

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 MARCH 31, 2001

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.)

1301 CONCORD TERRACE  
SUNRISE, FLORIDA 33323  
(Address of principal executive offices)  
(Zip Code)

(954) 384-0175  
(Registrant's telephone number, including area code)

NOT APPLICABLE  
(Former name, former address and fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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

At May 4, 2001, the Registrant had 16,076,953 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

	March 31, 2001 (Unaudited)	December 31, 2000
	-----	-----
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents .....	\$ 1,756	\$ 3,075
Accounts receivable, net .....	67,086	69,133
Prepaid expenses .....	906	831
Other current assets .....	917	836
	-----	-----
Total current assets .....	70,665	73,875
Property and equipment, net .....	10,024	9,629
Goodwill and other assets, net .....	239,384	241,230
	-----	-----
Total assets .....	\$320,073	\$324,734
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Line of credit .....	\$ 15,800	\$ 23,500
Accounts payable and accrued expenses .....	28,260	29,878
Income taxes payable .....	8,059	3,266
Deferred income taxes .....	10,538	15,123
	-----	-----
Total current liabilities .....	62,657	71,767
Deferred income taxes .....	7,512	7,197
Deferred compensation .....	3,899	3,870
	-----	-----
Total liabilities .....	74,068	82,834
	-----	-----
Commitments and contingencies		
Shareholders' equity:		
Preferred stock .....	--	--
Common stock .....	159	159
Additional paid-in capital .....	136,041	135,540
Retained earnings .....	109,805	106,201
	-----	-----
Total shareholders' equity .....	246,005	241,900
	-----	-----
Total liabilities and shareholders' equity.....	\$320,073	\$324,734
	=====	=====

The accompanying notes are an integral part of these condensed consolidated financial statements

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

	Three Months Ended March 31,	
	----- 2001 -----	----- 2000 -----
	(in thousands, except for per share data)	
Net patient service revenue .....	\$ 63,920	\$ 59,409
Operating expenses:		
Salaries and benefits .....	46,480	43,303
Supplies & other operating expenses .....	6,857	5,721
Depreciation and amortization .....	3,578	3,336
Total operating expenses .....	----- 56,915 -----	----- 52,360 -----
Income from operations .....	7,005	7,049
Investment income .....	73	80
Interest expense .....	(525)	(987)
Income before income taxes .....	----- 6,553 -----	----- 6,142 -----
Income tax provision .....	2,949	2,764
Net income .....	----- \$ 3,604 =====	----- \$ 3,378 =====
Per share data:		
Net income per common and common equivalent share:		
Basic .....	\$ .23 =====	\$ .22 =====
Diluted .....	\$ .22 =====	\$ .22 =====
Weighted average shares used in computing net income per common and common equivalent share:		
Basic .....	15,895 =====	15,625 =====
Diluted .....	16,692 =====	15,705 =====

The accompanying notes are an integral part of  
these condensed consolidated financial statements

## PEDIATRIX MEDICAL GROUP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended March 31,	
	----- 2001 -----	2000 -----
	(in thousands)	
Cash flows from operating activities:		
Net income .....	\$ 3,604	\$ 3,378
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization .....	3,578	3,336
Deferred income taxes .....	(4,270)	882
Changes in assets and liabilities:		
Accounts receivable .....	2,047	(1,720)
Prepaid expenses and other current assets .....	(156)	(287)
Other assets.....	83	(220)
Accounts payable and accrued expenses .....	(1,618)	(1,303)
Income taxes payable .....	4,965	1,225
	-----	-----
Net cash provided from operating activities .....	8,233	5,291
	-----	-----
Cash flows from investing activities:		
Physician group acquisition payments .....	(887)	(7,639)
Purchase of property and equipment .....	(1,294)	(1,099)
	-----	-----
Net cash used in investing activities .....	(2,181)	(8,738)
	-----	-----
Cash flows from financing activities:		
(Payments) borrowings on line of credit, net .....	(7,700)	3,750
Payments on note payable .....	--	(50)
Proceeds from issuance of common stock .....	329	--
	-----	-----
Net cash (used in) provided from financing activities .....	(7,371)	3,700
	-----	-----
Net (decrease) increase in cash and cash equivalents .....	(1,319)	253
Cash and cash equivalents at beginning of period .....	3,075	825
	-----	-----
Cash and cash equivalents at end of period .....	\$ 1,756	\$ 1,078
	=====	=====

The accompanying notes are an integral part of  
these condensed consolidated financial statements

## PEDIATRIX MEDICAL GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2001

(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 months ended March 31, 2001 are not necessarily indicative of the results of operations to be expected for the year ended December 31, 2001. 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/A (Amendment No. 1) filed with the Securities and Exchange Commission on April 6, 2001.

## 2. BUSINESS ACQUISITIONS:

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

PEDIATRIX MEDICAL GROUP, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

(UNAUDITED)

3. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

Accounts payable and accrued expenses consist of the following:

	March 31, 2001	December 31, 2000
	-----	-----
	(in thousands)	
Accounts payable .....	\$11,582	\$ 9,662
Accrued salaries and bonuses .....	2,830	6,960
Accrued payroll taxes and benefits ....	3,542	4,315
Accrued professional liability coverage.....	7,077	5,888
Other accrued expenses .....	3,229	3,053
	-----	-----
	\$28,260	\$29,878
	=====	=====

4. NET INCOME PER SHARE:

Basic net income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is calculated by dividing net income by the weighted average number of common and potential common shares outstanding during the period. Potential common shares consist of the dilutive effect of outstanding options calculated using the treasury stock method.

5. CONTINGENCIES:

In February 1999, several federal securities law class actions were commenced against the Company and three of its principal officers in United States District Court for the Southern District of Florida. The plaintiffs purport to represent a class of all open market purchasers of the Company's common stock between March 31, 1997, and various dates through and including April 2, 1999. They claim that during that period, the Company violated the antifraud provisions of the federal securities laws by issuing false and misleading statements concerning its billing practices and results of operations. The plaintiffs seek damages in an undetermined amount based on the alleged decline in the value of the common stock after the Company, in early April 1999, disclosed the initiation of inquiries by state investigators into its billing practices. The plaintiff class has been certified, and the case is now in the discovery stage. No trial date has been set, but the court has set a pre-trial conference for August 17, 2001. Under the local rules, all pre-trial activities, including discovery and motions for summary judgment, must be completed before that date, and trial may be set for anytime thereafter. Also pursuant to the local rules, the parties have agreed to engage in a mediation, but to date those efforts have been unsuccessful. Although the Company continues to believe that the claims are without merit and intends to defend them vigorously, if the Company is unsuccessful in defending class action lawsuits that have been brought against it, damages awarded could exceed the limits of the Company's insurance coverage and have a material adverse effect on the Company's financial condition, results of operations and liquidity.

(UNAUDITED)

## 5. CONTINGENCIES, CONTINUED:

In April 1999, the Company received requests, and in one case a subpoena, from investigators in Arizona, Colorado and Florida for information related to its billing practices for services reimbursed by the Medicaid programs in these states and the Tricare program for military dependents. On May 25, 2000, the Company entered into a settlement agreement with the Office of the Attorney General for the State of Florida, pursuant to which the Company paid the State of Florida \$40,000 to settle any claims regarding the receipt of overpayments from the Florida Medicaid program from January 7, 1997 through the effective date of the settlement agreement. On August 28, 2000, the Company entered into a settlement agreement with the State of Arizona's Medicaid Agency, pursuant to which the Company paid the State of Arizona \$220,000 in settlement of potential claims regarding payments received by the Company and its affiliated physicians and physician practices from the Arizona Medicaid program for neonatal, newborn and pediatric services provided over a ten-year period, from January 1, 1990 through the effective date of the settlement agreement. Additionally, the Company reimbursed the State of Arizona for costs related to its investigation.

The Florida and Arizona settlement agreements both stated that the investigations conducted by those states revealed a potential overpayment, but no intentional fraud, and that any overpayment was due to a lack of clarity in the relevant billing codes. Although the Company believes that the resolution of the Florida and Arizona investigations on these terms supports the propriety of our billing practices, the investigation in Colorado is ongoing and these matters have prompted inquiries by Medicaid officials in other states. The Company cannot predict whether the Colorado investigation or any other inquiries will have a material adverse effect on the Company's business, financial condition and results of operations.

