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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended DECEMBER 31, 1997

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________

Commission file number 02-26762

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

FLORIDA	65-0271219
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1455 NORTH PARK DRIVE, FT. LAUDERDALE, FLORIDA	33326
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
COMMON STOCK $.01 PAR VALUE PER SHARE	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act: NONE

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss.229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of shares of Common Stock held by non-affiliates of the registrant as of March 17, 1998, was approximately $373,624,525 based on a $41.38 closing sales price for the Common Stock on the New York Stock Exchange on such date. For purposes of this computation, all executive officers, directors and 5% beneficial owners of the common stock of the registrant have been deemed to be affiliates. Such determination should not be deemed to be an admission that such directors, officers or 5% beneficial owners are, in fact, affiliates of the registrant.

The number of shares of Common Stock, $.01 par value, of the registrant outstanding as of March 17, 1998 were 15,175,087.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the following documents have been incorporated by reference into the parts indicated: The registrant's definitive Proxy Statement to be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year covered by this report - Part III.

INDEX TO ITEMS

PART I

ITEM 1. BUSINESS

Pediatrix Medical Group, Inc. ("PMG") includes its subsidiaries and the professional associations and partnerships (the "PA Contractors") which are separate legal entities that contract with PMG to provide physician services in certain states and Puerto Rico. PMG, its subsidiaries and the PA Contractors are collectively referred to herein as the "Company" or "Pediatrix."

GENERAL

Pediatrix is the nation's leading provider of physician management services to hospital-based neonatal intensive care units ("NICUs"). NICUs provide medical care to newborn infants with low birth weight and other medical complications, and are staffed with specialized pediatric physicians, known as neonatologists. The Company also provides physician management services to (i) hospital-based pediatric intensive care units ("PICUs"), units which provide medical care to critically ill children and are staffed with specially-trained pediatricians, and (ii) pediatrics departments in hospitals. In addition to the above hospital based services, the Company began providing inpatient and outpatient perinatal services during 1997. Perinatology is a subspecialty of obstetrical medicine that focuses on the diagnostics, management and care of high-risk and/or complicated pregnancies. As of December 31, 1997, the Company provided services to over 100 hospital based units and one perinatology practice in 20 states and Puerto Rico and employed or contracted with approximately 260 physicians.

The Company staffs and manages NICUs and PICUs in hospitals, providing the physicians, professional management and administrative support, including physician billing and reimbursement expertise and services. The Company's policy is to provide 24-hour coverage at its NICUs and PICUs with on-site or on-call physicians. As a result of this policy, physicians are available to provide continuous pediatric support to other areas of the hospital on an as-needed basis, particularly in the obstetrics, nursery and pediatrics departments, where immediate accessibility to specialized care is critical.

Pediatrix established its leading position in physician management services to NICUs by developing a comprehensive care model and management and systems infrastructure that address the needs of patients, hospitals, payor groups and physicians. Pediatrix addresses the needs of (i) patients by providing continuous, comprehensive, professional quality care, (ii) hospitals by recruiting, credentialing, and retaining neonatologists and hiring related staff to operate NICUs in a cost-effective manner thereby relieving hospitals of the financial and administrative burdens of operating the NICUs, (iii) payor groups by providing cost-effective care to patients and (iv) physicians by providing administrative support, including physician billing and reimbursement expertise and services, to enable them to focus on providing care to patients, and by offering an opportunity for career advancement within Pediatrix.

RECENT DEVELOPMENTS

During 1997, the Company completed ten acquisitions, which added 28 NICUs. Additionally, three NICUs were added through the Company's internal marketing activities. The Company has developed regional networks in Denver, Phoenix, Southern California and Texas and intends to develop additional regional and state-wide networks. The Company believes these networks, augmented by ongoing marketing and acquisition efforts, will strengthen its position with managed care organizations and other third party payors.

During the period of January 1 through March 25, 1998, the Company completed the acquisition of five neonatal and three perinatal practices. In addition, one NICU was added through internal marketing efforts.

INDUSTRY OVERVIEW

The evolving managed care environment has created substantial cost containment pressures for all constituents of the healthcare industry. The increasing use of fixed-payment systems that shift financial risk from payors to providers has forced hospitals, in particular, to be more cost-effective in all aspects of their operations. A trend among hospitals is to utilize third party contract management companies to manage specialized functions in an effort to contain costs, improve utilization management, and reduce administrative burdens. Physician management organizations provide hospitals with professional management of staff, including recruiting, staffing and scheduling of physicians.

