

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1997

OR

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

Commission File Number 0-26762

PEDIATRIX MEDICAL GROUP, INC.  
(Exact name of registrant as specified in its charter)

FLORIDA  
(State or other jurisdiction of  
incorporation or organization)

65-0271219  
(I.R.S. Employer  
Identification No.)

1455 NORTH PARK DRIVE  
FT. LAUDERDALE, FLORIDA 33326  
(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 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

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At August 1, 1997, the Registrant had 15,062,983 shares of \$0.01 par value common stock outstanding.

## PEDIATRIX MEDICAL GROUP, INC.

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## PEDIATRIX MEDICAL GROUP, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

	JUNE 30, 1997 (UNAUDITED)	DECEMBER 31, 1996
	-----	-----
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27,369	\$ 18,435
Investments in marketable securities	27,755	57,218
Accounts receivable, net	29,728	23,396
Prepaid expenses	1,822	1,283
Other current assets	509	375
Income taxes receivable	--	202
	-----	-----
Total current assets	87,183	100,909
Property and equipment, net	9,347	8,676
Other assets, net	77,235	49,441
	=====	=====
Total assets	\$ 173,765	\$ 159,026
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 12,549	\$ 13,423
Income taxes payable	62	--
Current portion of note payable	200	200
Deferred income taxes	7,417	6,099
	-----	-----
Total current liabilities	20,228	19,722
Note payable	2,650	2,750
Deferred income taxes	1,314	233
	-----	-----
Total liabilities	24,192	22,705
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Preferred stock	--	--
Common stock	151	149
Additional paid-in capital	120,182	116,037
Retained earnings	29,241	20,165
Unrealized loss on investments	(1)	(30)
	-----	-----
Total stockholders' equity	149,573	136,321
	-----	-----
Total liabilities and stockholders' equity	\$ 173,765	\$ 159,026
	=====	=====

The accompanying notes are an integral part of  
these financial statements

PEDIATRIX MEDICAL GROUP, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1997	1996	1997	1996
	-----			
	(in thousands, except for per share data)			
Net patient service revenue	\$ 30,599	\$ 17,808	\$ 57,612	\$ 33,935
Operating expenses:				
Salaries and benefits	19,774	11,541	37,383	22,337
Supplies & other operating expenses	2,358	1,269	4,460	2,482
Depreciation and amortization	1,008	335	1,791	568
	-----			
Total operating expenses	23,140	13,145	43,634	25,387
	-----			
Income from operations	7,459	4,663	13,978	8,548
Investment income	563	423	1,298	922
Interest expense	(75)	(27)	(149)	(62)
	-----			
Income before income taxes	7,947	5,059	15,127	9,408
Income tax provision	3,179	2,024	6,051	3,761
	-----			
Net income	\$ 4,768	\$ 3,035	\$ 9,076	\$ 5,647
	=====			
Per share data:				
Net income per common and common equivalent share:				
Primary	\$ .30	\$ .22	\$ .58	\$ .41
	=====			
Fully diluted	\$ .30	\$ .22	\$ .58	\$ .41
	=====			
Weighted average shares used in computing net income per common and common equivalent share:				
Primary	15,678	13,873	15,611	13,785
	=====			
Fully diluted	15,837	13,873	15,691	13,799
	=====			

The accompanying notes are an integral part of  
 these financial statements

PEDIATRIX MEDICAL GROUP, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	----- 1997	----- 1996
	----- (in thousands) -----	
Cash flows provided (used) by operating activities:		
Net income	\$ 9,076	\$ 5,647
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,791	568
Deferred income taxes	2,399	2,329
Changes in assets and liabilities:		
Accounts receivable	(6,332)	(4,821)
Prepaid expenses and other current assets	(680)	(1,194)
Income taxes receivable/payable	2,146	950
Other assets	(84)	(1,766)
Accounts payable and accrued expenses	439	2,247
Net cash provided by operating activities	----- 8,755	----- 3,960
Cash flows provided (used) by investing activities:		
Physician group acquisition payments	(30,365)	(30,220)
Purchase of investments	(7,074)	(6,421)
Proceeds from sale of investments	36,567	26,818
Purchase of property and equipment	(1,114)	(2,629)
Net cash used in investing activities	----- (1,986)	----- (12,452)
Cash flows provided (used) by financing activities:		
Payments on note payable	(100)	(32)
Proceeds from issuance of common stock	2,265	147
Payments made to retire common stock	--	(45)
Net cash provided by financing activities	----- 2,165	----- 70
Net increase (decrease) in cash and cash equivalents	8,934	(8,422)
Cash and cash equivalents at beginning of period	18,435	18,499
Cash and cash equivalents at end of period	----- \$ 27,369 =====	----- \$ 10,077 =====

The accompanying notes are an integral part of  
 these financial statements

## PEDIATRIX MEDICAL GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1997

(UNAUDITED)

## 1. BASIS OF PRESENTATION:

The accompanying unaudited condensed consolidated financial statements of Pediatrix Medical Group, Inc. (the "Company" or "Pediatrix") presented herein do not include all disclosures required by generally accepted accounting principles 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 results of operations for the three and six months ended June 30, 1997 are not necessarily indicative of the results of operations to be expected for the year ended December 31, 1997. The interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 1997.

## 2. BUSINESS ACQUISITIONS:

During the first six months of 1997, the Company completed the acquisition of six physician group practices in Dallas, Texas; Albuquerque, New Mexico; Tacoma, Washington; South Bend, Indiana; Pasadena, California and Columbia, South Carolina. Additionally, 3 neonatal intensive care units (NICUs) were added through the Company's internal marketing activities. Total cash paid for these units approximated \$27 million, adding a total of 14 NICUs.

The Company has accounted for the acquisitions using the purchase method of accounting and the excess of cost over fair value of net assets acquired is being amortized on a straight-line basis over 25 years. The results of operations of the acquired practices have been included in the consolidated financial statements from the dates of acquisition.

The following unaudited pro forma information combines the consolidated results of operations of the Company and the physician group practices acquired during 1996 and 1997 as if the acquisitions had occurred on January 1, 1996:

	SIX MONTHS ENDED JUNE 30,	
	1997	1996
	-----	
	-----	
	(in thousands, except per share data)	
Net patient service revenue	\$59,760	\$50,057
Net income	9,170	6,624
Net income per share:		
Primary	.59	.48
Fully diluted	.58	.48

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.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

(UNAUDITED)

## 3. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

Accounts payable and accrued expenses consists of the following:

	JUNE 30, 1997	DECEMBER 31, 1996
	-----	-----
	(in thousands)	
Accounts payable .....	\$ 2,656	\$ 2,489
Accrued salaries and bonuses .....	3,694	3,508
Accrued payroll taxes and benefits .....	2,102	2,009
Accrued professional liability coverage .....	2,870	2,413
Other accrued expenses .....	1,227	3,004
	-----	-----
	\$12,549	\$13,423
	=====	=====

## 4. NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE:

Primary and fully diluted net income per share is calculated by dividing net income by the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares consist of the dilutive effect of outstanding options calculated using the treasury stock method.

## 5. CONTINGENCIES:

During the ordinary course of business, the Company has become a party to pending and threatened legal actions and proceedings, most of which involve claims of medical malpractice and are generally covered by insurance. The Company believes that the outcome of such legal actions and proceedings will not have a material adverse effect on the Company's financial condition, results of operations or liquidity, notwithstanding any possible insurance recovery.