The Company further believes that billing audits, inquiries and investigations from government agencies will continue to occur in the ordinary course of its business and in the healthcare



(UNAUDITED)

services industry in general and from time to time, the Company may be subject to additional billing audits and inquiries by government and other payors.

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. These lawsuits are not expected to result in judgments which would exceed professional liability insurance coverage, and therefore are not expected to have a material impact on the Company's financial position, results of operations or liquidity, notwithstanding any possible lack of insurance recovery.

6. MERGER AGREEMENT

On February 15, 2001, the Company announced that it signed a definitive merger agreement with Magella Healthcare Corporation ("Magella").

Under the terms of the agreement, Pediatrix would issue approximately 6.9 million shares of common stock in exchange for all outstanding capital stock (including shares of Magella non-voting common stock that will be issued upon the exercise immediately prior to the merger of substantially all outstanding warrants of Magella). In addition, Pediatrix would assume certain obligations to issue up to 1.39 million shares of common stock pursuant to Magella stock option plans. Pediatrix would repay an estimated \$25 million of Magella bank debt and assume \$23.5 million of convertible subordinated notes which would be convertible into approximately 1 million shares of Pediatrix common stock.

The board of directors of each company has approved the definitive agreement. Shareholders of Magella representing a majority of the outstanding shares of Magella voting stock have agreed to vote their shares in favor of the proposed merger. The proposed merger is subject to the approval of the shareholders of Pediatrix. On February 13, 2001, the proposed merger received early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

This merger will be accounted for using the purchase method of accounting. The purchase price to be allocated, including direct transaction costs, is approximately \$164.3 million. Pediatrix anticipates that the transaction will close on May 15, 2001.

In the event that the merger is not consummated, the Company may be liable for certain termination fees in accordance with the merger agreement.

7. SUBSEQUENT EVENTS:

Subsequent to March 31, 2001, the Company completed the acquisition of two physician group practices. Total consideration for these acquisitions approximated \$15.9 million in cash. 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 MARCH 31, 2001 AS COMPARED TO THREE MONTHS ENDED MARCH 31, 2000

We reported net patient service revenue of \$63.9 million for the three months ended March 31, 2001, as compared with \$59.4 million for the same period in 2000, a growth rate of 7.6%. Of this \$4.5 million increase, \$1.9 million, or 42.2%, was attributable to new units, including units at which we provide services as a result of acquisitions. Same unit patient service revenue increased approximately \$2.6 million, or 4.5%, for the three months ended March 31, 2001. The increase in same unit patient service revenue is primarily the result of a higher acuity level of patient service billed in the three months ended March 31, 2001 as compared to the three months ended March 31, 2000. Same units are those units at which we provided services for the entire current period and the entire comparable prior period.

Salaries and benefits increased \$3.2 million, or 7.3%, to \$46.5 million for the three months ended March 31, 2001, as compared with \$43.3 million for the same period in 2000. Of this increase, \$1.6 million, or 50.0%, was attributable to hiring new physicians and other clinical staff and to support new unit growth and volume growth at existing units. The remaining \$1.6 million was primarily attributable to an increase in resources for: (i) billing and collections as we continued our regionalization of collection activities; (ii) administrative support at the practice level; and (iii) information services for the development and support of clinical and operational systems. Supplies and other operating expenses increased \$1.2 million, or 19.9%, to \$6.9 million for the three months ended March 31, 2001, as compared with \$5.7 million for the same period in 2000. The increase was primarily the result of additional rent expense and increased costs related to our regional collection offices. Depreciation and amortization expense increased by approximately \$242,000, or 7.3%, to \$3.6 million for the three months ended March 31, 2001, as compared with \$3.3 million for the same period in 2000, primarily as a result of depreciation on fixed asset additions and amortization of goodwill in connection with acquisitions made during 2000.

Income from operations decreased approximately \$44,000 to approximately \$7.0 million for the three months ended March 31, 2001 as compared to the same period in 2000.

We recorded net interest expense of approximately \$452,000 for the three months ended March 31, 2001, as compared with net interest expense of approximately \$907,000 for the same period in 2000. The decrease in interest expense in 2001 is primarily due to the reduction of our line of credit.

The effective income tax rate was approximately 45.0% for the three months ended March 31, 2001 and 2000.

Net income increased 6.7% to approximately \$3.6 million for the three months ended March 31, 2001, as compared to \$3.4 million for the same period in 2000. Diluted net income per common and common equivalent share remained consistent at 22 cents for the three months ended March 31, 2001 and 2000.

## LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2001, we had working capital of approximately \$8.0 million, an increase of \$5.9 million from working capital of \$2.1 million at December 31, 2000.

During 2000, we refinanced our \$75 million line of credit, which matured on September 30, 2000, with an amended and restated credit agreement in the amount of \$75 million. At our option, the credit agreement (the "Line of Credit") bears interest at LIBOR plus 2.0% or prime. The Line of Credit is collateralized by substantially all the assets of Pediatrix, its subsidiaries and its affiliated practices, and matures on September 30, 2001. We had \$15.8 million outstanding under the Line of Credit at March 31, 2001 as compared to \$23.5 million at December 31, 2000. We are required to maintain certain financial covenants. We are in compliance with such financial covenants at March 31, 2001.

We are currently evaluating several options to obtain financing beyond the current maturity of the Line of Credit. However, there can be no assurance that we will be able to obtain financing in amounts and on terms substantially similar to the Line of Credit on or prior to September 30, 2001.

Our capital expenditures have typically been for computer hardware and software and for furniture, equipment and improvements at the corporate headquarters. During the three months ended March 31, 2001, capital expenditures amounted to approximately \$1.3 million.

Provided that we are able to secure financing in amounts similar to those currently available under the Line of Credit, we anticipate that funds generated from operations, together with cash on hand, and funds available under such financing will be sufficient to meet our working capital requirements and finance required capital expenditures for at least the next 12 months.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our Line of Credit and certain operating lease agreements are subject to market risk from interest rate changes. The total amount available under the Line of Credit is \$75 million. At our option, the Line of Credit bears interest at either LIBOR plus 2% or prime. The leases bear interest at LIBOR-based variable rates. The outstanding principal balance on the Line of Credit is \$15.8 million at March 31, 2001. The outstanding balances related to the operating leases totaled approximately \$17.2 million at March 31, 2001. Considering the total outstanding balances under these instruments at March 31, 2001 of approximately \$33.0 million, a 1% change in interest rates would result in an impact to pre-tax earnings of approximately \$330,000 per year.

## ITEM 1. LEGAL PROCEEDINGS

In February 1999, several federal securities law class actions were commenced against us and three of our principal officers in United States District Court for the Southern District of Florida. The plaintiffs purport to represent a class of all open market purchasers of our common stock between March 31, 1997, and various dates through and including April 2, 1999. They claim that during that period, we violated the antifraud provisions of the federal securities laws by issuing false and misleading statements concerning our billing practices and results of operations. The plaintiffs seek damages in an undetermined amount based on the alleged decline in the value of the common stock after we, in early April 1999, disclosed the initiation of inquiries by state investigators into our billing practices. The plaintiff class has been certified, and the case is now in the discovery stage. No trial date has been set, but the court has set a pre-trial conference for August 17, 2001. Under the local rules, all pre-trial activities, including discovery and motions for summary judgment, must be completed before that date, and trial may be set for anytime thereafter. Also pursuant to the local rules, the parties have agreed to engage in a mediation, but to date those efforts have been unsuccessful. Although we continue to believe that the claims are without merit and intend to defend them vigorously, if we are unsuccessful in defending class action lawsuits that have been brought against us, damages awarded could exceed the limits of our insurance coverage and have a material adverse effect on our financial condition, results of operations, and liquidity.