Physicians are responding to cost containment pressures by joining group practices through which they have greater leverage to negotiate and contract with hospitals and managed care payors. Physician management organizations provide a physician group practice an alternative to self management that enables physicians to maintain their clinical autonomy while creating greater negotiating power with payors and hospitals, and providing administrative support to deal with the increasing complexity of billing and reimbursement. Physician group practices are becoming larger and more prevalent. The Company believes that as cost pressures continue to influence the medical industry, the trend of physicians joining group practices will continue. Although the Company continues to market its services to hospitals to obtain new contracts, the Company has shifted its strategy to growth through acquisitions as physicians become more receptive to being acquired.

The Company believes that hospitals will continue to outsource certain units, such as NICUs, on a contract management basis. NICUs present significant operational challenges for hospitals, including complex billing procedures, highly variable admissions rates, and difficulties in recruiting and retaining qualified physicians. These operational challenges generally make it difficult for hospitals to operate these units profitably. Traditionally, hospitals have staffed their NICUs internally, through affiliations with small, local physician groups or with independent practitioners. These small practices typically lack the necessary expertise and support services in billing and reimbursement, recruiting and effective medical management to operate NICUs on a cost-effective basis. Hospitals are increasingly seeking to contract with physician management services organizations that have the capital resources, information and reimbursement systems and practice management expertise that NICUs require to accept and manage risk in the evolving managed care environment.

Of the approximately four million babies born in the United States annually, approximately 10% to 15% require neonatal treatment. Demand for neonatal services is primarily due to premature births, and to infants having difficulty making the transition to extrauterine life. A majority of high-risk mothers whose births require neonatal treatment are not identified until the time of delivery, thus heightening the need for continuous coverage by neonatologists. Across the United States, NICUs are concentrated primarily among hospitals located in metropolitan areas with a higher volume of births. NICUs are important to hospitals since obstetrics generates one of the highest volumes of admissions and obstetricians generally prefer to perform deliveries at hospitals with NICUs. Hospitals must maintain cost-effective care and service in these units to enhance the hospital's desirability to the community, physicians and managed care payors.

STRATEGY

The Company's objective is to enhance its position as the nation's leading provider of physician management services to NICUs by adding new units and increasing same unit growth. The key elements of the Company's strategy are as follows:

FOCUS ON NEONATOLOGY, PERINATOLOGY AND PEDIATRICS. Since its founding in 1979, the Company has focused primarily on neonatology and pediatrics. As a result of this focus, the Company believes it has (i) developed significant expertise in the complexities of billing and reimbursement for neonatology physician services and (ii) a competitive advantage in recruiting and retaining neonatologists seeking to join a group practice. The Company believes its continued focus will allow it to enhance its position as the nation's leading provider of physician management services to NICUs. In 1997, the Company began providing perinatal services in cooperation with one of its hospital customers. The Company is continuing to pursue the integration of perinatology and, in the future, will investigate obstetrics and other areas of pediatrics beyond neonatology.

ACQUIRE NEONATAL AND PERINATAL PHYSICIAN GROUP PRACTICES. The Company intends to further increase the number of locations at which it provides physician management services by acquiring well-established neonatal and perinatal physician group practices. The Company believes that it will continue to benefit from physicians joining larger practice groups in an effort to increase negotiating power with managed care organizations and eliminate administrative burdens, while maintaining clinical autonomy. The Company completed its first acquisition of a neonatology physician group practice in California in July 1995 and since has completed acquisitions of an additional 28 physician group practices. The Company is actively pursuing acquisitions of other neonatal and perinatal physician group practices. No assurance can be given that future acquisition candidates will be identified or that any future acquisitions will be consummated. See "Recent Developments" and "Factors to be Considered - Risks Relating to Acquisition Strategy."

DEVELOP REGIONAL NETWORKS. The Company intends to develop regional and state-wide networks of NICUs in geographic areas with high concentrations of births. The Company operates regional networks in Colorado, Arizona, Southern California and Texas. The Company believes that the development of regional and state-wide networks will strengthen its position with third party payors, such as Medicaid and managed care organizations, since such networks will offer more choice to the patients of third party payors.

INCREASE SAME UNIT GROWTH. The Company seeks to provide its services to hospitals where the Company can benefit from increased admissions and intends to increase revenues at existing units by providing support to areas of the hospital outside the NICU, particularly in the obstetrics, nursery and pediatrics departments, where immediate accessibility to specialized care is critical. These services generate incremental revenue to the Company, contribute to the Company's overall profitability, enhance the hospital's profitability, strengthen the Company's relationship with the hospital, and assist the hospital in attracting more admissions by enhancing the hospital's reputation in the community as a full-service critical care provider.

ASSIST HOSPITALS TO CONTROL COSTS. The Company intends to continue assisting hospitals to control costs. The Company's comprehensive care model, which promotes early intervention by neonatologists in emergency situations, as well as the retention of qualified neonatologists, improves the overall cost effectiveness of care. The Company believes that its ability to assist hospitals to control costs will allow it to continue to be successful in adding new units at which the Company provides physician management services.