The Company is currently under examination by the Internal Revenue Service for the tax years ended December 31, 1992, 1993, and 1994. The IRS has challenged certain deductions that, if disallowed, would result in additional taxes of approximately \$4.5 million, plus interest. The Company has reviewed the IRS matters under consideration and believes that the tax returns are substantially correct as filed. The Company intends to vigorously contest the proposed adjustments and believes it has adequately provided for any liability that may result from this examination. The Company and its tax advisors believe that the ultimate resolution of the examination will not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

The Company has been notified by a hospital customer of a dispute regarding the interpretation of the customer's contract with the Company. The customer believes that the Company should refund approximately \$7.5 million of payments made to the Company over the last five years. The Company disagrees with the customer's interpretation of the contract and believes that the matter will be resolved amicably. In the unlikely event that the Company cannot resolve this matter amicably, the Company intends to vigorously litigate the matter and assert all its legal defenses. The Company believes that the ultimate resolution of the matter will not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

(UNAUDITED)

## 6. CHANGES TO ACCOUNTING PRONOUNCEMENTS:

In February, 1997 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share". This statement is designed to improve the earnings per share ("EPS") information provided in financial statements by simplifying the existing computational guidelines, revising the disclosure requirements, and increasing the comparability of EPS data on an international basis. SFAS 128 is effective for financial statements issued for periods ending after December 15, 1997. Under the provisions of SFAS 128, basic EPS would have been \$.32 and \$.23 for the three months ended June 30, 1997 and 1996, respectively, and \$.61 and \$.43 for the six months ended June 30, 1997 and 1996, respectively. Diluted EPS would have been the same as the reported amounts.

## 7. SUBSEQUENT EVENTS:

Subsequent to June 30, 1997, the Company completed the acquisition of two physician group practices. Total cash paid for these acquisitions approximated \$20 million. The acquisitions will be accounted for using the purchase method of accounting.



ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 1997 AS COMPARED TO THREE MONTHS ENDED JUNE 30, 1996

The Company reported net patient service revenue of \$30.6 million for the three months ended June 30, 1997, as compared with \$17.8 million for the same period in 1996, a growth rate of 71.8%. Of this \$12.8 million increase, \$12.4 million, or 96.9% was attributable to new units, including units at which the Company provides services as a result of acquisitions. Same unit patient service revenue, exclusive of administrative fees, increased \$574,000, or 4.3%, for the three months ended June 30, 1997. Same units are those units at which the Company provided services for the entire period for which the percentage is calculated and the entire comparable period. The same unit growth resulted from volume increases as there were no general price increases.

Salaries and benefits increased \$8.2 million, or 71.3% to \$19.8 million for the three months ended June 30, 1997, as compared with \$11.6 million for the same period in 1996. Of this \$8.2 million increase, \$6.2 million, or 75.3%, was attributable to hiring new physicians, primarily to support new unit growth, and the remaining \$2.0 million was primarily attributable to increased support staff and resources added in the areas of nursing, executive management and billing and reimbursement. Supplies and other operating expenses increased \$1.1 million, or 85.8% to \$2.4 million for the three months ended June 30, 1997, as compared with \$1.3 million for the same period in 1996, primarily as a result of new units. Depreciation and amortization expense increased by \$673,000, or 200.9% to \$1.0 million for the three months ended June 30, 1997, as compared with \$335,000 for the same period in 1996, primarily as a result of amortization of goodwill in connection with acquisitions.

Income from operations increased approximately \$2.8 million, or 60.0%, to \$7.5 million for the three months ended June 30, 1997, as compared with \$4.7 million for the same period in 1996. The increase in income from operations was primarily due to increased volume, principally from acquisitions.

The Company earned investment income of approximately \$563,000 for the three months ended June 30, 1997, as compared with \$423,000 for the same period in 1996. The increase in investment income resulted primarily from additional funds available for investment due to proceeds from the secondary public offering completed in the third quarter of 1996 as well as cash flow from operations.

The effective income tax rate was approximately 40% for the three month periods ended June 30, 1997 and 1996.

Net income increased 57.1% to \$4.8 million for the three months ended June 30, 1997, as compared with \$3.0 million for the same period in 1996. Net income as a percentage of net patient service revenue decreased to 15.6% for the three months ended June 30, 1997, compared to 17.0% for the same period in 1996, primarily as a result of amortization of goodwill in connection with acquisitions.

SIX MONTHS ENDED JUNE 30, 1997 AS COMPARED TO SIX MONTHS ENDED JUNE 30, 1996

The Company reported net patient service revenue of \$57.6 million for the six months ended June 30, 1997, as compared with \$33.9 million for the same period in 1996, a growth rate of 69.8%. This \$23.7 million increase was primarily attributable to new units. Same unit patient service revenue, exclusive of administrative fees, increased \$262,000, or 1.1%, for the six months ended June 30, 1997. Same units are those units at which the Company provided services for the entire period for which the percentage is calculated and the entire comparable period.

Salaries and benefits increased \$15.1 million, or 67.4% to \$37.4 million for the six months ended June 30, 1997, as compared with \$22.3 million for the same period in 1996. Of this \$15.1 million increase, \$11.3 million, or 74.8%, was attributable to hiring new physicians, primarily to support new unit growth, and the remaining \$3.8 million was primarily attributable to increased support staff and resources added in the areas of nursing, executive management and billing and reimbursement. Supplies and other operating expenses increased \$2.0 million, or 79.7% to \$4.5 million for the six months ended June 30, 1997, as compared with \$2.5 million for the same period in 1996, primarily as a result of new units. Depreciation and amortization expense increased by \$1.2 million, or 215.3% to \$1.8 million for the six months ended June 30, 1997, as compared with \$568,000 for the same period in 1996, primarily as a result of amortization of goodwill in connection with acquisitions.

Income from operations increased approximately \$5.5 million, or 63.5%, to \$14.0 million for the six months ended June 30, 1997, as compared with \$8.5 million for the same period in 1996. The increase in income from operations was primarily due to increased volume, principally from acquisitions.

The Company earned investment income of approximately \$1.3 million for the six months ended June 30, 1997, as compared with \$922,000 for the same period in 1996. The increase in investment income resulted primarily from additional funds available for investment due to proceeds from the secondary public offering completed in the third quarter of 1996 as well as cash flow from operations.

The effective income tax rate was approximately 40% for the six month periods ended June 30, 1997 and 1996.

Net income increased 60.7% to \$9.1 million for the six months ended June 30, 1997, as compared with \$5.6 million for the same period in 1996. Net income as a percentage of net patient service revenue decreased to 15.8% for the six months ended June 30, 1997, compared to 16.6% for the same period in 1996, primarily as a result of amortization of goodwill in connection with acquisitions.

#### LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 1997, the Company had working capital of approximately \$67.0 million, a decrease of \$14.2 million from the working capital of \$81.2 million available at December 31, 1996. The decrease is principally a result of funds utilized for acquisitions during the first six months of 1997, offset by cash generated from operations.

During the six months ended June 30, 1997, capital expenditures amounted to approximately \$1.1 million principally for computer hardware and software and furniture and fixtures. For the remainder of 1997, the Company anticipates capital expenditures of approximately \$1.0 million, principally for computer hardware and software.

The Company anticipates that funds generated from operations together with cash and marketable securities on hand and funds available under its credit facility, will be sufficient to meet its working capital requirements and finance any required capital expenditures for at least the next twelve months.

## PART II - OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

During the ordinary course of business, the Company has become a party to pending and threatened legal actions and proceedings, most of which involve claims of medical malpractice and are generally covered by insurance. The Company believes that the outcome of such legal actions and proceedings will not have a material adverse effect on the Company's financial condition, results of operations or liquidity, notwithstanding any possible insurance recovery.

