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 June 30, 2017 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 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, results of operations, cash flows and the trading price of its securities. 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 securities.

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, results of operations, cash flows and the trading price of its securities.

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 our refer to the parent company, MEDNAX, Inc., a Florida corporation, and the consolidated subsidiaries through which its businesses are actually conducted (collectively, MDX), together with MDX s affiliated business corporations or professional associations, professional corporations, limited liability companies 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. 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.

Overview

MEDNAX is a leading provider of physician services including newborn, anesthesia, maternal-fetal, radiology and teleradiology, pediatric cardiology and other pediatric subspecialty care. Our national network is comprised of affiliated physicians who provide clinical care in 35 states and Puerto Rico. Our affiliated physicians provide neonatal clinical care, primarily within hospital-based neonatal intensive care units, to babies born prematurely or with medical complications; anesthesia care to patients in connection with surgical and other procedures, as well as pain management; and maternal-fetal and obstetrical medical care to expectant mothers experiencing complicated pregnancies primarily in areas where our affiliated neonatal physicians practice. Our network also includes other pediatric subspecialists, including those who provide pediatric intensive care, pediatric cardiology care, hospital-based pediatric care, pediatric surgical care, and those who provide pediatric ear, nose and throat and pediatric ophthalmology services. MEDNAX also provides teleradiology services in all 50 states, the District of Columbia and Puerto Rico through a network of affiliated radiologists. During 2017, we acquired our first radiology physician practice. In addition to our national physician network, we provide services nationwide to healthcare facilities and physicians, including ours, through complementary businesses, consisting of a management services organization focusing on full-service revenue cycle management and a consulting services company.

2017 Acquisition Activity

During the six months ended June 30, 2017, we completed the acquisition of six physician group practices, including two maternal-fetal medicine practices, one radiology practice, one neonatology practice, one pediatric multi-specialty practice and one pediatric ophthalmology practice. Based on our experience, we expect that we can improve the results of all of our acquired 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 that we have developed. In addition, with respect to our initial radiology physician practice acquisition, we believe that we bring a unique value proposition to radiology physician groups, in that we can provide not only practice support, but also teleradiology capabilities that can enhance a physician group s efficiency, provide subspecialty access and help them grow and remain competitive. We believe that radiology physician group practice physicians can complement the staffing needs for our teleradiology services business during certain times, such as nights and weekends, when the group practice physicians are not providing services at their practices. Our results of operations for the three and six months ended June 30, 2017 include the results for these six acquisitions from their respective dates of acquisition and therefore are not comparable in some respects. As a result of recent shifts in the payor mix for our anesthesiology services, certain terms of the anesthesiology group practice acquisitions currently in our pipeline are being reviewed. We anticipate this will bring some uncertainty as to the timing of completion of these acquisitions. Any delays in timing could adversely affect our business, financial condition, results of operations, cash flows and the trading price of our securities in the near term.

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Common Stock Repurchase Program

In July 2013, our board of directors authorized the repurchase of shares of our common stock up to an amount sufficient to offset the dilutive impact from the issuance of shares under our equity compensation programs. The share repurchase program allows us to make open market purchases from time-to-time based on general economic and market conditions and trading restrictions. The repurchase program also allows for the repurchase of shares of our common stock to offset the dilutive impact from the issuance of shares, if any, related to our acquisition program. During the six months ended June 30, 2017, we repurchased 1.0 million shares of our common stock for $70.2 million, inclusive of 38,257 shares withheld to satisfy minimum stock withholding obligations of $2.1 million in connection with the vesting of restricted stock during the three months ended June 30, 2017. The shares repurchased by us during the first quarter of 2017 completed the repurchases under the repurchase program with respect to issuances of shares under our equity compensation programs during 2017.

We may utilize various methods to effect any future share repurchases, including, among others, open market purchases and accelerated share repurchase programs. The amount and timing of repurchases will depend upon several factors, including general economic and market conditions and trading restrictions.