ADDRESS CHALLENGES OF MANAGED CARE ENVIRONMENT. The Company intends to continue to develop new methods of doing business with managed care and third party payors, which will allow it to develop relationships among payors, hospitals and the Company. The Company is also prepared to enter into flexible arrangements with third party payors, including capitation arrangements. As the nation's leading provider of physician management services to NICUs, the Company believes that it is well-positioned to address the needs of managed care organizations and other third party payors which seek to contract with cost-effective, quality providers of medical services.

PHYSICIAN MANAGEMENT SERVICES

The Company provides physician management services to NICUs, providing (i) a medical director to manage the unit, (ii) recruiting, staffing and scheduling of physicians and certain other medical staff, (iii) neonatology and pediatric support to other hospital departments, (iv) pediatric subspecialty services and (v) billing and reimbursement expertise and services. These physician management services include:

UNIT MANAGEMENT. The Company staffs each unit it manages with a medical director who reports to a Regional Medical Officer ("RMO") of the Company. The RMOs and all medical directors at these units are board certified or board eligible in neonatology, pediatrics, pediatric critical care or pediatric cardiology. In addition to providing medical care and physician management in the unit, the medical director is responsible for (i) the overall management of the unit, including quality of care, professional discipline, utilization review, physician recruitment, staffing and scheduling, (ii) serving as a liaison to the hospital administration, (iii) maintaining professional and public relations in the hospital and the community and (iv) monitoring the Company's financial performance within the unit.

RECRUITING, STAFFING AND SCHEDULING. The Company is responsible for recruiting, staffing and scheduling the neonatologists, pediatricians and advanced registered nurse practitioners ("ARNPs") within the NICU. The Company's recruiting department maintains an extensive database of neonatologists and pediatricians nationwide from which to draw for recruiting purposes. All candidates are pre-screened and their credentials, licensure and references are checked and verified by the Company. The RMOs and the medical directors play a key role in the recruiting and interviewing process before candidates are introduced to hospital administrators. The units managed by the Company are staffed with at least one neonatologist or pediatrician on site or available on call. All of these physicians are board certified or board eligible in neonatology, pediatrics, pediatric critical care or pediatric cardiology. The Company also employs or contracts with ARNPs, who assist medical directors and other physicians in operating the units. All ARNPs have either a certificate as a neonatal nurse practitioner or pediatric nurse practitioner or a masters degree in nursing, and have previous neonatal or pediatric experience. With respect to the physicians that are employed by or under contract with the Company, the Company assumes responsibility for salaries, benefits, bonuses, group health insurance and physician malpractice insurance. See "Business -- Contractual Relationships."

SUPPORT TO OTHER HOSPITAL DEPARTMENTS. As part of the Company's comprehensive care model, physicians provide pediatric support services to other areas of hospitals, particularly in the obstetrics, nursery and pediatrics departments, where immediate accessibility to specialized care is critical. The Company believes this support (i) improves its relations with hospital staff and referring physicians, (ii) enhances the hospital's reputation in the community as a full-service critical care provider, (iii) increases admissions from referring obstetricians and pediatricians, (iv) integrates the physicians into a hospital's medical community, (v) generates incremental revenue which contributes to the Company's overall profitability and (vi) increases the likelihood of renewing and adding new hospital contracts.

PEDIATRIC SUBSPECIALTIES. The Company has developed a pediatric cardiology program consisting of several pediatric cardiologists to complement and enhance its comprehensive care model. These physicians provide out-patient services in offices outside contracting hospitals and assist attending physicians at certain hospitals. The Company is exploring the possibility of expanding the existing program in pediatric cardiology in line with the Company's other strategic objectives in neonatology and pediatric intensive care. Expansion of the program will depend in part on the demand for such critical care services at hospitals and by payor groups.

PERINATOLOGY. The Company has developed, in conjunction with a hospital customer, a perinatal practice to manage the care of high-risk and/or complicated pregnancies. The services provided include highly technical invasive and non-invasive diagnostic procedures, sophisticated medical consultations and hands-on patient management or co-management, including deliveries. Since a significant portion of the pregnancies managed by perinatologists result in admissions in the NICU, it is expected that the addition of these services will result in better patient care. The Company is continuing to pursue the development of perinatal programs in other locations where it currently provides services to NICUs. See "Business - Recent Developments."

BILLING AND REIMBURSEMENT. The Company assumes responsibility for all aspects of the billing, reimbursement and collection process relating to physician services. Patients and/or third party payors receive a bill from the Company for physician services, and the hospital bills and collects separately for all other services. To address the increasingly complex and time-consuming processing for obtaining reimbursement for medical services, the Company has invested in both the technical and human resources necessary to create an efficient billing and reimbursement process, including specific claim forms and software systems. The Company begins this process by providing training to physicians that emphasizes a detailed review of and proper coding protocol for all procedures performed and services provided to achieve appropriate collection of revenues for physician services. The Company's billing and collection operations are conducted from its corporate headquarters in Ft. Lauderdale, Florida, as well as regional business offices in Orange, California and Dallas, Texas.