The Company is currently under examination by the Internal Revenue Service for the tax years ended December 31, 1992, 1993, and 1994. The IRS has challenged certain deductions that, if disallowed, would result in additional taxes of approximately \$4.5 million, plus interest. The Company has reviewed the IRS matters under consideration and believes that the tax returns are substantially correct as filed. The Company intends to vigorously contest the proposed adjustments and believes it has adequately provided for any liability that may result from this examination. The Company and its tax advisors believe that the ultimate resolution of the examination will not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

The Company has been notified by a hospital customer of a dispute regarding the interpretation of the customer's contract with the Company. The customer believes that the Company should refund approximately \$7.5 million of payments made to the Company over the last five years. The Company disagrees with the customer's interpretation of the contract and believes that the matter will be resolved amicably. In the unlikely event that the Company cannot resolve this matter amicably, the Company intends to vigorously litigate the matter and assert all its legal defenses. The Company believes that the ultimate resolution of the matter will not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

## ITEM 2. CHANGES IN SECURITIES

Not applicable.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS

- (a) The Company's Annual Meeting of Shareholders was held on May 8, 1997.
- (b) Not required.
- (c) The matters voted on at the Annual Meeting of Shareholders and the tabulation of votes on such matters are as follows:

## 1. Election of Directors.

NAME ----	FOR ---	AGAINST OR WITHHELD -----	ABSTAINED -----	BROKER NON-VOTE -----
Roger J. Medel, M.D.	11,556,689	44,343	0	0
E. Roe Stamps, IV	11,591,089	9,943	0	0
Bruce R. Evans	11,591,089	9,943	0	0
Michael B. Fernandez	11,556,689	44,343	0	0
Albert H. Nahmad	11,591,089	9,943	0	0
M. Douglas Cunningham, M.D.	11,556,339	44,693	0	0
Cesar L. Alvarez	11,322,292	278,740	0	0

## 2. Proposal to approve the amendment of the Company's Amended and Restated Stock Option Plan.

FOR ---	AGAINST OR WITHHELD -----	ABSTAINED -----	BROKER NON-VOTE -----
9,303,148	1,338,196	7,594	952,094

## 3. Proposal to approve the adoption of the incentive plans for the President and Chief Executive Officer and Vice President of Business Development.

FOR ---	AGAINST OR WITHHELD -----	ABSTAINED -----	BROKER NON-VOTE -----
10,507,554	72,041	69,343	952,094

(d) Not applicable.

## ITEM 5. OTHER INFORMATION

Not applicable.

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

## (a) Exhibits.

10.1 Pediatrix's Amended and Restated Stock Option Plan  
10.34 Amendment No. 2 to the Employment Agreement between  
Pediatrix and Roger J. Medel, M.D.  
10.35 Amendment No. 1 to the Employment Agreement between  
Pediatrix and Kristen Bratberg  
11.1 Statement Re: Computation of Per Share Earnings  
27.1 Financial Data Schedule

## (b) Reports on Form 8-K

None.

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.

PEDIATRIX MEDICAL GROUP, INC.

Date: August 12, 1997

By: /s/ ROGER J. MEDEL

-----  
Roger J. Medel, President and  
Chief Executive Officer  
(Principal Executive Officer)

Date: August 12, 1997

By: /s/ LAWRENCE M. MULLEN

-----  
Lawrence M. Mullen, Vice President and  
Chief Financial Officer (Principal  
Financial and Accounting Officer)

-----  
PEDIATRIX MEDICAL GROUP, INC.  
AMENDED AND RESTATED  
STOCK OPTION PLAN  
-----

1. PURPOSE. The purpose of this Plan is to advance the interests of Pediatrix Medical Group, Inc., a Florida corporation (the "Company"), providing an additional incentive to attract and retain qualified and competent persons who are key to the Company (as hereinafter defined), including key employees, Officers and Directors, and upon whose efforts and judgment the success of the Company is largely dependent, through the encouragement of stock ownership in the Company by such persons.

2. DEFINITIONS. As used herein, the following terms shall have the meaning indicated:

(a) "Board" shall mean the Board of Directors of the Company.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(c) "Committee" shall mean the stock option committee appointed by the Board pursuant to Section 13 hereof or, if not appointed, the Board.

(d) "Common Stock" shall mean the Company's Common Stock, par value \$0.01 per share.

(e) "Company" shall refer to Pediatrix Medical Group, Inc., a Florida corporation, its wholly-owned subsidiary, Pediatrix Medical Group of Florida, Inc., and the companies related to the Company through long-term management contracts which provide the medical component of the services required in respect of any arrangement where Pediatrix Medical Group, Inc. provides the non-medical component of the services required in respect of such arrangement in various states and Puerto Rico, and any future majority owned subsidiary of the Company or any business entity, partnership or other business entity related to the Company through a long-term management contract with respect to the services described herein.

(f) "Director" shall mean a member of the Board.

(g) "Effective Date" shall mean September 20, 1995.

(h) "Employee Director" shall mean a member of the Board who is also an employee of the Company or a Subsidiary.

(i) "Fair Market Value" of a Share on any date of reference shall be the "Closing Price" (as defined below) of the Common Stock on such business day, unless the Committee in its sole discretion shall determine otherwise in a fair and uniform manner. For the purpose of determining Fair Market Value, the "Closing Price" of the Common Stock on any

business day shall be (i) if the Common Stock is listed or admitted for trading on any United States national securities exchange, or if actual transactions are otherwise reported on a consolidated transaction reporting system, the last reported sale price of Common Stock on such exchange or reporting system, as reported in any newspaper of general circulation, (ii) if the Common Stock is quoted on the National Association of Securities Dealers Automated Quotations System ("NASDAQ"), or any similar system of automated dissemination of quotations of securities prices in common use, the last reported sale price of Common Stock on NASDAQ or such system, or (iii) if neither clause (i) or (ii) is applicable, the mean between the high bid and low asked quotations for the Common Stock as reported by the National Quotation Bureau, Incorporated if at least two securities dealers have inserted both bid and asked quotations for Common Stock on at least five of the ten preceding days. If neither (i), (ii) or (iii) above is applicable, then Fair Market Value shall be determined in good faith by the Committee or the Board in a fair and uniform manner.

(j) "Incentive Stock Option" shall mean an incentive stock option as defined in Section 422 of the Code.

(k) "Non-Employee Director" shall mean a member of the Board who is not an employee of the Company or a Subsidiary.

(l) "Non-Statutory Stock Option" shall mean an Option which is not an Incentive Stock Option.

(m) "Officer" shall mean the Company's president, principal financial officer, principal accounting officer (or, if there is no such accounting officer, the controller), any vice-president of the Company in charge of a principal business unit, division or function (such as sales, administration or finance), any other officer who performs a policy-making function, or any other person who performs similar policy-making functions for the Company. Officers of Subsidiaries shall be deemed Officers of the Company if they perform such policy-making functions for the Company. As used in this paragraph, the phrase "policy-making function" does not include policy-making functions that are not significant. Unless specified otherwise in a resolution by the Board, an "executive officer" pursuant to Item 401(b) of Regulation S-K (17 C.F.R. ss. 229.401(b)) shall be only such person designated as an "Officer" pursuant to the foregoing provisions of this paragraph.

(n) "Option" (when capitalized) shall mean any option granted under this Plan.

(o) "Optionee" shall mean a person to whom a stock option is granted under this Plan or any person who succeeds to the rights of such person under this Plan by reason of the death of such person.

(p) "Outside Director" shall mean a member of the Board who qualifies as an "outside director" under Code Section 162(m) and the regulations thereunder and as a "Non-Employee Director" under Rule 16b-3 promulgated under the Securities Exchange Act.