General Economic Conditions

Our operations and performance depend significantly on economic conditions. Although economic conditions in the United States have gradually improved, the number of unemployed and under-employed workers remains significant. During the three months ended June 30, 2017, the percentage of our patient service revenue being reimbursed under government-sponsored or funded healthcare programs (the GHC Programs) increased as compared to the three months ended June 30, 2016. On a sequential basis, however, there were favorable shifts toward commercial programs. We could experience additional shifts toward GHC Programs and patient volumes could decline if economic conditions do not continue to improve or if they deteriorate. Payments received from GHC Programs are substantially less for equivalent services than payments received from commercial insurance payors. In addition, due to the rising costs of managed care premiums and patient responsibility amounts, we may experience increased bad debt due to patients inability to pay for certain services.

Healthcare Reform

The Patient Protection and Affordable Care Act (the ACA) contains a number of provisions that have affected us and, absent amendment or repeal, may continue to affect us over the next several years. Moreover, anticipated changes to various aspects of the ACA, including insurance mandates, subsidies, healthcare insurance marketplaces and Medicaid expansion, could affect us. The ACA also contains numerous other measures that could also affect us. For example, payment modifiers have been developed that differentiate payments to physicians under federal healthcare programs based on quality and cost 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 ACA s most significant reforms, such as the establishment of state-based and federally facilitated healthcare insurance exchanges that provide a marketplace for eligible individuals and small employers to purchase healthcare insurance, became effective in the beginning of 2014. Following four enrollment periods, the most recent of which ran through January 31, 2017, it has been projected that approximately 12 million people, including new applicants and returning customers, are enrolled. In some cases, the patient responsibility costs related to healthcare plans obtained through the insurance exchanges may be high and could increase in the future, and we may experience increased bad debt due to patients inability to pay for certain services. Bipartisan efforts are currently underway at the federal level to stabilize and improve the individual insurance markets, and any efforts to modify the current laws and regulations could have an impact on us.

The ACA remains subject to continuing legislative scrutiny, including efforts by the Republican-controlled Congress and the current Administration to amend or repeal a number of its provisions, as well as administrative actions delaying the effectiveness of key provisions. In May 2017, the House of Representatives voted to pass the American Healthcare Act of 2017. Subsequently, the Senate created its ACA repeal bill, the Better Care Reconciliation Act (the BCRA). If the BCRA is approved by the Senate and subsequently adopted by the House, then certain portions of the ACA would be repealed. The BCRA proposed legislation would significantly modify federal funding and healthcare financing to state Medicaid programs. Considerable uncertainty remains regarding the ultimate content, timing or effect of any healthcare reform legislation or the impact of potential legislation on us and the overall healthcare industry. In addition, Congress has recently passed a budget resolution that authorizes congressional committees to draft legislation to repeal all or portions of the ACA and permits such legislation to pass with a majority vote in the Senate. President Trump has also issued an executive order in which he stated that it is his Administration s policy to seek the prompt repeal of the ACA and directed executive departments and federal agencies to waive, defer, grant exemptions from, or delay the implementation of the provisions of the ACA to the maximum extent permitted by law. There is still uncertainty with respect to the impact the Administration and Congress may have, if any, and any changes will likely take time to implement.

If the ACA is repealed or substantially modified, or if implementation of certain aspects of the ACA are delayed, such repeal, modification or delay may impact our business, financial condition, results of operations, cash flows and the trading price of our securities. We are unable to predict the impact of any repeal, modification or delay in the implementation of the ACA on us at this time. As a result, we ultimately cannot predict with any assurance the ultimate effect of the ACA or changes to the ACA on MEDNAX, nor can we provide any assurance that its provisions will not have a material adverse effect on our business, financial condition, results of operations, cash flows and the trading price of our securities.