In April 1999, we received requests, and in one case a subpoena, from investigators in Arizona, Colorado and Florida for information related to our billing practices for services reimbursed by the Medicaid programs in these states and the Tricare program for military dependents. On May 25, 2000, we entered into a settlement agreement with the Office of the Attorney General for the State of Florida, pursuant to which we paid the State of Florida \$40,000 to settle any claims regarding the receipt of overpayments from the Florida Medicaid program from January 7, 1997 through the effective date of the settlement agreement. On August 28, 2000, we entered into a settlement agreement with the State of Arizona's Medicaid Agency, pursuant to which we paid the State of Arizona \$220,000 in settlement of potential claims regarding payments received by Pediatrix and its affiliated physicians and physician practices from the Arizona Medicaid program for neonatal, newborn and pediatric services provided over a ten-year period, from January 1, 1990 through the effective date of the settlement agreement. Additionally, we reimbursed the State of Arizona for costs related to its investigation.

The Florida and Arizona settlement agreements both stated that the investigations conducted by those states revealed a potential overpayment, but no intentional fraud, and that any overpayment was due to a lack of clarity in the relevant billing codes. Although we believe that the resolution of the Florida and Arizona investigations on these terms supports the propriety of our billing practices, the investigation in Colorado is ongoing and these matters have prompted inquiries by Medicaid officials in other states. We cannot predict whether the Colorado investigation or any other inquiries will have a material adverse effect on our business, financial condition and results of operations.

PEDIATRIX MEDICAL GROUP, INC.  
PART II - OTHER INFORMATION - (CONTINUED)

ITEM 1. LEGAL PROCEEDINGS (CONTINUED):

We further believe that billing audits, inquiries and investigations from government agencies will continue to occur in the ordinary course of business and in the healthcare services industry in general and from time to time, we may be subject to additional billing audits and inquiries by government and other payors.

During the ordinary course of business, we have 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. These lawsuits are not expected to result in judgments which would exceed professional liability insurance coverage, and therefore are not expected to have a material impact on our financial position, results of operations or liquidity, notwithstanding any possible lack of insurance recovery.

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

Not applicable.

ITEM 5. OTHER INFORMATION

This quarterly report contains statements which, to the extent they are not historical fact, constitute "forward looking statements" under the securities laws. All forward looking statements involve risks, uncertainties and other factors that may cause our actual results, performance or achievements to differ materially from those expressed or implied by or in such forward looking statements. The forward looking statements in this document are intended to be subject to the safe harbor protection provided under the securities laws.

Our shareholders should also be aware that while we do, at various times, communicate with securities analysts, it is against our policies to disclose to such analysts any material non-public information or other confidential information. Accordingly, our shareholders should not assume that we agree with all statements or reports issued by such analysts. To the extent statements or reports issued by analysts contain projections, forecasts or opinions by such analysts about us, such reports and statements are not our responsibility.

For additional information identifying certain other important factors which may affect our operations and could cause actual results to vary materially from those anticipated in the forward looking statements, see our Securities and Exchange Commission filings, including but not limited to, the discussion included in the Business section of our Form 10-K/A (Amendment No. 1) under the heading "Risk Factors".

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

## (a) Exhibits

10.19 Employment Agreement dated January 1, 2001, between Roger J. Medel, M.D., M.B.A. and Pediatrix Medical Group, Inc.

10.20 Amended and Restated Credit Agreement (Amendment No. 1), dated as of April 30, 2001, among Pediatrix, certain professional contractors, Fleet Bank, Sun Trust Bank and UBS AG.

11.1 Statement Re: Computation of Per Share Earnings.

## (b) Reports on Form 8-K

(i) Form 8-K, filed February 15, 2001, reporting Item 5 (Other Events) related to the Company's Agreement and Plan of Merger with Magella Healthcare Corporation.

## 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: May 11, 2001

By: /s/ Roger J. Medel, M.D.

-----  
Roger J. Medel, Chairman of the Board,  
Chief Executive Officer and Director  
(principal executive officer)

Date: May 11, 2001

By: /s/ Karl B. Wagner

-----  
Karl B. Wagner, Chief Financial  
Officer (principal financial  
and accounting officer)



## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is effective as of the 1st day of January, 2001, by and between PEDIATRIX MEDICAL GROUP, INC., a Florida corporation (hereinafter called the "Company"), and ROGER J. MEDEL, M.D., M.B.A. (hereinafter called the "Executive").

## P R E L I M I N A R Y S T A T E M E N T S

A. The Company is presently engaged in the business of providing neonatal and pediatric physician management services to hospitals (the "Business").

B. The Executive has had several years of experience in the Business and is currently the Chief Executive Officer of the Company.

C. The Company is desirous of employing the Executive and benefiting from his contributions to the Company.

## A G R E E M E N T

NOW, THEREFORE, in consideration of the premises and mutual covenants set forth herein, the parties agree as follows:

## 1. EMPLOYMENT.

1.1. EMPLOYMENT AND TERM. The Company hereby agrees to continue to employ the Executive and the Executive hereby agrees to continue to serve the Company, on the terms and conditions set forth herein, for a period of five (5) years (the "Initial Term") commencing on January 1, 2001 and expiring on December 31, 2006 (the "Expiration Date") unless sooner terminated as hereinafter set forth. The Initial Term of this Agreement, and the employment of the Executive hereunder, shall be automatically renewed for one (1) year periods thereafter until terminated in accordance hereunder. (The Initial Term and any automatic renewals shall be hereinafter referred to as the "Employment Period").

1.2. DUTIES OF THE EXECUTIVE. During the Employment Period, the Executive shall serve as Chief Executive Officer of the Company and shall have powers and authority superior to any other officer or employee of the Company or of any subsidiary of the Company. The Executive shall be required to report solely to, and shall be subject solely to the supervision and direction of, the Board of Directors (the "Board") at duly called meetings thereof and no other person or group shall be given authority to supervise or direct the Executive in the performance of his duties. During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote substantially all of his attention and business time during normal business hours to the business

and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder as a senior executive officer involved with the general management of the Company, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this Agreement for the Executive to (i) serve on corporate, civic or charitable boards or committees; (ii) deliver lectures, fulfill speaking engagements or teach at educational institutions; or (iii) manage personal investments and engage in other business activities, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the date hereof, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the date hereof shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company.

1.3. PLACE OF PERFORMANCE. The Executive shall be based at the Company's principal executive offices located in Broward County, Florida, except for required travel relating to the Company's Business.

## 2. BASE COMPENSATION AND BONUS.

2.1. BASE SALARY. Commencing on the date hereof, the Executive shall receive a base salary at the annual rate of not less than Six Hundred Thousand Dollars (\$600,000) (the "Base Salary") during the term of this Agreement, with such Base Salary payable in installments consistent with the Company's normal payroll schedule, subject to required applicable withholding for taxes. The Base Salary shall be reviewed, at least annually, for merit increases and may, by action and in the discretion of the Board, be increased at any time or from time to time. At the sole discretion of Company, Company may adjust Executive's Base Salary to reflect annual changes in the cost of living. The Base Salary, if so increased, shall not thereafter be decreased for any reason.

2.2. PERFORMANCE BONUS. During the Employment Period, the Executive may be entitled to a performance bonus each year of up to Two Hundred Thousand Dollars (\$200,000) (the "Performance Bonus") determined as follows:

(a) The Company shall pay Executive One Hundred Thousand Dollars (\$100,000) as a bonus if Company's neonatal intensive care unit ("NICU") patient days were at least 600,000 during the prior fiscal year; and

(b) The Company shall pay Executive One Hundred Thousand Dollars (\$100,000) as a bonus if NICU same unit growth exceeds three percent (3%) during the prior fiscal year. NICU same unit growth shall be calculated by dividing (X) the year over year increase (if any) in the number of NICU patient days in all NICUS that have been a part of the Company for the two most recent fiscal years by (Y) the number of NICU patient days in the first of the two most recent fiscal years, with such calculation to be made as of the end of the Company's fiscal year.

The Company shall pay the Executive the Performance Bonus due hereunder as soon as reasonably possible after the end of the Company's fiscal year, but in no event later than the 91st day after the last day of the Company's fiscal year for which the Performance Bonus is due to the Executive.

### 3. OTHER BENEFITS.

3.1. EXPENSE REIMBURSEMENT. The Company shall promptly reimburse the Executive for all reasonable expenses actually paid or incurred by the Executive in the course of and pursuant to the Business of the Company, including expenses for travel and entertainment. The Executive shall account and submit reasonably supporting documentation to the Company in connection with any expense reimbursement hereunder in accordance with the Company's policies.