(q) "Plan" shall mean this Stock Option Plan for the Company.

(r) "Securities Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(s) "Share(s)" shall mean a share or shares of the Common Stock.

(t) "Subsidiary" shall mean any corporation (other than the Company) in any unbroken chain of corporations beginning with the Company if, at the time of the granting of the Option, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

3. SHARES AND OPTIONS. The Committee or the Board may grant to Optionees from time to time Options to purchase an aggregate of up to 3,250,000 Shares from authorized and unissued Shares. If any Option granted under the Plan shall terminate, expire, or be canceled or surrendered as to any Shares, new Options may thereafter be granted covering such Shares.

4. INCENTIVE AND NON-QUALIFIED OPTIONS. An Option granted hereunder shall be either an Incentive Stock Option or a Non-Qualified Stock Option as determined by the Committee or the Board at the time of grant of such Option and shall clearly state whether it is an Incentive Stock Option or a Non-Qualified Stock Option. All Incentive Stock Options shall be granted within 10 years from the effective date of this Plan. Incentive Stock Options may not be granted to any person who is not an employee of the Company or any Subsidiary.

5. DOLLAR LIMITATION. Options otherwise qualifying as Incentive Stock Options hereunder will not be treated as Incentive Stock Options to the extent that the aggregate Fair Market Value (determined at the time the Option is granted) of the Shares, with respect to which Options meeting the requirements of Code Section 422(b) are exercisable for the first time by any individual during any calendar year (under all plans of the Company and any Subsidiary as defined in Code Section 424), exceeds \$100,000.

#### 6. CONDITIONS FOR GRANT OF OPTIONS.

(a) Each Option shall be evidenced by an option agreement that may contain any term deemed necessary or desirable by the Committee or the Board, provided such terms are not inconsistent with this Plan or any applicable law. The Optionees shall be (i) those persons selected by the Committee or the Board from the class of all regular employees of the Company or its Subsidiaries, including Employee Directors and Officers who are regular employees of the Company and (ii) Non-Employee Directors. Any person who files with the Committee, in a form satisfactory to the Committee, a written waiver of eligibility to receive any Option under this Plan shall not be eligible to receive any Option under this Plan for the duration of such waiver.

(b) In granting Options, the Committee or the Board shall take into consideration the contribution the person has made to the success of the Company or its Subsidiaries and such other factors as the Committee or the Board shall determine. The



Committee or the Board shall also have the authority to consult with and receive recommendations from officers and other personnel of the Company and its Subsidiaries with regard to these matters. The Committee or the Board may from time to time in granting Options under the Plan prescribe such other terms and conditions concerning such Options as it deems appropriate, including, without limitation, (i) prescribing the date or dates on which the Option becomes exercisable, (ii) providing that the Option rights accrue or become exercisable in installments over a period of years, or upon the attainment of stated goals or both, or (iii) relating an Option to the continued employment of the Optionee for a specified period of time, provided that such terms and conditions are not more favorable to an Optionee than those expressly permitted herein.

(c) The Options granted to employees under this Plan shall be in addition to regular salaries, pension, life insurance or other benefits related to their employment with the Company or its Subsidiaries. Neither the Plan nor any Option granted under the Plan shall confer upon any person any right to employment or continuance of employment by the Company or its Subsidiaries.

(d) Notwithstanding any other provision of this Plan, an Incentive Stock Option shall not be granted to any person owning directly or indirectly (through attribution under Section 424(d) of the Code) at the date of grant, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company (or of its parent or subsidiary corporation [as defined in Section 424 of the Code] at the date of grant) unless the option price of such Option is at least 110% of the Fair Market Value of the Shares subject to such Option on the date the Option is granted, and such Option by its terms is not exercisable after the expiration of five years from the date such Option is granted.

(e) Notwithstanding any other provision of this Plan, and in addition to any other requirements of this Plan, the aggregate number of Options granted to any one Director, Officer or employee may not exceed 40% of the total number of Options available for grant under the Plan.

7. OPTION PRICE. The option price per Share of any Option shall be any price determined by the Committee or the Board but shall not be less than the par value per Share; provided, however, that in no event shall the option price per Share of any Incentive Stock Option or any Option granted pursuant to paragraph (a) of Section 15 of this Plan be less than the Fair Market Value of the Shares underlying such Option on the date such Option is granted.

8. EXERCISE OF OPTIONS. An Option shall be deemed exercised when (i) the Company has received written notice of such exercise in accordance with the terms of the Option, (ii) full payment of the aggregate option price of the Shares as to which the Option is exercised has been made, and (iii) arrangements that are satisfactory to the Committee or the Board in its sole discretion have been made for the Optionee's payment to the Company of the amount that is necessary for the Company or Subsidiary employing the Optionee to withhold in accordance with applicable Federal or state tax withholding requirements. Unless further limited by the Committee or the Board in any Option and subject to such guidelines as the Committee or the Board may

establish, the option price of any Shares purchased shall be paid in cash, by certified or official bank check, by money order, with Shares by the withholding of Shares issuable upon exercise of the Option or by any other form of cashless exercise procedure approved by the Committee or the Board, or in such other consideration as the Committee or the Board deems appropriate, or by a combination of the above. The Committee or the Board in its sole discretion may accept a personal check in full or partial payment of any Shares. If the exercise price is paid in whole or in part with Shares, or through the withholding of Shares issuable upon exercise of the Option, the value of the Shares surrendered shall be their Fair Market Value on the date the Option is exercised. The Company in its sole discretion may, on an individual basis or pursuant to a general program established in connection with this Plan, lend money to an Optionee, guarantee a loan to an Optionee, or otherwise assist an Optionee to obtain the cash necessary to exercise all or a portion of an Option granted hereunder or to pay any tax liability of the Optionee attributable to such exercise. If the exercise price is paid in whole or part with Optionee's promissory note, such note shall (i) provide for full recourse to the maker, (ii) be collateralized by the pledge of the Shares that the Optionee purchases upon exercise of such Option, (iii) bear interest at the prime rate of the Company's principal lender, and (iv) contain such other terms as the Board in its sole discretion shall reasonably require. No Optionee shall be deemed to be a holder of any Shares subject to an Option unless and until a stock certificate or certificates for such Shares are issued to such person(s) under the terms of this Plan. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date such stock certificate is issued, except as expressly provided in Section 10 hereof.

9. EXERCISABILITY OF OPTIONS. Any Option shall become exercisable in such amounts, at such intervals and upon such terms as the Committee or the Board shall provide in such Option, except as otherwise provided in this Section 9.

(a) The expiration date of an Option shall be determined by the Committee or the Board at the time of grant, but in no event shall an Option be exercisable after the expiration of 10 years from the date of grant of the Option.

(b) Unless otherwise provided in any Option, each outstanding Option shall become immediately fully exercisable in the event of a "Change in Control" or in the event that the Committee or the Board exercises its discretion to provide a cancellation notice with respect to the Option pursuant to Section 10(b) hereof. For this purpose, the term "Change in Control" shall mean the approval by the shareholders of the Company of a reorganization, merger, consolidation or other form of corporate transaction or series of transactions, in each case, with respect to which persons who were the shareholders of the Company immediately prior to such reorganization, merger or consolidation or other transaction do not, immediately thereafter, own more than 50% of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated company's then outstanding voting securities, or a liquidation or dissolution of the Company or the sale of all or substantially all of the assets of the Company (unless such reorganization, merger, consolidation or other corporate transaction, liquidation, dissolution or sale is subsequently abandoned).