In addition to the potential impacts to the ACA under the current Administration, there could be more sweeping changes to GHC Programs. For example, a change in the structure of Medicaid by converting it into a block grant or instituting per capita caps could eliminate the guarantee that everyone who is eligible and applies for benefits would receive them and could potentially give states sweeping new authority to restrict eligibility, cut benefits and make it more difficult for people to enroll. Any fiscal tightening impacting GHC Programs or changes to the structure of any GHC Programs could have a material adverse effect on our financial condition, results of operations, cash flows and the trading price of our securities.

Medicaid Expansion

The ACA also allows states to expand their Medicaid programs through federal payments that fund most of the cost of increasing the Medicaid eligibility income limit from a state s historic eligibility levels to 133% of the federal poverty level. As of June 30, 2017, 31 states and the District of Columbia had expanded Medicaid eligibility. 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.

Medicare Sequestration

The Budget Control Act of 2011, as amended by the American Taxpayer Relief Act of 2012, required across-the-board cuts (sequestrations) to Medicare reimbursement rates. These annual reductions of 2%, on average, began in April 2013 and apply to mandatory and discretionary spending in the years 2013 to 2025. Unless Congress takes action in the future to modify these sequestrations, Medicare reimbursements will be reduced by 2%, on average, annually. However, this reduction in Medicare reimbursement rates is not expected to have a material adverse effect on our business, financial condition, results of operations, cash flows or the trading price of our securities.

The Medicare Access and CHIP Reauthorization Act

Medicare pays for most physician services based upon a national service-specific fee schedule. In 2015, Congress enacted the Medicare Access and CHIP Reauthorization Act (MACRA,) which provides physicians 0.5% annual increases in reimbursement through 2019 as Medicare transitions to a payment system designed to reward physicians for the quality of care provided, rather than the quantity of procedures performed. MACRA will require physicians to choose to participate in one of two payment formulas, Merit-Based Incentive Payment System (MIPS) or Alternative Payment Models (APMs). Beginning in 2019, MIPS will allow eligible physicians to receive incentive payments based on the achievement of certain quality and cost metrics, among other measures, and be reduced for those who are underperforming against those same metrics and measures. As an alternative, physicians can choose to participate in an Advanced APM. Advanced APMs are exempt from the MIPS requirements, and physicians who are meaningful participants in APMs will receive bonus payments from Medicare pursuant to the law. We will continue to operationalize the provisions of MACRA and assess any further changes to the law or additional regulations enacted pursuant to the law.

At this time we cannot predict the ultimate effect that these changes will have on us, nor can we provide any assurance that its provisions will not have a material adverse effect on our business, financial condition, results of operations, cash flows and the trading price of our securities.

Non-GAAP Measures

In our analysis of our results of operations, we use certain non-GAAP financial measures. Earnings before interest, taxes and depreciation and amortization (EBITDA) consists of net income attributable to MEDNAX, Inc. before interest expense, net, income tax provision and depreciation and amortization. Adjusted earnings per common share (Adjusted EPS) consists of diluted net income attributable to MEDNAX, Inc. per common and common equivalent share adjusted for amortization expense and stock-based compensation expense.

We believe these measures, in addition to income from operations, net income attributable to MEDNAX, Inc. and diluted net income attributable to MEDNAX, Inc. per common and common equivalent share, provide investors with useful supplemental information to compare and understand our underlying business trends and performance across reporting periods on a consistent basis. These measures should be considered a supplement to, and not a substitute for, financial performance measures determined in accordance with GAAP. In addition, since these non-GAAP measures are not determined in accordance with GAAP, they are susceptible to varying calculations and may not be comparable to other similarly titled measures of other companies.