3.2. OTHER BENEFITS. During the Employment Period, the Company shall continue in force all existing comprehensive major medical and hospitalization insurance coverages, either group or individual for the Executive and his dependents; shall continue in force all existing life insurance for the Executive; and shall continue in force all existing disability insurance for the Executive (collectively, the "Policies"), which Policies the Company shall keep in effect at its sole expense throughout the term of this Agreement. The Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under all welfare benefit plans, practices, policies and programs provided by the Company (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to senior executive officers or other peer executives of the Company. The Executive shall also be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs and such other perquisites as applicable generally to senior executive officers or other peer executives of the Company. The Executive shall be reimbursed for up to \$1,500 per year for professional dues and subscriptions in accordance with written policies and procedures of the Company. Nothing paid to the Executive under any plan or arrangement presently in effect or made available in the future shall be deemed to be in lieu of the Base Salary payable to the Executive pursuant to this agreement.

3.3. WORKING FACILITIES. The Company shall furnish the Executive with such facilities and services suitable to his position and adequate for the performance of his duties hereunder.

3.4. VACATION. The Executive shall be entitled to such number of paid vacation and leave days in each calendar year as determined by the Board from time to time for its senior executive officers, but in no event less than six (6) weeks of paid vacation during each calendar year. Unused vacation days may be carried forward from year to year at the option of the Executive; provided that the Executive notifies the Company of his intention to accrue any unused vacation or leave time.

3.5. STOCK OPTIONS. The Executive shall be entitled to participate in the Company's Stock Option Plan or any other similar plan adopted by the Company that provides for the issuance of stock options to its employees. On December 15th of each year during the Employment Period, Executive shall be granted Twenty-Five Thousand stock options, such options to be issued at market price and to vest immediately upon issuance.

3.6 PROFESSIONAL MEETINGS AND SEMINARS AND EXPENSES. The Executive shall be entitled to educational leave of ten (10) days annually without diminution of compensation. Company shall reimburse expenses incurred by the Executive while attending educational meetings and for publications, association membership, and other materials related to medical management, up to Three Thousand Dollars (\$3,000) annually. The Executive shall also be reimbursed for up to Two Thousand Dollars (\$2,000) per year for professional meetings and seminars in accordance with written policies and procedures of the Company.

#### 4. TERMINATION.

##### 4.1. TERMINATION FOR CAUSE.

(a) The Company may terminate this Agreement for Cause. As used in this Agreement, the term "Cause" shall mean:

(i) A material willful breach committed in bad faith by the Executive of the Executive's obligations under Section 1.2 hereof (other than as a result of incapacity due to physical or mental illness) which is not remedied in a reasonable period of time after receipt of written notice from the Company specifying such breach; OR

(ii) The conviction of the Executive of a felony based upon a violent crime or a sexual crime involving baseness, vileness or depravity; OR

(iii) Substance abuse by the Executive in a manner which materially affects the performance of the Executive's obligations under Section 1.2 hereof; OR

(iv) Any act or omission of the Executive which is materially contrary to the business interests, representations or goodwill of the Company.

(b) The Termination Date for a termination of this Agreement pursuant to this Section 4.1 shall be the date specified by the Board in a written notice to the Executive of finding of Cause.

(c) Upon any termination of this Agreement pursuant to this Section 4.1, the Executive shall be entitled to the compensation specified in Section 5.1 hereof.

4.2. DISABILITY. The Company may terminate this Agreement upon the Disability (as defined below) of the Employee in strict accordance with the following procedure: Upon a good faith determination by not less than a majority of the Board of the entire

membership of the Board (excluding the Executive) that the Executive has suffered a Disability, the Company shall give the Executive written notice of its intention to terminate this Agreement due to such Disability. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for six consecutive months or twelve months whether or not consecutive as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative (such agreement as to acceptability not to be withheld unreasonably). The Termination Date for a termination of this Agreement pursuant to this Section 4.2 shall be the date specified by the Board in the resolution finding that the Executive has suffered a Disability, which date may not be any earlier than 30 days after the date of Board's finding. Upon any termination of this Agreement pursuant to this Section 4.2, the Executive shall be entitled to the compensation specified in Section 5.2 hereof.

4.3. DEATH. This Agreement shall terminate automatically upon the death of the Executive, without any requirement of notice by the Company to the Executive's estate. The date of the Executive's death shall be the Termination Date for a termination of this Agreement pursuant to this Section 4.3. Upon any termination of this Agreement pursuant to this Section 4.3, the Executive shall be entitled to the compensation specified in Section 5.3 hereof.

4.4 TERMINATION BY THE COMPANY WITHOUT CAUSE. The Company may terminate the Executive's employment, without cause, as provided in this Section 4.4. To terminate the Executive's employment without cause in accordance with this Section 4.4, the Company shall give the Executive written notice of such termination. The Termination Date shall be the date specified by the Company in such notice. Upon any termination of this Agreement pursuant to this Section 4.4, the Executive shall be entitled to the compensation specified in Section 5.4 hereof.

4.5. TERMINATION UPON A CHANGE IN CONTROL OF THE COMPANY. In the event a Change in Control (as hereafter defined) in the Company shall occur during the Employment Period, and the Executive elects to terminate his employment with Company because Executive is (i) assigned any position, duties or responsibilities that are significantly diminished or changed when compared with the position, duties, responsibilities or compensation of the Executive prior to such Change in Control, or (ii) forced to relocate to another location more than 25 miles from the Executive's location prior to the Change in Control, or (iii) Executive is terminated by Company, then the Executive shall be entitled to the compensation specified in Section 5.5 hereof and any other compensation and benefits provided in this Agreement in connection with a Change in Control of the Company. For purposes of this Section 4.5, "Change in Control of the Company" shall mean (i) the acquisition by a person or an entity or a group of persons and entities, directly or indirectly, of more than fifty (50%) percent of the Company's common stock in a single transaction or a series of transactions (hereinafter referred to as a "50% Change in Control"); (ii) a merger or other form of corporate reorganization resulting in an actual or DE

FACTO 50% Change in Control; or (iii) the failure of Applicable Directors (defined below) to constitute a majority of the Board during any two (2) consecutive year period after the date of this Agreement (the "Two-Year Period"). "Applicable Directors" shall mean those individuals who are members of the Board at the inception of a Two-Year Period and any new director whose election to the Board or nomination for election to the Board was approved (prior to any vote thereon by the shareholders) by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the Two-Year Period at issue or whose election or nomination for election during such Two-Year Period was previously approved as provided in this sentence. If the Executive elects to terminate his employment pursuant to the terms of this Section 4.5, the Executive shall give the Company a written termination notice. The Termination Date shall be the date specified in such notice, which date may not be earlier than 30 days nor later than 90 days from the Company's receipt of such notice.

4.6. TERMINATION BY THE EXECUTIVE DUE TO POOR HEALTH. The Executive may terminate his employment under this Agreement upon written notice to the Company if the Executive's health should become impaired to any extent that makes the continued performance of the Executive's duties under this Agreement hazardous to the Executive's physical or mental health or his life (regardless of whether such condition would be deemed a Disability under any other section of this Agreement), provided that the Executive shall have furnished the Company with a written statement from a qualified doctor to that effect and provided further that, at the Company's written request and expense, the Executive shall submit to a medical examination by a qualified doctor selected by the Company and acceptable to the Executive (which acceptance shall not be unreasonably withheld) which doctor shall substantially concur with the conclusions of the Executive's doctor. The Termination Date shall be the date specified in the Executive's notice to the Company, which date may not be earlier than 30 days nor later than 90 days from the Company's receipt of such notice. Upon any termination of this Agreement pursuant to this Section 4.6, the Executive shall be entitled to the compensation specified in Section 5.6 hereof.

4.7. TERMINATION BY THE EXECUTIVE. The Executive may terminate his employment under this Agreement for any reason whatsoever upon not less than 90 days prior written notice to the Company. The Termination Date under this Section 4.7 shall be the date specified in the Executive's notice to the Company, which date may not be earlier than 90 days from the Company's receipt of such notice. Upon any termination of this Agreement pursuant to this Section 4.7, the Executive shall be entitled to the compensation specified in Section 5.7 hereof.

#### 5. COMPENSATION AND BENEFITS UPON TERMINATION.

5.1. CAUSE. If the Executive's employment is terminated for Cause, the Company shall pay the Executive his full Base Salary through the Termination Date specified in Section 4.1 at the rate in effect at the Termination Date, and the Company shall have no further obligation to the Executive under this Agreement.