(c) The Committee or the Board may in its sole discretion accelerate the date on which any Option may be exercised and may accelerate the vesting of any Shares subject to any Option.

#### 10. TERMINATION OF OPTION PERIOD.

(a) The unexercised portion of any Option, other than an Option granted pursuant to Section 15 hereof, shall automatically and without notice terminate and become null and void at the time of the earliest to occur of the following:

(i) three months after the date on which the Optionee's employment is terminated for any reason other than by reason of (A) Cause, which, solely for purposes of this Plan, shall mean the termination of the Optionee's employment by reason of the Optionee's willful misconduct or gross negligence, (B) a mental or physical disability (within the meaning of Code Section 22(e)) as determined by a medical doctor satisfactory to the Committee or the Board, or (C) death;

(ii) immediately upon the termination of the Optionee's employment for Cause;

(iii) one year after the date on which the Optionee's employment is terminated by reason of a mental or physical disability (within the meaning of Code Section 22(e)) as determined by a medical doctor satisfactory to the Committee or the Board; or

(iv) (A) twelve months after the date of termination of the Optionee's employment by reason of death of the Optionee, or (B) three months after the date on which the Optionee shall die if such death shall occur during the one year period specified in Subsection 10(a)(iii) hereof.

All references herein to the termination of the Optionee's employment shall, in the case of an Optionee who is not an employee of the Company or a Subsidiary, refer to the termination of the Optionee's service with the Company.

(b) The Committee in its sole discretion may by giving written notice ("cancellation notice") cancel, effective upon the date of the consummation of any corporate transaction described in Section 9(b) hereof or of any reorganization, merger, consolidation or other form of corporate transaction in which the Company does not survive, any Option that remains unexercised on such date. Such cancellation notice shall be given a reasonable period of time prior to the proposed date of such cancellation and may be given either before or after approval of such corporate transaction.

#### 11. ADJUSTMENT OF SHARES.

(a) If at any time while the Plan is in effect or unexercised Options are outstanding, there shall be any increase or decrease in the number of issued and outstanding

Shares through the declaration of a stock dividend or through any recapitalization resulting in a stock split-up, combination or exchange of Shares, then and in such event:

(i) appropriate adjustment shall be made in the maximum number of Shares available for grant under the Plan, or available for grant to any person under the Plan, so that the same percentage of the Company's issued and outstanding Shares shall continue to be subject to being so optioned; and

(ii) appropriate adjustment shall be made in the number of Shares and the exercise price per Share thereof then subject to any outstanding Option, so that the same percentage of the Company's issued and outstanding Shares shall remain subject to purchase at the same aggregate exercise price.

(b) Subject to the specific terms of any Option, the Committee or the Board may change the terms of Options outstanding under this Plan, with respect to the option price or the number of Shares subject to the Options, or both, when, in the Committee's or the Board's sole discretion, such adjustments become appropriate so as to preserve but not increase benefits under the Plan.

(c) Except as otherwise expressly provided herein, the issuance by the Company of shares of its capital stock of any class, or securities convertible into shares of capital stock of any class, either in connection with direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to the number of or exercise price of Shares then subject to outstanding Options granted under the Plan.

(d) Without limiting the generality of the foregoing, the existence of outstanding Options granted under the Plan shall not affect in any manner the right or power of the Company to make, authorize or consummate (i) any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business; (ii) any merger or consolidation of the Company; (iii) any issue by the Company of debt securities, or preferred or preference stock that would rank above the Shares subject to outstanding Options; (iv) the dissolution or liquidation of the Company; (v) any sale, transfer or assignment of all or any part of the assets or business of the Company; or (vi) any other corporate act or proceeding, whether of a similar character or otherwise.

## 12. TRANSFERABILITY OF OPTIONS AND SHARES.

(a) No Incentive Stock Option, and unless the prior written consent of the Committee or the Board is obtained and the transaction does not violate the requirements of Rule 16b-3 promulgated under the Securities Exchange Act no Non-Qualified Stock Option, shall be subject to alienation, assignment, pledge, charge or other transfer other than by the Optionee by will or the laws of descent and distribution, and any attempt to make any such prohibited transfer shall be void. Each Option shall be exercisable during the Optionee's lifetime only by the

Optionee, or in the case of a Non-Qualified Stock Option that has been assigned or transferred with the prior written consent of the Committee or the Board, only by the permitted assignee.

(b) Unless the prior written consent of the Committee or the Board is obtained and the transaction does not violate the requirements of Rule 16b-3 promulgated under the Securities Exchange Act, no Shares acquired by an Officer or Director pursuant to the exercise of an Option may be sold, assigned, pledged or otherwise transferred prior to the expiration of the six-month period following the date on which the Option was granted.

#### 13. ISSUANCE OF SHARES.

(a) Notwithstanding any other provision of this Plan, the Company shall not be obligated to issue any Shares unless it is advised by counsel of its selection that it may do so without violation of the applicable Federal and State laws pertaining to the issuance of securities, and may require any stock so issued to bear a legend, may give its transfer agent instructions, and may take such other steps, as in its judgment are reasonably required to prevent any such violation.

(b) As a condition of any sale or issuance of Shares upon exercise of any Option, the Committee or the Board may require such agreements or undertakings, if any, as the Committee or the Board may deem necessary or advisable to facilitate compliance with any such law or regulation including, but not limited to, the following:

(i) a representation and warranty by the Optionee to the Company, at the time any Option is exercised, that he is acquiring the Shares to be issued to him for investment and not with a view to, or for sale in connection with, the distribution of any such Shares; and

(ii) a representation, warranty and/or agreement to be bound by any legends endorsed upon the certificate(s) for such Shares that are, in the opinion of the Committee or the Board, necessary or appropriate to facilitate compliance with the provisions of any securities law deemed by the Committee or the Board to be applicable to the issuance and transfer of such Shares.

#### 14. ADMINISTRATION OF THE PLAN.

(a) The Plan shall be administered by a committee appointed by the Board (the "Committee") which shall be composed of two or more Directors all of whom shall be Outside Directors. The membership of the Committee shall be constituted so as to comply at all times with the applicable requirements of Rule 16b-3 promulgated under the Securities Exchange Act and Section 162(m) of the Internal Revenue Code. The Committee shall serve at the pleasure of the Board and shall have the powers designated herein and such other powers as the Board may from time to time confer upon it.

(b) The Board may grant Options pursuant to any persons to whom Options may be granted under Section 5(a) hereof.

(c) The Committee or the Board, from time to time, may adopt rules and regulations for carrying out the purposes of the Plan. The determinations by the Committee or the Board and the interpretation and construction of any provision of the Plan or any Option by the Committee or the Board, shall be final and conclusive.

(d) Any and all decisions or determinations of the Committee shall be made either (i) by a majority vote of the members of the Committee at a meeting or (ii) without a meeting by the unanimous written approval of the members of the Committee.

#### 15. GRANTS TO NON-EMPLOYEE DIRECTORS.

(a) Each Non-Employee Director that is not affiliated with any beneficial owner of more than 10% of the Company's Common Stock will receive on the date of his or her appointment as a Director, an Option to purchase 5,000 shares of Common Stock, which Option will become fully exercisable on the first anniversary of its grant. The per share exercise price of all Options granted to Non-Employee Directors pursuant to this Section 15(a) will be equal to the Fair Market Value of the Shares underlying such Option on the date such Option is granted. The unexercised portion of any Option granted pursuant to this Section 15(a) shall become null and void three months after the date on which such Non-Employee Director ceases to be a Director for any reason.