For a reconciliation of each of EBITDA and Adjusted EPS to the most directly comparable GAAP measures for the three and six months ended June 30, 2017 and 2016, refer to the tables below (in thousands, except per share data). In addition, historical reconciliations of EBITDA and Adjusted EPS are available on our Internet website at www.mednax.com under the Investors tab. Our Internet website and the information contained therein or connected thereto are not incorporated into or deemed a part of this Form 10-Q.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Net income attributable to MEDNAX, Inc.	$ 63,698	$ 82,427	$ 118,389	$ 150,326
Interest expense, net[(1)]	17,481	13,859	33,860	26,910
Income tax provision	40,725	51,601	75,692	95,012
Depreciation and amortization	25,735	20,241	51,349	39,825
EBITDA	$ 147,639	$ 168,128	$ 279,290	$ 312,073

(1) Interest expense, net is composed of interest expense, investment and other income and equity in earnings of unconsolidated affiliate.

	Three Months Ended June 30,			
	2017		**2016**	
Weighted average diluted shares outstanding	92,812		92,945	
Net income and diluted net income per share attributable to MEDNAX, Inc.	$ 63,698	$ 0.69	$ 82,427	$ 0.89
Adjustments:				
Amortization (net of tax of $6,800 and $5,175)	10,636	0.11	8,266	0.09
Stock-based compensation (net of tax of $2,826 and $3,206)	4,420	0.05	5,121	0.05
Adjusted net income and diluted EPS	$ 78,754	$ 0.85	$ 95,814	$ 1.03

	Six Months Ended June 30,			
	2017		2016	
Weighted average diluted shares outstanding	92,977		93,018	
Net income and diluted net income per share attributable to MEDNAX, Inc.	$ 118,389	$ 1.27	$ 150,326	$ 1.62
Adjustments:				
Amortization (net of tax of $13,644 and $10,288)	21,340	0.23	16,276	0.17
Stock-based compensation (net of tax of $5,764 and $6,677)	9,017	0.10	10,563	0.11
Adjusted net income and diluted EPS	$ 148,746	$ 1.60	$ 177,165	$ 1.90

Results of Operations

Three Months Ended June 30, 2017 as Compared to Three Months Ended June 30, 2016

Our net revenue increased $71.1 million, or 9.2%, to $842.9 million for the three months ended June 30, 2017, as compared to $771.8 million for the same period in 2016. Of this $71.1 million increase, $77.6 million, or 10.1%, was attributable to revenue

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generated from acquisitions completed after March 31, 2016. This increase was partially offset by a decrease in same-unit net revenue of $6.5 million, or 0.9%, for the three months ended June 30, 2017. Same units are those units at which we provided services for the entire current period and the entire comparable period. The decrease in same-unit net revenue was comprised of a net decrease of $4.0 million, or 0.6%, from net reimbursement-related factors and a decrease of $2.5 million, or 0.3%, related to patient service volumes. The net decrease in revenue of $4.0 million related to net reimbursement-related factors was primarily due to the decrease in revenue caused by an increase in the percentage of our patients enrolled in GHC Programs, partially offset by modest improvements in managed care contracting. The decrease in revenue of $2.5 million from patient service volumes was primarily related to decreases in our neonatology and other pediatric services, partially offset by growth in our anesthesiology services.

Practice salaries and benefits increased $76.8 million, or 15.9%, to $561.4 million for the three months ended June 30, 2017, as compared to $484.6 million for the same period in 2016. This $76.8 million increase was primarily attributable to increased costs associated with physicians and other staff primarily to support acquisition-related growth and growth at our existing units, of which $62.2 million was related to salaries and $14.6 million was related to benefits and incentive compensation. Included within the increase in salaries expense at our existing units were costs related to non-physician clinicians that increased at a faster rate than in previous periods. We anticipate that we will continue to experience a higher rate of growth in compensation expense, including for non-physician clinicians in the near future, which could adversely affect our business, financial condition, results of operations, cash flows and the trading price of our securities.

Practice supplies and other operating expenses increased $3.9 million, or 14.4%, to $30.9 million for the three months ended June 30, 2017, as compared to $27.0 million for the same period in 2016. The increase was primarily attributable to practice supply, rent and other costs related to our acquisitions.