5.2. DISABILITY. During any period that the Executive is unable to perform his duties under this Agreement as a result of incapacity due to physical or mental illness, the

Executive shall continue to receive his full Base Salary until the Termination Date specified in Section 4.2, plus the prorated amounts specified in Section 5.10. After such termination, the Executive shall receive in equal monthly installments 100% of his Base Salary at the rate in effect at the Termination Date for one year and thereafter for two additional years at an annual rate equal to 50% of the Base Salary which would have been in effect under this Agreement, reduced, in each case, for any disability payments otherwise payable by or pursuant to plans provided by the Company.

5.3. DEATH. Upon the Executive's death, the Company shall pay to the person designated by the Executive in a notice filed with the Company or, if no person is designated, to his estate (i) any unpaid amounts of his Base Salary and accrued vacation to the date of the Executive's death, plus the prorated amounts specified in Section 5.10; and (ii) any payments the Executive's spouse, beneficiaries or estate may be entitled to receive pursuant to any pension or employee benefit plan or life insurance policy or similar plan or policy then maintained by the Company. Upon full payment of all amounts required to be paid under this Section 5.3, the Company shall have no further obligation under this Agreement.

5.4 TERMINATION BY THE COMPANY WITHOUT CAUSE. If the Company terminates the Executive's employment without cause in accordance with and subject to Section 4.4, then (i) the Company shall pay the Executive his full Base Salary through the Termination Date specified in Section 4.4 at the rate in effect at such Termination Date, plus the prorated amounts specified in Section 5.10; and (ii) in lieu of further salary payments to the Executive for periods subsequent to the Termination Date and in consideration of the rights of the Company under Section 8, the Company shall pay as severance pay to the Executive on the fifth day following the Termination Date, a lump sum amount equal to 200% of the sum of (a) the annual Base Salary at the highest rate in effect during the 12 months immediately preceding the Termination; plus (b) the average of the three annual Performance Bonus payments paid with respect to the preceding three years under this Agreement (or the number of years the Executive has been employed with the Company under this Agreement or otherwise if less than three years).

5.5. TERMINATION UPON A CHANGE IN CONTROL. If the Executive or Company terminates this Agreement upon a Change in Control of the Company pursuant to Section 4.5, then (i) the Company shall pay the Executive his full Base Salary through the Termination Date specified in Section 4.5, at the rate in effect at such Termination Date, plus the prorated amounts specified in Section 5.10; (ii) the Executive shall receive all other compensation and benefits provided in this Agreement in connection with a termination of employment due to a Change in Control of the Company; and (iii) in lieu of any further salary payments to the Executive for periods subsequent to such Termination Date (but without affecting compensation or benefits to the Executive in accordance with the preceding clauses 5.5(i) and 5.5(ii) and in consideration of the rights of the Company under Section 8), the Company shall pay as severance pay to the Executive on the fifth day following the Termination Date, a lump sum amount equal to 200% of the Executive's Base Salary herein plus the amount of any Performance Bonus for the preceding twelve months prior to the Termination Date, reduced, but not below zero, by the amount of compensation or benefits from the Company to the Executive which would cause the severance pay payable pursuant to this Section 5.5 to exceed the excess parachute payment limitation

imposed under Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), payable to the Executive in 12 equal monthly installments. In addition, in the event the Termination Date as a result of a Change in Control occurs within the twelve-month period of a Change in Control, any stock options held by the Executive on the Termination Date shall fully vest and become immediately exercisable.

5.6. TERMINATION BY THE EXECUTIVE DUE TO POOR HEALTH. If the Executive terminates this Agreement pursuant to Section 4.6 hereof, the Company shall pay to the Executive any unpaid amounts of his Base Salary and accrued vacation to the Termination Date specified in Section 4.6, plus any disability payments otherwise payable by or pursuant to plans provided by the Company, plus the prorated amounts specified in Section 5.10.

5.7. TERMINATION BY THE EXECUTIVE. If this Agreement terminates pursuant to Section 4.7 hereof, the Company shall pay to the Executive any unpaid amounts of his Base Salary and accrued vacation to the Termination Date specified in Section 4.7, as the case may be, plus the prorated amounts specified in Section 5.10.

5.8. HEALTH AND MEDICAL PLANS. The Executive shall be entitled to all continuation of health, medical, hospitalization and other programs during the period that the Executive is receiving payments under this Agreement and, in all cases, as provided by any applicable law. The Executive shall also be entitled to receive those benefits as are provided by the Company to its employees upon termination of employment with the Company.

5.9. MITIGATION. Except with respect to a termination in accordance with Section 4.5, the Executive shall be required to mitigate the amount of any payment provided for in this Section 5 by seeking other employment or otherwise, any payment provided for in this Section 5 shall be reduced by any compensation earned by the Executive as the result of employment by another employer after the Termination Date.

5.10. PERFORMANCE BONUS AND EXPENSE REIMBURSEMENT. If the Executive's employment with the Company is terminated for any reason, other than Cause (defined in Section 4.1(a) above), the Executive shall be paid, solely in consideration for services rendered by the Executive prior to such termination, a bonus with respect to the Company's fiscal year in which the Termination Date occurs, equal to the Performance 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 Executive shall be entitled to reimbursement for reasonable business expenses incurred prior to the Termination Date, subject, however to the provisions of Section 3.1.

## 6. SUCCESSORS; BINDING AGREEMENT.

6.1. SUCCESSORS. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) acquiring a majority of the Company's voting common stock or any other successor to all or substantially all of the business and/or



assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as previously defined and any successor to its business and/or assets which executes and delivers the agreement provided for in this Section 6 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

6.2. BENEFIT. This Agreement and all rights of the Executive under this Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amounts would still be payable to him under this Agreement, including all payments payable under Section 5, if he had continued to live, all such amounts shall be paid in accordance with the terms of this Agreement to the Executive's devisee, legatee, or other designee or, if there is no such designee, the Executive's estate.

7. CONFLICTS WITH PRIOR EMPLOYMENT CONTRACT. Except as otherwise provided in this Agreement, this Agreement constitutes the entire agreement among the parties pertaining to the subject matter hereof, and supersedes and revokes any and all prior or existing agreements, written or oral, relating to the subject matter hereof, and this Agreement shall be solely determinative of the subject matter hereof.

8. NONCOMPETITION; UNAUTHORIZED DISCLOSURE; INJUNCTIVE RELIEF.

8.1. NO MATERIAL COMPETITION. Except with respect to services performed under this Agreement on behalf of the Company, and subject to the obligations of the Executive as an officer of the Company and the employment obligations of the Executive under this Agreement, the Executive agrees that at no time during the Employment Period or, for a period of one year immediately following any termination of this Agreement for any reason, for himself or on behalf of any other person, persons, firm, partnership, corporation or company:

(a) Solicit or accept business from any clients of the Company or its affiliates, from any prospective clients whose business the Company or any affiliate of the Company is in the process of soliciting at the time of the Executive's termination, or from any former clients which had been doing business with the Company within one year prior to the Executive's termination;

(b) Solicit any employee of the Company or its affiliates to terminate such employee's employment with the Company; or

(c) Engage in any neonatology or perinatology-related business of the types performed by the Company in the geographical area where the Company is actively doing business or soliciting business, including, but not limited to, employment or association with Sheridan Healthcare, Inc., its subsidiaries, affiliates or successors-in-interest, and Magella Healthcare Corporation, its subsidiaries, affiliates or successors-in-interest.

8.2. UNAUTHORIZED DISCLOSURE. During the Employment Period and for two years following the termination of this Agreement for any reason, the Executive shall not, without the written consent of the Board or a person authorized by the Board or as may otherwise be required by law or court order, disclose to any person, other than an employee of the Company or person to whom disclosure is reasonably necessary or appropriate in connection with the performance by the Executive of his duties as an executive of the Company, any material confidential information obtained by him while in the employ of the Company with respect to any of the company's clients, physicians, creditors, lenders, investment bankers or methods of marketing, PROVIDED, HOWEVER, that confidential information shall not include any information generally known to the public (other than as a result of unauthorized disclosure by the Executive) or any information of a type not otherwise considered confidential by persons engaged in the same business or a business similar to that conducted by the Company.