(b) In addition to Options granted to Non-Employee Directors pursuant to Section 15(a), the Board may grant Options to Non-Employee Directors pursuant to Section 6, subject to the provisions of the Plan generally applicable to Options granted pursuant to Section 6.

16. WITHHOLDING OR DEDUCTION FOR TAXES. If at any time specified herein for the making of any issuance or delivery of any Option or Common Stock to any Optionee or beneficiary, any law or regulation of any governmental authority having jurisdiction in the premises shall require the Company to withhold, or to make any deduction for, any taxes or take any other action in connection with the issuance or delivery then to be made, such issuance or delivery shall be deferred until such withholding or deduction shall have been provided for by the Optionee or beneficiary, or other appropriate action shall have been taken.

#### 17. INTERPRETATION.

(a) As it is the intent of the Company that the Plan comply in all respects with Rule 16b-3 promulgated under the Securities Exchange Act ("Rule 16b-3"), any ambiguities or inconsistencies in construction of the Plan shall be interpreted to give effect to such intention, and if any provision of the Plan is found not to be in compliance with Rule 16b-3, such provision shall be deemed null and void to the extent required to permit the Plan to comply with Rule 16b-3. The Committee or the Board may from time to time adopt rules and regulations under, and amend, the Plan in furtherance of the intent of the foregoing.

(b) The Plan shall be administered and interpreted so that all Incentive Stock Options granted under the Plan will qualify as Incentive Stock Options under section 422 of the

Internal Revenue Code. If any provision of the Plan should be held invalid for the granting of Incentive Stock Options or illegal for any reason, such determination shall not affect the remaining provisions hereof, but instead the Plan shall be construed and enforced as if such provision had never been included in the Plan.

(c) This Plan shall be governed by the laws of the State of Florida.

(d) Headings contained in this Plan are for convenience only and shall in no manner be construed as part of this Plan.

(e) Any reference to the masculine, feminine, or neuter gender shall be a reference to such other gender as is appropriate.

18. AMENDMENT AND DISCONTINUATION OF THE PLAN. The Committee or the Board may from time to time amend, suspend or terminate the Plan or any Option; provided, however, that, any amendment to the Plan shall be subject to the approval of the Company's shareholders if such shareholder approval is required by any federal or state law or regulation (including, without limitation, Rule 16b-3 or to comply with Section 162(m) of the Internal Revenue Code) or the rules of any Stock exchange or automated quotation system on which the Common Stock may then be listed or granted. Except to the extent provided in Sections 9 and 10 hereof, no amendment suspension or termination of the Plan or any Option issued hereunder shall substantially impair the rights or benefits of any Optionee pursuant to any Option previously granted without the consent of the Optionee.

19. EFFECTIVE DATE AND TERMINATION DATE. The Plan shall be effective upon the Effective Date and shall terminate on the 10th anniversary of the Effective Date.

AMENDMENT NO. 2 TO  
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EMPLOYMENT AGREEMENT  
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THIS AMENDMENT entered into this 15th day of March, 1997, by and between Pediatrix Medical Group, Inc., a Florida corporation (the "Company"), and Roger J. Medel, M.D. M.B.A.(the "Executive"), amends the Employment Agreement (the "Agreement") entered into on the 1st day of February, 1995, as amended, by and between the Company and the Executive.

W I T N E S S E T H:  
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WHEREAS, the Company and the Executive desire to amend the Agreement as hereinafter set forth;

NOW, THEREFORE, for and in consideration of the mutual covenants and conditions set forth in the Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Executive hereby agree as follows:

1. Section 2.3 of the Agreement in its present form shall be deleted in its entirety and a new Section 2.3 shall be substituted therefor as follows:

2.3 INCENTIVE BONUS. Executive shall be entitled to receive an incentive bonus as set forth in that certain Incentive Plan in the form attached hereto as Exhibit A.

2. Except as expressly amended hereby, the Agreement remains in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 2 to Employment Agreement the day and year first above written.

PEDIATRIX MEDICAL GROUP, INC.

By: /s/ Lawrence M. Mullen

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Name: Lawrence M. Mullen  
Title: Chief Financial Officer

EXECUTIVE

/s/ Roger J. Medel

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Roger J. Medel, M.D., M.B.A.



INCENTIVE PLAN  
FOR ROGER J. MEDEL, M.D., M.B.A.

## SECTION 1. PURPOSE OF PLAN

The purpose of the Plan is to promote the success of the Company by providing to the Executive bonus incentives that qualify as performance-based compensation within the meaning of Section 162(m) of the Code.

## SECTION 2. DEFINITIONS AND TERMS

2.1. ACCOUNTING Terms. Except as otherwise expressly provided or the context otherwise requires, financial and accounting terms are used as defined for purposes of, and shall be determined in accordance with, generally accepted accounting principles, as from time to time in effect, as applied and reflected in the consolidated financial statements of the Company, prepared in the ordinary course of business.

2.2. SPECIFIC TERMS. The following words and phrases as used herein shall have the following meanings unless a different meaning is plainly required by the context:

"BONUS" means the incentive bonus as determined under Section 4.1.

"CODE" means the Internal Revenue Code of 1986, as amended from time to time.

"COMMITTEE" means the Compensation Committee which has been established to administer the Plan in accordance with Section 3.1 and Section 162(m) of the Code.

"COMPANY" means Pediatrix Medical Group, Inc. and any successor whether by merger, ownership of all or substantially all of its assets or otherwise.

"EMPLOYMENT AGREEMENT" means that certain Employment Agreements dated January 1, 1995, between the Company and the Executive, or any amendment to or renewal of such Employment Agreement or any new employment agreement entered into with the Executive.

"EMPLOYMENT PERIOD" means the same as the period defined in the Employment Agreement.

"EXECUTIVE" means Roger J. Medel, M.D., M.B.A.

"PLAN" means this Incentive Plan for Roger J. Medel, M.D., M.B.A. as amended from time to time.

"PRE-TAX CONSOLIDATED NET INCOME" means the Company's annual consolidated net income before the cumulative effect of any change in an accounting principle, extraordinary items and income taxes as reflected in the Company's audited financial statements for the relevant fiscal period. For purposes of this Plan, the Company's Pre-Tax Consolidated Net Income for any complete fiscal year shall not be less than zero. The Pre-Tax Consolidated Net Income of the Company hereunder shall be as determined by the Company's independent auditors in accordance with generally accepted accounting principles and auditing standards, both applied on a consistent basis with prior periods, except that the amount of Pre-Tax Consolidated Net Income for any fiscal year of the Company consisting of less than twelve (12) full and consecutive calendar months shall be annualized on the basis of a twelve (12) month year.

"SECTION 162(M)" means Section 162(m) of the Code, and the regulations promulgated THEREUNDER, all as amended from time to time.

### SECTION 3. ADMINISTRATION OF THE PLAN

3.1. THE COMMITTEE. The Plan shall be administered by a Committee consisting of at least two members of the Board of Directors of the Company, duly authorized by the Board of Directors of the Company to administer the Plan, who (i) are not eligible to participate in the Plan and (ii) are "outside directors" within the meaning of Section 162(m).

3.2. POWERS OF THE COMMITTEE. The Committee shall have the authority to construe and interpret the Plan (except as otherwise provided herein), may adopt rules and regulations governing the administration of the Plan, and shall exercise all other duties and powers conferred on it by the Plan, or which are incidental or ancillary thereto.

3.3. REQUISITE ACTION. A majority (but not fewer than two) of the members of the Committee shall constitute a quorum. The vote of a majority of those present at a meeting at which a quorum is present or the unanimous written consent of the Committee shall constitute action by the Committee.