General and administrative expenses include all billing and collection functions and all other salaries, benefits, supplies and operating expenses not specifically related to the day-to-day operations of our physician practices and services, as well as those attributable to our non-physician service businesses. General and administrative expenses increased $10.9 million, or 11.8%, to $103.0 million for the three months ended June 30, 2017, as compared to $92.1 million for the same period in 2016. The increase of $10.9 million is attributable to the overall growth of the Company, primarily related to acquisition-related growth. General and administrative expenses as a percentage of net revenue was 12.2% for the three months ended June 30, 2017, as compared to 12.0% for the same period in 2016.

Depreciation and amortization expense increased $5.5 million, or 27.1%, to $25.7 million for the three months ended June 30, 2017, as compared to $20.2 million for the same period in 2016. The increase was primarily attributable to the amortization of intangible assets related to acquisitions.

Income from operations decreased $25.9 million, or 17.5%, to $121.9 million for the three months ended June 30, 2017, as compared to $147.8 million for the same period in 2016. Our operating margin was 14.5% for the three months ended June 30, 2017, as compared to 19.2% for the same period in 2016. The decrease of 469 basis points was due to a decrease in same-unit revenue, increases in operating expenses and the variability in margins related to the mix of acquisitions completed after March 31, 2016.

Net non-operating expenses were $17.5 million for the three months ended June 30, 2017, as compared to $13.9 million for the same period in 2016. The net increase in non-operating expenses was primarily related to an increase in interest expense due to higher outstanding borrowings under our credit agreement (the Credit Agreement).

Our effective income tax rate was 39.0% and 38.5% for the three months ended June 30, 2017 and 2016, respectively.

Net income attributable to MEDNAX, Inc. was $63.7 million for the three months ended June 30, 2017, as compared to $82.4 million for the same period in 2016. EBITDA was $147.6 million for the three months ended June 30, 2017, as compared to $168.1 million for the same period in 2016.

Diluted net income attributable to MEDNAX, Inc. per common and common equivalent share was $0.69 on weighted average shares outstanding of 92.8 million for the three months ended June 30, 2017, as compared to $0.89 on weighted average shares outstanding of 92.9 million for the same period in 2016. Adjusted EPS was $0.85 for the three months ended June 30, 2017, as compared to $1.03 for the same period in 2016.

Six Months Ended June 30, 2017 as Compared to Six Months Ended June 30, 2016

Our net revenue increased $154.2 million, or 10.1%, to $1.68 billion for the six months ended June 30, 2017, as compared to $1.52 billion for the same period in 2016. Of this $154.2 million increase, $168.4 million, or 11.0%, was attributable to revenue generated from acquisitions completed after December 31, 2015. This increase was partially offset by a decrease in same-unit net revenue of $14.2 million, or 0.9%, for the six months ended June 30, 2017. Same units are those units at which we provided services for the entire current period and the entire comparable period. The decrease in same-unit net revenue was comprised of a net decrease of $9.2 million, or 0.6%, related to patient service volumes and a decrease of $5.0 million, or 0.3%, from net reimbursement-related factors. The decrease in revenue of $9.2 million from patient service volumes was primarily related to decreases in our neonatology and other pediatric services as well as in our anesthesiology services. The net decrease in revenue of $5.0 million related to net reimbursement-related factors was primarily due to the decrease in revenue caused by an increase in the percentage of our patients enrolled in GHC Programs, partially offset by modest improvements in managed care contracting.

Practice salaries and benefits increased $157.4 million, or 16.1%, to $1.13 billion for the six months ended June 30, 2017, as compared to $976.4 million for the same period in 2016. This $157.4 million increase was primarily attributable to increased costs associated with physicians and other staff primarily to support acquisition-related growth and growth at our existing units, of which $130.0 million was related to salaries and $27.4 million was related to benefits and incentive compensation. Included within the increase in salaries expense at our existing units were costs related to non-physician clinicians that increased at a faster rate than in previous periods. We anticipate that we will continue to experience a higher rate of growth in compensation expense, including for non-physician clinicians in the near future, which could adversely affect our business, financial condition, results of operations, cash flows and the trading price of our securities.