8.3. INJUNCTION. The Company and the Executive acknowledge that a breach by the Executive of any of the covenants contained in this Section 8 may cause irreparable harm or damage to the Company or its subsidiaries, the monetary amount of which may be virtually impossible to ascertain. As a result, the Executive agrees that the Company shall be entitled to an injunction issued by any court of competent jurisdiction enjoining and restraining all violations of this Section 8 by the Executive or his associates, affiliates, partners or agents, and that the right to an injunction shall be cumulative and in addition to all other remedies the Company may possess.

8.4. CERTAIN PROVISIONS. The provisions of this Section 8 shall apply during the time the Executive is receiving Disability payments from the Company as a result of a termination of this Agreement pursuant to Section 4.2 hereof.

9. ARBITRATION. Any dispute or controversy (except for disputes arising under Section 8) arising under or in connection with this Agreement shall be settled exclusively by arbitration in accordance with the rules of the American Arbitration Association then in effect (except to the extent that the procedures outlined below differ from such rules). Within 7 days after receipt of written notice from either party that a dispute exists and that arbitration is required, both parties must within 7 business days agree on an acceptable arbitrator. If the parties cannot agree on an arbitrator, then the parties shall list the "Big Five" accounting firms (other than the Company's auditors) in alphabetical order and the first firm that does not have a conflict of interest and is willing to serve will be selected as the arbitrator. The parties agree to act as expeditiously as possible to select an arbitrator and conclude the dispute. The arbitrator must render his decision in writing within 30 days of his or its appointment. The cost and expenses of the arbitration and of legal counsel to the prevailing party shall be borne by the non-prevailing party. Each party will advance one-half of the estimated fees and expenses of the arbitrator. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided that the Company shall be entitled to seek a restraining order or injunction in any court of competent jurisdiction to prevent any continuation of any violation of Section 8 hereof.

10. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Florida without regard to its conflict of laws principles

to the extent that such principles would require the application of laws other than the laws of the State of Florida.

11. NOTICES. Any notice required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given when delivered by hand or when deposited in the United States mail by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Company:

Kris Bratberg, President  
Pediatrix Medical Group, Inc.  
1301 Concord Terrace  
Sunrise, Florida 33323

If to the Executive:

Roger J. Medel, M.D., M.B.A.  
c/o Pediatrix Medical Group, Inc.  
1301 Concord Terrace  
Sunrise, Florida 33323

or to such other addresses as either party hereto may from time to time give notice of to the other in the aforesaid manner.

12. BENEFITS: BINDING EFFECT. This Agreement shall be for the benefit of and binding upon the parties hereto and their respective heirs, personal representatives, legal representatives, successors and, where applicable, assigns. Notwithstanding the foregoing, neither party may assign its rights or benefits hereunder without the prior written consent of the other party hereto.

13. SEVERABILITY. The invalidity of any one or more of the words, phrases, sentences, clauses or sections contained in this Agreement shall not affect the enforceability of the remaining portions of this Agreement or any part thereof, all of which are inserted conditionally on their being valid in law, and, in the event that any one or more of the words, phrases, sentences, clauses or sections contained in this Agreement shall be declared invalid, this Agreement shall be construed as if such invalid word or words, phrase or phrases, sentence or sentences, clause or clauses, or section or sections had not been inserted. If such invalidity is caused by length of time or size of area, or both, the otherwise invalid provision will be considered to be reduced to a period or area which would cure such invalidity.

14. WAIVERS. The waiver by either party hereto of a breach or violation of any term or provision of this Agreement shall not operate nor be construed as a waiver of any subsequent breach or violation.

15. DAMAGES. Nothing contained herein shall be construed to prevent the Company or the Executive from seeking and recovering from the other damages sustained by either or both of them as a result of its or his breach of any term or provision of this Agreement. In the event that either party hereto brings suit for the collection of any damages resulting from, or the injunction of any action constituting, a breach of any of the terms or provisions of this Agreement, then the party found to be at fault shall pay all reasonable court costs and attorneys' fees of the other, whether such costs and fees are incurred in a court of original jurisdiction or one or more courts of appellate jurisdiction.

16. NO THIRD PARTY BENEFICIARY. Nothing expressed or implied in this Agreement is intended, or shall be construed, to confer upon or give any person (other than the parties hereto and, in the case of the Executive, his heirs, personal representative(s) and/or legal representative) any rights or remedies under or by reason of this Agreement. No agreements or representations, oral or otherwise, express or implied, have been made by either party with respect to the subject matter of this Agreement which agreements or representations are not set forth expressly in this Agreement, and this Agreement supersedes any other employment agreement between the Company and the Executive.

17. BOARD APPROVAL; AGREEMENT. The Company warrants and represents to the Executive that this Agreement has been approved and authorized by the Board. No provisions of this Agreement may be modified, waived or discharged unless such waiver modification or discharge is agreed to in a writing signed by the Executive and the officer of the Company which is specifically designated by the Board.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

PEDIATRIX MEDICAL GROUP, INC.

THE EXECUTIVE

/s/ Kristen Bratberg

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Kristen Bratberg  
President

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

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

## PEDIATRIX MEDICAL GROUP

## CREDIT AGREEMENT

## AMENDMENT NO. 1

This Agreement, dated as of April 26, 2001 (this "AGREEMENT"), is among Pediatrix Medical Group, Inc., a Florida corporation, the Related Entities of Pediatrix Medical Group, Inc. from time to time party to the Amended Credit Agreement (as defined below), the Lenders under the Credit Agreement (as defined below) and Fleet National Bank, as Agent for itself and such Lenders. The parties agree as follows:

1. CREDIT AGREEMENT; DEFINITIONS. This Agreement amends the Amended and Restated Credit Agreement originally dated as of June 27, 1996, as amended and restated as of November 1, 2000, among the parties hereto and the Lenders (as in effect prior to giving effect to this Agreement, the "CREDIT AGREEMENT"). Terms defined in the Credit Agreement as amended hereby (the "AMENDED CREDIT AGREEMENT") and not otherwise defined herein are used with the meaning so defined.

2. AMENDMENT OF CREDIT AGREEMENT. Effective upon the date hereof, the Credit Agreement is amended as follows:

2.1. AMENDMENT OF SECTION 1.11. The definition of "APPROVED SUBORDINATED DEBT" in Section 1.11 of the Credit Agreement is amended to read in its entirety as follows:

"1.11. "Approved Subordinated Debt" means:

(a) debt subordinated and junior in right of payment to prior payment in full of all Credit Obligations pursuant to a subordination agreement, the terms of which shall be satisfactory to the Agent; and

(b) up to \$24 million of debt that is subordinated and junior in right of payment to prior payment in full of all Credit Obligations and that is outstanding under subordinated convertible promissory notes of Magella Healthcare Corporation ("Magella") at least 90% of the aggregate outstanding principal amount of which has been (i) amended to contain the subordination provisions set forth in Exhibit 1.11 hereto and (ii) guaranteed by the Company on a subordinated basis as set forth in such Exhibit 1.11 (such debt being the "Subordinated Notes").

2.2. AMENDMENT OF SECTION 1.41. Section 1.41 of the Credit Agreement is amended to read in its entirety as follows:

"1.41. [Intentionally Omitted.]"

2.3. AMENDMENT OF SECTION 1.112. Section 1.112 of the Credit Agreement is amended to read in its entirety as follows:

"1.112 "PERMITTED ACQUISITION" means an Investment by any Borrower permitted under Section 6.9.4 or 6.9.4A."

2.4. AMENDMENT OF SECTION 5.3.1. Section 5.3.1. shall be amended to replace clause (a) thereof in its entirety with the following:

"(a) If the Purchase Price for a Permitted Acquisition is less than \$5,000,000, the Company shall comply with Section 6.9.4A."

2.5. AMENDMENT OF SECTION 6.5.5. Section 6.5.5 of the Credit Agreement is amended to read in its entirety as follows:

"6.5.5. [Intentionally Omitted.]"