### SECTION 4. BONUS PROVISIONS.

4.1. PROVISION FOR BONUS. The Executive shall be entitled to an incentive bonus for each of the Company's fiscal years during the Employment Period. The Bonus shall be equal to five (5%) of the remainder of (x) the Company's Pre-Tax Consolidated Net Income for the relevant year, minus (y) the highest Pre-Tax Consolidated Net Income since 1995.

4.2. COMMITTEE CERTIFICATION. The Executive shall not receive any payment under the Plan unless the Committee has certified, by resolution or other appropriate action in writing, that the amount thereof has been accurately determined in accordance with the terms and conditions of the Plan.

4.3. TIME OF PAYMENT. Any Bonuses granted by the Committee under the Plan shall be paid as soon as practicable following the Committee's determinations under this Section 4 and the certification of the Committee's findings under Section 4.2, but in no event later than the 91st day after the last day of the Company's fiscal year for which the Bonus is due to the

Executive. Any such payment shall be in cash or cash equivalent, subject to applicable withholding requirements.

#### SECTION 5. GENERAL PROVISIONS

5.1. NO RIGHT TO CONTINUED EMPLOYMENT. Neither the establishment of the Plan nor the provision for or payment of any amounts hereunder nor any action of the Company (including, for purposes of this Section 5.1, any predecessor or subsidiary), the Board of Directors of the Company or the Committee in respect of the Plan, shall be held or construed to confer upon the Executive any legal right to be continued in the employ of the Company.

5.2. COMPENSATION UPON TERMINATION. If the Executive's employment with the Company is terminated for any reason, other than Cause (as defined in Section 4.1(b) of the Employment Agreement), the Executive shall be paid the Bonus that would have been payable to the Executive for the fiscal year if the Executive's employment had not been terminated, multiplied by the number of days in the fiscal year prior to and including the date of termination and divided by 365. The prorated Bonus shall be paid to the Executive at such time as the Executive would have received the Bonus if no termination of employment had occurred.

5.3. DISCRETION OF COMPANY, BOARD OF DIRECTORS AND COMMITTEE. Any decision made or action taken by the Company or by the Board of Directors of the Company or by the Committee arising out of or in connection with the creation, amendment, construction, administration, interpretation and effect of the Plan shall be within the absolute discretion of such entity and shall be conclusive and binding upon all persons. No member of the Committee shall have any liability for actions taken or omitted under the Plan by the member or any other person.

5.4. ABSENCE OF LIABILITY. A member of the Board of Directors of the Company or a member of the Committee of the Company or any officer of the Company shall not be liable for any act or inaction hereunder, whether of commission or omission.

5.5. NO FUNDING OF PLAN. The Company shall not be required to fund or otherwise segregate any cash or any other assets which may at any time be paid to Participants under the Plan. The Plan shall constitute an "unfunded" plan of the Company. The Company shall not, by any provisions of the Plan, be deemed to be a trustee of any property, and any obligations of the Company to the Executive under the Plan shall be those of a debtor and any rights of the Executive shall be limited to those of a general unsecured creditor.

5.6. NON-TRANSFERABILITY OF BENEFITS AND INTERESTS. Except as expressly provided by the Committee, no benefit payable under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any such attempted action shall be void and no such benefit shall be in any manner liable for or subject to debts, contracts, liabilities, engagements or torts of the Executive. This Section 5.6 shall not apply to an assignment of a contingency or payment due after the death of the Executive to the deceased Executive's legal representative or beneficiary.

5.7. LAW TO GOVERN. All questions pertaining to the construction, regulation, validity and effect of the provisions of the Plan shall be determined in accordance with the laws of the State of Florida.

5.8. NON-EXCLUSIVITY. The Plan does not limit the authority of the Company, the Board or the Committee, or any subsidiary of the Company, to grant awards or authorize any other compensation under any other plan.

SECTION 6. AMENDMENT OF PLAN; TERM

No amendment may be effective without Board of Directors and/or shareholder approval if such approval is necessary to comply with the applicable rules under Section 162(m) of the Code. The term of this Plan shall be for a period of ten years. The Executive shall be entitled to participate in the Plan as long as the Employment Agreement is in effect.

AMENDMENT NO. 1 TO

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EMPLOYMENT AGREEMENT

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THIS AMENDMENT entered into this 15th day of March, 1997, by and between Pediatrix Medical Group, Inc., a Florida corporation (the "Company"), and Kristen Bratberg (the "Executive"), amends the Employment Agreement (the "Agreement") entered into on the 6th day of November, 1995 by and between the Company and the Executive.

W I T N E S S E T H:

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WHEREAS, the Company and the Executive desire to amend the Agreement as hereinafter set forth;

NOW, THEREFORE, for and in consideration of the mutual covenants and conditions set forth in the Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Executive hereby agree as follows:

1. Section 2.3 of the Agreement in its present form shall be deleted in its entirety and a new Section 2.3 shall be substituted therefor as follows:

2.3 INCENTIVE BONUS. Executive shall be entitled to receive an incentive bonus as set forth in that certain Incentive Plan in the form attached hereto as Exhibit A.

2. Except as expressly amended hereby, the Agreement remains in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 1 to Employment Agreement the day and year first above written.

PEDIATRIX MEDICAL GROUP, INC.

By: /s/ Lawrence M. Mullen

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Name: Lawrence M. Mullen  
Title: Chief Financial Officer

EXECUTIVE

/s/ Kristen Bratberg

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Kristen Bratberg

INCENTIVE PLAN  
FOR KRISTEN BRATBERG

## SECTION 1. PURPOSE OF PLAN

The purpose of the Plan is to promote the success of the Company by providing to the Executive bonus incentives that qualify as performance-based compensation within the meaning of Section 162(m) of the Code.

## SECTION 2. DEFINITIONS AND TERMS

2.1. ACCOUNTING TERMS. Except as otherwise expressly provided or the context otherwise requires, financial and accounting terms are used as defined for purposes of, and shall be determined in accordance with, generally accepted accounting principles, as from time to time in effect, as applied and reflected in the consolidated financial statements of the Company, prepared in the ordinary course of business.

2.2. SPECIFIC TERMS. The following words and phrases as used herein shall have the following meanings unless a different meaning is plainly required by the context:

4.1. "BONUS" means the incentive bonus as determined under Section

"CODE" means the Internal Revenue Code of 1986, as amended from time to time.

"COMMITTEE" means the Compensation Committee which has been established to administer the Plan in accordance with Section 3.1 and Section 162(m) of the Code.

"COMPANY" means Pediatrix Medical Group, Inc. and any successor whether by merger, ownership of all or substantially all of its assets or otherwise.

"EMPLOYMENT AGREEMENT" means the Employment Agreement, dated November 6, 1995, between the Company and the Executive, or any amendment to or renewal of such Employment Agreement or any new employment agreement entered into with the Executive.

"EXECUTIVE" means Kristen Bratberg.

"GROSS PROFIT" means net patient service revenue less direct costs of the merged/acquired business in which revenue and costs are determined following the customary procedures of the Company.

"MERGER/ACQUISITIONS" means all business transactions wherein the Company or any of its affiliates acquires a medical practice through a merger or a stock or asset purchase or other similar transaction and excludes internal growth of the Company through hospital contracts without the acquisition/merger of a corresponding physician practice.

"PLAN" means this Incentive Plan for Kristen Bratberg, as amended from time to time.

"SECTION 162(M)" means Section 162(m) of the Code, and the regulations promulgated thereunder, all as amended from time to time.