Practice supplies and other operating expenses increased $4.7 million, or 8.6%, to $58.7 million for the six months ended June 30, 2017, as compared to $54.0 million for the same period in 2016. The increase was primarily attributable to practice supply, rent and other costs related to our acquisitions.

General and administrative expenses include all billing and collection functions and all other salaries, benefits, supplies and operating expenses not specifically related to the day-to-day operations of our physician practices and services, as well as those attributable to our non-physician service businesses. General and administrative expenses increased $24.7 million, or 13.6%, to $206.8 million for the six months ended June 30, 2017, as compared to $182.1 million for the same period in 2016. The increase of $24.7 million is attributable to the overall growth of the Company, primarily related to acquisition-related growth. General and administrative expenses as a percentage of net revenue was 12.3% for the six months ended June 30, 2017, as compared to 12.0% for the same period in 2016.

Depreciation and amortization expense increased $11.5 million, or 28.9%, to $51.3 million for the six months ended June 30, 2017, as compared to $39.8 million for the same period in 2016. The increase was primarily attributable to the amortization of intangible assets related to acquisitions.

Income from operations decreased $44.1 million, or 16.2%, to $227.9 million for the six months ended June 30, 2017, as compared to $272.0 million for the same period in 2016. Our operating margin was 13.6% for the six months ended June 30, 2017, as compared to 17.8% for the same period in 2016. The decrease of 426 basis points was due to a decrease in same-unit revenue, increases in operating expenses and the variability in margins related to the mix of acquisitions completed after December 31, 2015.

Net non-operating expenses were $33.9 million for the six months ended June 30, 2017, as compared to $26.9 million for the same period in 2016. The net increase in non-operating expenses was primarily related to an increase in interest expense due to higher outstanding borrowings under our Credit Agreement.

Our effective income tax rate was 39.0% and 38.7% for the six months ended June 30, 2017 and 2016, respectively.

Net income attributable to MEDNAX, Inc. was $118.4 million for the six months ended June 30, 2017, as compared to $150.3 million for the same period in 2016. EBITDA was $279.3 million for the six months ended June 30, 2017, as compared to $312.1 million for the same period in 2016.

Diluted net income attributable to MEDNAX, Inc. per common and common equivalent share was $1.27 on weighted average shares outstanding of 93.0 million for the six months ended June 30, 2017, as compared to $1.62 on weighted average shares outstanding of 93.0 million for the same period in 2016. Adjusted EPS was $1.60 for the six months ended June 30, 2017, as compared to $1.90 for the same period in 2016.

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Liquidity and Capital Resources

As of June 30, 2017, we had $40.4 million of cash and cash equivalents on hand as compared to $55.7 million at December 31, 2016. Additionally, we had working capital of $207.4 million at June 30, 2017, an increase of $69.2 million from working capital of $138.2 million at December 31, 2016. This net increase in working capital is primarily due to year-to-date earnings, net borrowings on our Credit Agreement and increases in long-term deferred income taxes, partially offset by the use of funds for acquisitions and repurchases of our common stock.

Cash Flows

Cash provided by (used in) operating, investing and financing activities is summarized as follows (in thousands):

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Operating activities	$ 115,813	$ 116,704
Investing activities	(139,821)	(228,545)
Financing activities	8,733	112,161

Operating Activities

During the six months ended June 30, 2017, our net cash provided from operating activities was $115.8 million, compared to $116.7 million for the same period in 2016. The net decrease in cash flow is primarily related to lower year-to-date earnings and a decrease in cash flow related to income taxes payable, partially offset by a net increase in cash flow related to accounts receivable.