2.6. AMENDMENT OF SECTION 6.6. Section 6.6 of the Credit Agreement is amended by adding immediately after Section 6.6.13 a new Section 6.6.14 to read in its entirety as follows:

"6.6.14. Indebtedness in respect of Capitalized Lease Obligations; provided, however, that the aggregate principal amount of all Indebtedness permitted by this Section 6.6.14 at any one time outstanding shall not exceed \$500,000."

2.7. AMENDMENT OF SECTION 6.7. Section 6.7 of the Credit Agreement is amended by adding immediately after Section 6.7.2 a new Section 6.7.3 to read in its entirety as follows:

"6.7.3 Guarantees of the Subordinated Notes which are subject to the subordination provisions set forth in Exhibit 1.11 hereto."

2.7. AMENDMENT OF SECTION 6.8.7. Section 6.8.7 of the Credit Agreement is amended to read in its entirety as follows:

"6.8.7. Capitalized Lease Obligations covering the Indebtedness permitted by Section 6.6.14."

2.8. AMENDMENT OF SECTION 6.9.4. Section 6.9.4 of the Credit Agreement is amended in its entirety to read as follows:

"6.9.4. Investments with a Purchase Price equal to or greater than \$5 million if such Investments constitute the acquisition of all of the capital stock, equity, partnership or other beneficial interests in, or substantially all the assets of, any Person that derives substantially all of its revenues from a business that the Borrowers would be permitted to engage in under Section 6.2.1; PROVIDED, HOWEVER, that:

(a) The acquisition shall have been approved by a majority of the board of directors or similar governing entity of the Person being acquired;

(b) The Purchase Price for such acquisition does not exceed \$10,000,000 and the Purchase Price for such acquisition does not exceed five times the Pro Forma EBITDA of such Person (which calculation shall be reasonably satisfactory to the Agent);

(c) The Company has provided the Agent at least 5 Banking Days prior written notice of such acquisition and copies of all letters of intent and agreements relating thereto;

(d) The Company shall have complied with Sections 5.3.1 and 5.3.2.

(e) The Company has provided the Agent, at least 5 Banking Days prior to such acquisition, written computations, historical financial statements and projections satisfactory to the Agent demonstrating pro forma compliance with Sections 6.5 and 6.9.4(b) as well as a certificate from the chief financial officer of the Company certifying as to the absence of any Default, both immediately before and after giving effect to such acquisition, and as to the Company's compliance with Sections 5.3.1, 5.3.2 and 6.9.4; and

(f) The Company and the other Guarantors will pledge the stock (up to 66% of the voting stock of a Foreign Subsidiary) of the acquired or newly-created entity, and such acquired or newly-created entity shall, within five days of the closing of the acquisition, deliver to the Agent such financing statements, mortgages and other documentation as the Agent shall request to attach a security interest to the assets of such acquired or newly-created entity and to perfect such security interest."

2.9. AMENDMENT OF SECTION 6.9. Section 6.9 of the Credit Agreement is amended by adding immediately after Section 6.9.4 a new Section 6.9.4A to read in its entirety as follows:

"6.9.4A. Investments with a Purchase Price less than \$5 million if such Investments constitute the acquisition of all of the capital stock, equity, partnership or other beneficial interests in, or substantially all the assets of, any Person that derives substantially all of its revenues from a business that the Borrowers would be permitted to engage in under Section 6.2.1; PROVIDED, HOWEVER, that:

(a) The acquisition shall have been approved by a majority of the board of directors or similar governing entity of the Person being acquired;

(b) The Purchase Price for such acquisition does not exceed five times the Pro Forma EBITDA of such Person (which calculation shall be reasonably satisfactory to the Agent);

(c) The Company shall have complied with Section 5.3.2.



(d) The Company has provided the Agent, at least 5 Banking Days prior to such acquisition, written computations satisfactory to the Agent demonstrating pro forma compliance with Sections 6.5 and 6.9.4A(b) and a certificate from the chief financial officer of the Company certifying as to the absence of any Default, both immediately before and after giving effect to such acquisition, and as to the Company's compliance with Sections 5.3.2 and 6.9.4A; and

(e) The Company and the other Guarantors will pledge the stock (up to 66% of the voting stock of a Foreign Subsidiary) of the acquired or newly-created entity, and such acquired or newly-created entity shall, within five days of the closing of the acquisition, deliver to the Agent such financing statements, mortgages and other documentation as the Agent shall request to attach a security interest to the assets of such acquired or newly-created entity and to perfect such security interest.

2.10. AMENDMENT OF SECTION 6.10. Section 6.10 of the Credit Agreement is amended to read in its entirety as follows:

"6.10. DISTRIBUTIONS. None of the Borrowers shall make any Distribution except the following: (i) distributions in respect of the redemption of capital stock of the Company from employees of any Borrower; PROVIDED, HOWEVER, that the amount of all such Distributions shall not exceed \$500,000 in the aggregate in any fiscal year; (ii) Distributions to the Company by its Subsidiaries; (iii) regularly scheduled payments of interest to the holders of the Subordinated Notes in accordance with the terms of such Subordinated Notes; and (iv) a payment of up to \$9 million in the aggregate upon a call of the Subordinated Notes triggered by a change of control due to the acquisition of Magella by the Company in accordance with the terms of the Agreement and Plan of Merger among Pediatrix Medical Group, Inc., Infant Acquisition Corp. and Magella, dated as of February 14, 2001."

2.11. AMENDMENT OF SECTION 6.11. Section 6.11 of the Credit Agreement is amended to read in its entirety as follows:

"6.11. CAPITAL EXPENDITURES. The Borrowers will not make aggregate Capital Expenditures exceeding \$7,500,000 in any fiscal year"

3. CONSENT TO ACQUISITION IN EXCESS OF \$10 MILLION. Notwithstanding the provision of Section 6.9.4(b) of the Credit Agreement that prohibits acquisitions by an Obligor in excess of \$10,000,000, the Lenders consent that the Company may acquire Magella in accordance with the terms of the Agreement and Plan of Merger among Pediatrix Medical Group, Inc., Infant Acquisition Corp. and Magella, dated as of February 14, 2001 (the "Merger Agreement"). If there is any material change in the terms or provisions of the Merger Agreement, including without limitation any change in the Exchange Ratio (as defined in the Merger Agreement), the consent set forth in this Section 3 shall cease to be in effect, and the Company shall seek a new consent from the Lenders in order to proceed with the acquisition of Magella if such consent would be required by the terms of the Credit Agreement. All other provisions of Section 6.9.4

with respect to the acquisition of Magella shall remain in full force and effect. The consent set forth in this Section 3 shall not be construed as a waiver of any right or remedy on any future occasion.

4. REPRESENTATION AND WARRANTY. In order to induce the Agent to enter into this Agreement, each of the Borrowers and the Guarantors jointly and severally represents and warrants that, after giving effect to this Agreement, no Default exists.

5. PAYMENT OF AGENT'S LEGAL EXPENSES. Upon or prior to the effectiveness of this Agreement, each of the Borrowers agrees to pay the reasonable legal fees and expenses of the Agent with respect to this Agreement and the transactions contemplated hereby.

6. GENERAL. The Amended Credit Agreement and all of the Credit Documents are each confirmed as being in full force and effect. This Agreement, the Amended Credit Agreement and the other Credit Documents referred to herein or therein constitute the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede all prior and current understandings and agreements, whether written or oral. Each of this Agreement and the Amended Credit Agreement is a Credit Document and may be executed in any number of counterparts, which together shall constitute one instrument, and shall bind and inure to the benefit of the parties and their respective successors and assigns, including as such successors and assigns all holders of any Credit Obligation. This Agreement shall be governed by and construed in accordance with the laws (other than the conflict of law rules) of The Commonwealth of Massachusetts.

[The rest of this page is intentionally left blank]

Each of the undersigned has caused this Agreement to be executed and delivered by its duly authorized officer as an agreement under seal as of the date first written above.

PEDIATRIX MEDICAL GROUP, INC. (FL)

By /s/ Karl B. Wagner  
-----  
Title: Chief Financial Officer

PEDIATRIX MEDICAL GROUP OF FLORIDA, INC.