### SECTION 3. ADMINISTRATION OF THE PLAN

3.1. THE COMMITTEE. The Plan shall be administered by a Committee consisting of at least two members of the Board of Directors of the Company, duly authorized by the Board of Directors of the Company to administer the Plan, who (i) are not eligible to participate in the Plan and (ii) are "outside directors" within the meaning of Section 162(m).

3.2. POWERS OF THE COMMITTEE. The Committee shall have the authority to construe and interpret the Plan (except as otherwise provided herein), may adopt rules and regulations governing the administration of the Plan, and shall exercise all other duties and powers conferred on it by the Plan, or which are incidental or ancillary thereto.

3.3. REQUISITE ACTION. A majority (but not fewer than two) of the members of the Committee shall constitute a quorum. The vote of a majority of those present at a meeting at which a quorum is present or the unanimous written consent of the Committee shall constitute action by the Committee.

### SECTION 4. BONUS PROVISIONS.

4.1. PROVISION FOR BONUS. Executive shall receive as an incentive bonus an amount equal to five percent (5%) of the initial fiscal year "Gross Profit" of any and all "mergers/acquisitions" consummated during the term of this Agreement. Payment of said incentive shall be implemented as follows: Executive shall receive 2 1/2% (two and one-half percent) of the projected Gross Profit for the initial fiscal year from each consummated merger and/or acquisition in the month immediately succeeding the closing of the merger and/or acquisition (the "Initial Payment"). Additionally, at the end of the initial fiscal year of the merger and/or acquisition upon closure of the accounting period, Executive shall receive an additional 2 1/2% (two and one-half percent) of the actual Gross Profit for the initial fiscal year from each consummated merger and/or acquisition (the "Additional Payment"). It is understood and agreed by Employer and Executive this incentive bonus may be adjusted upward or downward based upon the actual Gross Profit obtained as compared to the projected Gross Profit for the initial fiscal year.

4.2. COMMITTEE CERTIFICATION. The Executive shall not receive any payment, other than the Initial Payment, under the Plan unless the Committee has certified, by resolution or other appropriate action in writing, that the amount thereof has been accurately determined in accordance with the terms and conditions of the Plan.

4.3. TIME OF PAYMENT. Each Additional Payment under Section 4.1 shall be paid as soon as practicable following the Committee's determinations under this Section 4 and the certification of the Committee's findings under Section 4.2. Any payments of Bonuses under this Plan shall be in cash or cash equivalent, subject to applicable withholding requirements.

### SECTION 5. GENERAL PROVISIONS

5.1. NO RIGHT TO CONTINUED EMPLOYMENT. Neither the establishment of the Plan nor the provision for or payment of any amounts hereunder nor any action of the Company (including, for purposes of this Section 5.1, any predecessor or subsidiary), the Board of Directors of the Company or

the Committee in respect of the Plan, shall be held or construed to confer upon the Executive any legal right to be continued in the employ of the Company.

5.2. COMPENSATION UPON TERMINATION. If Executive is terminated for any reason other than Cause (as defined in Section 4.1(a) of the Employment Agreement), the Executive shall also be paid, for services rendered prior to termination, an amount equal to the amount due Executive under Section 4.1 for all mergers/acquisitions consummated prior to Executive's termination and unpaid at the time of termination. It is understood and agreed that the amounts will be paid to Executive without proration. Any Bonus payable to the Executive after termination of his employment shall be paid to the Executive at such time as the Executive would have received the Bonus if no termination of employment had occurred.

5.3. DISCRETION OF COMPANY, BOARD OF DIRECTORS AND COMMITTEE. Any decision made or action taken by the Company or by the Board of Directors of the Company or by the Committee arising out of or in connection with the creation, amendment, construction, administration, interpretation and effect of the Plan shall be within the absolute discretion of such entity and shall be conclusive and binding upon all persons. No member of the Committee shall have any liability for actions taken or omitted under the Plan by the member or any other person.

5.4. ABSENCE OF LIABILITY. A member of the Board of Directors of the Company or a member of the Committee of the Company or any officer of the Company shall not be liable for any act or inaction hereunder, whether of commission or omission.

5.5. NO FUNDING OF PLAN. The Company shall not be required to fund or otherwise segregate any cash or any other assets which may at any time be paid to Participants under the Plan. The Plan shall constitute an "unfunded" plan of the Company. The Company shall not, by any provisions of the Plan, be deemed to be a trustee of any property, and any obligations of the Company to the Executive under the Plan shall be those of a debtor and any rights of the Executive shall be limited to those of a general unsecured creditor.

5.6. NON-TRANSFERABILITY OF BENEFITS AND INTERESTS. Except as expressly provided by the Committee, no benefit payable under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any such attempted action shall be void and no such benefit shall be in any manner liable for or subject to debts, contracts, liabilities, engagements or torts of the Executive. This Section 5.6 shall not apply to an assignment of a contingency or payment due after the death of the Executive to the deceased Executive's legal representative or beneficiary.

5.7. LAW TO GOVERN. All questions pertaining to the construction, regulation, validity and effect of the provisions of the Plan shall be determined in accordance with the laws of the State of Florida.

5.8. NON-EXCLUSIVITY. The Plan does not limit the authority of the Company, the Board or the Committee, or any subsidiary of the Company, to grant awards or authorize any other compensation under any other plan.

#### SECTION 6. AMENDMENT OF PLAN; TERM

No amendment may be effective without Board of Directors and/or shareholder approval if such approval is necessary to comply with the applicable rules under Section 162(m) of the Code. The term of the Plan shall be for a period of ten years. The Executive shall be entitled to participate in the Plan as long as the Employment Agreement is in effect.



## Exhibit 11.1

## STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1997	1996	1997	1996
	----- (IN THOUSANDS, EXCEPT FOR PER SHARE DATA) -----			
Income applicable to common stock	\$ 4,768	\$ 3,035	\$ 9,076	\$ 5,647
Weighted average number of common and common share equivalents outstanding:				
Primary:				
Weighted average number of common shares outstanding	15,001	13,072	14,944	13,065
Weighted average number of dilutive common share equivalents	677	801	667	720
	-----	-----	-----	-----
Weighted average number of common and common share equivalents outstanding for primary earnings per share	15,678	13,873	15,611	13,785
	=====	=====	=====	=====
Fully diluted:				
Weighted average number of common shares outstanding	15,001	13,072	14,944	13,065
Weighted average number of dilutive common stock equivalents	836	801	747	734
	-----	-----	-----	-----
Weighted average number of common and common equivalent shares outstanding for fully diluted earnings per share	15,837	13,873	15,691	13,799
	=====	=====	=====	=====
Income per share:				
Primary	\$ .30	\$ .22	\$ .58	\$ .41
	=====	=====	=====	=====
Fully diluted	\$ .30	\$ .22	\$ .58	\$ .41
	=====	=====	=====	=====

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET AT JUNE 30, 1997 AND THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF INCOME FOR THE SIX MONTHS ENDED JUNE 30, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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6-MOS			
	DEC-31-1997		
	JAN-01-1997		
	JUN-30-1997		
		27,369	
		27,755	
		29,728	
		0	
		0	
	87,183		9,347
	0		
	173,765		
20,228			
		2,650	
0			
		0	
		151	
	149,422		
173,765			
		0	
	57,612		0
	43,634		
	(1,298)		
	0		
	149		
	15,127		
	6,051		
9,076			
	0		
	0		
		0	
	9,076		
	.58		
	.58		

AMOUNTS FOR RECEIVABLES AND PROPERTY, PLANT AND EQUIPMENT ARE NET OF ANY ALLOWANCES AND ACCUMULATED DEPRECIATION.