During the six months ended June 30, 2017, cash flow from accounts receivable increased by $18.4 million, as compared to a $16.2 million decrease for the same period in 2016. The increase in cash flow for the six months ended June 30, 2017 is primarily attributable to improved collections when compared to the same period in 2016. The decrease in cash flow from accounts receivable for the six months ended June 30, 2016 was primarily due to higher accounts receivable balances related to acquisitions.

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

Days sales outstanding (DSO) is one of the key factors that we use to evaluate the condition of our accounts receivable and the related allowances for contractual adjustments and uncollectibles. DSO reflects the timeliness of cash collections on billed revenue and the level of reserves on outstanding accounts receivable. Our DSO was 51.9 days at June 30, 2017 as compared to 54.9 days at December 31, 2016. The improvement in our DSO is primarily related to decreases in accounts receivable in our existing units from improved collections.

Investing Activities

During the six months ended June 30, 2017, our net cash used in investing activities of $139.8 million primarily included acquisition payments of $113.7 million, capital expenditures of $21.9 million and net purchases of $8.0 million related to the purchase and maturity of investments.

Financing Activities

During the six months ended June 30, 2017, our net cash provided from financing activities of $8.7 million consisted primarily of net borrowings on our Credit Agreement of $67.0 million and proceeds from the exercise of employee stock options and the issuance of common stock under our ESPP and SPP of $14.0 million, partially offset by the repurchase of $70.2 million of our common stock.

Liquidity

Our Credit Agreement provides for a $1.7 billion unsecured revolving credit facility and a $200.0 million term loan and includes a $75.0 million sub-facility for swingline loans and a $37.5 million sub-facility for the issuance of letters of credit. We may increase the Credit Agreement to up to $2.2 billion on an unsecured basis, subject to the satisfaction of specified conditions. The Credit Agreement matures in October 2019 and is guaranteed by substantially all of our subsidiaries and affiliated professional contractors. At our option, borrowings under the Credit Agreement (other than swingline loans) will bear interest at (i) the Alternate Base Rate (defined as the highest of (a) the prime rate, (b) the Federal Funds Rate plus 1/2 of 1.00% and (c) LIBOR for an interest period of one month plus 1.00%) plus an applicable margin rate ranging from 0.125% to 0.750% based on our consolidated leverage ratio or (ii) the LIBOR rate plus an applicable margin rate ranging from 1.125% to 1.750% based on our consolidated leverage ratio. Swingline loans will bear interest at the Alternate Base Rate plus the applicable margin. The Credit Agreement also calls for other customary fees and charges, including an unused commitment fee ranging from 0.150% to 0.300% of the unused lending commitments, based on the our consolidated leverage ratio. The Credit Agreement contains customary covenants and restrictions, including covenants that require us to maintain a minimum interest coverage ratio, not to exceed a specified consolidated leverage ratio and to comply with laws. The Credit Agreement permits us to pay dividends and make certain other distributions, subject to limitations specified therein. Failure to comply with these covenants would constitute an event of default under the Credit Agreement, notwithstanding the ability of the Company to meet its debt service obligations. The Credit Agreement also includes various customary remedies for the lenders following an event of default, including the acceleration of repayment of outstanding amounts under the Credit Agreement.

At June 30, 2017, we had an outstanding principal balance of $1.03 billion on our Credit Agreement, composed of $860.5 million under our revolving line of credit and a $170.0 million term loan. We also had outstanding letters of credit associated with our professional liability insurance program of $0.4 million which reduced the amount available on our Credit Agreement to $839.1 million at June 30, 2017.

At June 30, 2017, the outstanding principal balance on our 5.25% senior unsecured notes due 2023 (the 2023 Senior Notes) was $750.0 million. Our obligations under the 2023 Senior Notes are guaranteed on an unsecured senior basis by the same subsidiaries and affiliated professional contractors that guarantee the Credit Agreement. Interest on the 2023 Senior Notes accrues at the rate of 5.25% per annum, or $39.4 million, and is payable semi-annually in arrears on June 1 and December 1.