By /s/ Karl B. Wagner  
-----  
Title: Treasurer

PEDIATRIX MEDICAL GROUP, P.C. (WV)

By /s/ Karl B. Wagner  
-----  
Title: Treasurer

PEDIATRIX MEDICAL GROUP, P.C. (VA)

By /s/ Karl B. Wagner  
-----  
Title: Treasurer

PEDIATRIX MEDICAL GROUP, S.P. (PR)

By /s/ Karl B. Wagner  
-----  
Title: Attorney-in-Fact

PEDIATRIX MEDICAL GROUP, P.A. (NJ)

By /s/ Karl B. Wagner  
-----  
Title: Treasurer

PEDIATRIX MEDICAL GROUP OF KANSAS, P.A.

By /s/ Karl B. Wagner  
-----  
Title: Attorney-in-Fact

PEDIATRIX MEDICAL GROUP NEONATOLOGY  
AND PEDIATRIC INTENSIVE CARE SPECIALISTS  
OF NEW YORK, P.C.

By /s/ Karl B. Wagner  
-----  
Title: Attorney-in-Fact

PEDIATRIX MEDICAL GROUP OF  
CALIFORNIA, P.C.

By /s/ Karl B. Wagner  
-----  
Title: Attorney-in-Fact

PEDIATRIX MEDICAL GROUP OF ILLINOIS, P.C.

By /s/ Karl B. Wagner  
-----  
Title: Attorney-in-Fact

PEDIATRIX MEDICAL GROUP OF MICHIGAN, P.C.

By /s/ Karl B. Wagner  
-----  
Title: Treasurer

PEDIATRIX MEDICAL GROUP OF  
PENNSYLVANIA, P.C.

By /s/ Karl B. Wagner  
-----  
Title: Attorney-in-Fact

PEDIATRIX MEDICAL GROUP OF TEXAS, P.A.

By /s/ Karl B. Wagner  
-----  
Title: Attorney-in-Fact

PEDIATRIX MEDICAL GROUP OF OHIO, CORP.

By /s/ Karl B. Wagner  
-----  
Title: Secretary

NEONATAL SPECIALISTS, LTD. (AZ)

By /s/ Karl B. Wagner  
-----  
Title: Attorney-in-Fact

PEDIATRIX MEDICAL GROUP OF  
COLORADO, P.C.

By /s/ Karl B. Wagner  
-----  
Title: Attorney-in-Fact

ST. JOSEPH NEONATOLOGY  
CONSULTANTS, P.A.

By /s/ Karl B. Wagner  
-----  
Title: Attorney-in-Fact

PERNOLL MEDICAL GROUP OF NEVADA, LTD.  
D/B/A PEDIATRIX MEDICAL GROUP OF NEVADA

By /s/ Karl B. Wagner  
-----  
Title: Attorney-in-Fact

PEDIATRIX MEDICAL GROUP OF  
SOUTH CAROLINA, P.A.

By /s/ Karl B. Wagner  
-----  
Title: Treasurer

FLORIDA REGIONAL NEONATAL  
ASSOCIATES, P.A.

By /s/ Karl B. Wagner  
-----  
Title: Treasurer

PEDIATRIX MEDICAL GROUP, INC.  
(Utah)

By /s/ Karl B. Wagner  
-----  
Title: Treasurer

PEDIATRIX MEDICAL GROUP OF NEW MEXICO, P.C.

By /s/ Karl B. Wagner  
-----  
Title: Treasurer

PEDIATRIX MEDICAL GROUP OF WASHINGTON, INC., P.C.

By /s/ Karl B. Wagner  
-----  
Title: Treasurer

PEDIATRIX MEDICAL GROUP OF INDIANA, P.C.

By /s/ Karl B. Wagner  
-----  
Title: Attorney-in-Fact

FORT WORTH NEONATAL ASSOCIATES, P.A.

By /s/ Karl B. Wagner  
-----  
Title: Attorney-in-Fact

PMG ACQUISITION CORP.

By /s/ Karl B. Wagner  
-----  
Title: Treasurer

PEDIATRIX MEDICAL GROUP OF PUERTO RICO, P.S.C.

By /s/ Karl B. Wagner  
-----  
Title: Attorney-in-Fact

OBSTETRIX MEDICAL GROUP, INC.

By /s/ Karl B. Wagner  
-----  
Title: Treasurer

OBSTETRIX MEDICAL GROUP OF FLORIDA, INC.

By /s/ Karl B. Wagner  
-----  
Title: Treasurer



M. DOUGLAS CUNNINGHAM, M.D.,  
A PROFESSIONAL CORPORATION  
D/B/A OBSTETRIX MEDICAL GROUP  
OF CALIFORNIA, A PROFESSIONAL  
CORPORATION

By /s/ Karl B. Wagner  
-----

Title: Attorney-in-Fact

MARCIA J. PERNOLL, M.D. PROF. CORP.  
D/B/A OBSTETRIX MEDICAL GROUP  
OF NEVADA, LTD.

By /s/ Karl B. Wagner  
-----

Title: Attorney-in-Fact

OBSTETRIX MEDICAL GROUP OF ARIZONA, P.C.

By /s/ Karl B. Wagner  
-----

Title: Treasurer

OBSTETRIX MEDICAL GROUP  
OF COLORADO, P.C.

By /s/ Karl B. Wagner  
-----

Title: Attorney-in-Fact

OBSTETRIX MEDICAL GROUP  
OF KANSAS AND MISSOURI, P.A.

By /s/ Karl B. Wagner  
-----

Title: Attorney-in-Fact

OBSTETRIX MEDICAL GROUP  
OF PENNSYLVANIA, P.C.

By /s/ Karl B. Wagner  
-----

Title: Treasurer



OBSTETRIX MEDICAL GROUP  
OF PHOENIX, P.C.

By /s/ Karl B. Wagner  
-----  
Title: Treasurer

OBSTETRIX MEDICAL GROUP OF TEXAS, P.A.

By /s/ Karl B. Wagner  
-----  
Title: Attorney-in-Fact

OBSTETRIX MEDICAL GROUP  
OF WASHINGTON, INC., P.S.

By /s/ Karl B. Wagner  
-----  
Title: Treasurer

PALM BEACH NEO ACQUISITIONS, INC.

By /s/ Karl B. Wagner  
-----  
Title: Treasurer

PEDIATRIX MEDICAL GROUP  
OF ARKANSAS, P.A.

By /s/ Karl B. Wagner  
-----  
Title: Attorney-in-Fact

PEDIATRIX MEDICAL GROUP OF GEORGIA, P.C.

By /s/ Karl B. Wagner  
-----  
Title: Secretary

PEDIATRIX MEDICAL GROUP OF MISSOURI, P.C.

By /s/ Karl B. Wagner  
-----  
Title: Attorney-in-Fact

PEDIATRIX MEDICAL GROUP  
OF OKLAHOMA, P.C.

By /s/ Karl B. Wagner  
-----

Title: Attorney-in-Fact

PEDIATRIX MEDICAL GROUP  
OF TENNESSEE, P.C.

By /s/ Karl B. Wagner  
-----

Title: Treasurer

PEDIATRIX OF MARYLAND, P.A.

By /s/ Karl B. Wagner  
-----

Title: Attorney-in-Fact

FLEET NATIONAL BANK

By /s/ Carol Paige Castle  
-----

Carol Paige Castle  
Director  
Fleet National Bank 100 Federal Street  
Mail Stop: MADE 10008E  
Boston, Massachusetts 02110  
Telecopy: (617) 434-2472

SUNTRUST BANK

By /s/ Tyler Kurau  
-----

Name: Tyler Kurau  
Title: Vice President

Suntrust Bank  
Health Care Finance Group  
Mail Code: 0-1101  
200 S. Orange Avenue  
Orlando, Florida 32801  
Telecopy: (407) 237-5489

## STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS

	Three Months Ended March 31,	
	2001	2000
	(in thousands, except for per share data)	
Basic:		
Net income applicable to common stock	\$ 3,604 =====	\$ 3,378 =====
Weighted average number of common shares outstanding	15,895 =====	15,625 =====
Basic net income per share	\$ .23 =====	\$ .22 =====
Diluted:		
Net income applicable to common stock	\$ 3,604 =====	\$ 3,378 =====
Weighted average number of common shares outstanding	15,895	15,625
Weighted average number of dilutive common stock equivalents	797 -----	80 -----
Weighted average number of common and common equivalent shares outstanding	16,692 =====	15,705 =====
Diluted net income per share	\$ .22 =====	\$ .22 =====