The indenture under which the 2023 Senior Notes are issued, among other things, limits our ability to (1) incur liens and (2) enter into sale and lease-back transactions, and also limits our ability to merge or dispose of all or substantially all of our assets, in all cases, subject to a number of customary exceptions. Although we are not required to make mandatory redemption or sinking fund payments with respect to the 2023 Senior Notes, upon the occurrence of a change in control of MEDNAX, we may be required to repurchase the 2023 Senior Notes at a purchase price equal to 101% of the aggregate principal amount of the 2023 Senior Notes repurchased plus accrued and unpaid interest.

At June 30, 2017, we believe we were in compliance, in all material respects, with the financial covenants and other restrictions applicable to us under our Credit Agreement and the 2023 Senior Notes. We believe we will be in compliance with these covenants throughout 2017.

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 June 30, 2017 was $213.8 million, of which $37.4 million is classified within accounts payable and accrued expenses in the Condensed Consolidated Balance Sheet.

We anticipate that funds generated from operations, together with our current cash on hand and funds available under our Credit Agreement, will be sufficient to finance our working capital requirements, fund anticipated acquisitions and capital expenditures, fund our share repurchase program and meet our contractual obligations for at least the next 12 months from the date of issuance of this Form 10-Q.

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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, will, expect, estimate, project, positioned, strategy and 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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are subject to market risk primarily from exposure to changes in interest rates based on our financing, investing and cash management activities. We intend to manage interest rate risk through the use of a combination of fixed rate and variable rate debt. We borrow under our Credit Agreement at various interest rate options based on the Alternate Base Rate or LIBOR rate depending on certain financial ratios. At June 30, 2017, the outstanding principal balance on our Credit Agreement was $1.03 billion, composed of $860.5 million under our revolving line of credit and $170.0 million under our term loan. Considering the total outstanding balance, a 1.0% change in interest rates would result in an impact to income before income taxes of approximately $10.3 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 (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 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 June 30, 2017 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 securities.

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 and other clinicians. 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 securities.

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, results of operations, cash flows and the trading price of our securities.

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 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended June 30, 2017, 38,257 shares of our common stock were withheld to satisfy minimum statutory tax withholding obligations in connection with the vesting of restricted stock. During the three months ended June 30, 2017, we did not repurchase any shares of our common stock under the share repurchase program that was approved by our board of directors in July 2013.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as part of the Repurchase Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Repurchase

			Programs
April 1 April 30, 2017		$	(a)
May 1 May 31, 2017			(a)
June 1 June 30, 2017	38,257	$ 54.30	(a)
Total	38,257	$ 54.30	(a)

(a) We have one active repurchase program that allows us to repurchase shares of our common stock up to an amount sufficient to offset the dilutive impact from the issuance of shares under our equity compensation programs, which was estimated to be approximately 1.0 million shares for 2017. The shares repurchased by us during the first quarter of 2017 completed the repurchases under our repurchase program with respect to expected issuances of shares under our equity compensation programs during 2017. The shares repurchased in the table above were not repurchased under our active repurchase program.

The amount and timing of any future repurchases will depend upon several factors, including general economic and market conditions and trading restrictions.

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Item 6. Exhibits

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.

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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: July 28, 2017	By: /s/ Roger J. Medel, M.D. Roger J. Medel, M.D. Chief Executive Officer (Principal Executive Officer)
Date: July 28, 2017	By: /s/ Vivian Lopez-Blanco Vivian Lopez-Blanco Chief Financial Officer and Treasurer (Principal Financial Officer)
Date: July 28, 2017	By: /s/ John C. Pepia John C. Pepia Chief Accounting Officer (Principal Accounting Officer)