MARKETING

Historically, most of the Company's growth was generated internally through marketing efforts and referrals. Beginning in the latter part of 1995, the Company significantly increased its acquisition activities to capitalize on the opportunities created by the trend toward consolidation in the healthcare industry. The Company's marketing program to physician groups consists of (i) market research to identify established physician groups, (ii) telemarketing to identify and contact acquisition candidates, as well as hospitals with high demand for NICU services, and (iii) other sales and business development personnel that conduct on-site visits along with senior management. The Company also advertises its services in hospital and healthcare trade journals, participates at hospital and physician trade conferences, and markets its services directly to hospital administrators and medical staff. In addition, the Company intends to focus on developing additional regional networks and state-wide networks to strengthen its position with managed care organizations and other third party payors.

MANAGEMENT INFORMATION SYSTEMS

The Company maintains several systems to support day-to-day operations, business development and ongoing clinical and business analysis, including (i) a Company-wide electronic mail system to assist intracompany communications and conferencing, (ii) an intranet site to facilitate clinical research and interaction among physicians regarding clinical matters on a real-time basis, (iii) electronic interchange with payors utilizing electronic benefits verification and claims submission, (iv) a database used by the business development and marketing departments in recruiting individual physicians and identifying potential neonatal and perinatal physician group acquisition candidates, which is updated through telemarketing activities, personal contacts, professional journals and mail solicitation, (v) electronic imaging to streamline accessibility to operational documents, and (vi) a clinical tracking system used by the physicians to assist in the creation of their respective paperwork and establish the basis for the consolidated clinical information database used to support the Company's education, research and quality assurance programs. Ongoing development will provide even greater streamlining of information from the clinical systems through the reimbursement process, allowing the overall process to be expedited further.

The Company's management information system is an integral component of the billing and reimbursement process. The Company's system enables it to track numerous and diverse third party payor relationships and payment methods and provides for electronic interchange in support of insurance benefits verification and claims processing to payors accepting electronic submission. The Company's system was designed to meet its requirements by providing maximum flexibility as payor groups upgrade their payment and reimbursement systems.

CONTRACTUAL RELATIONSHIPS

HOSPITAL RELATIONSHIPS. Many of the Company's contracts with hospitals grant the Company the exclusive right and responsibility to manage the provision of physician management services to the NICUs. The contracts typically have terms of three to five years and renew automatically for additional terms of one to five years unless otherwise terminated by either party. The contracts typically provide that either party may terminate the agreement prior to the expiration of the initial term in the event of material breach by the other party and failure to cure after the notice and cure period has expired.

The Company bills for the physicians' services on a fee-for-service basis separately from other charges billed by the hospital. Certain contracting hospitals that do not generate sufficient patient volume agree to pay the Company administrative fees to assure a minimum revenue level. Administrative fees include guaranteed payments to the Company, as well as fees paid to the Company by certain hospitals for administrative services performed by the Company's medical directors at such hospitals. Administrative fees accounted for 12%, 8% and 5% of the Company's net patient service revenue during 1995, 1996 and 1997, respectively. The hospital contracts typically require that the Company and the physicians performing services maintain minimum levels of professional and general liability insurance. The Company contracts for and pays the premiums for such insurance on behalf of the physicians. See "Business -- Professional Liability and Insurance."

PAYOR RELATIONSHIPS. While virtually all of the Company's contracts with third party payors are discounted fee-for-service contracts, as of December 31, 1997, the Company had eight contracts that provide for capitated payments, with payors located in California, Arizona, Texas and Florida. The Company is prepared to enter into capitation arrangements with other third party payors. In the event the Company enters into relationships with third party payors with respect to regional and state-wide networks, such relationships may be on a capitated basis. See "Factors to be Considered - Impact of Payor Discounts and Capitation Arrangements."

PA CONTRACTOR RELATIONSHIPS. PMG has entered into management agreements ("PA Management Agreements") with PA Contractors in all states in which it operates, other than Florida. There is at least one PA Contractor in each state in which the Company operates. Each PA Contractor is owned by a physician licensed in the jurisdiction in which the PA Contractor operates, who is also an officer of the PA Contractor. Under the PA Management Agreements, the PA Contractors delegate to PMG the administrative, management and support functions (but not any functions constituting the practice of medicine) that the PA Contractors have agreed to provide to the hospital. In consideration of such services, each PA Contractor pays PMG a percentage of the PA Contractor's gross revenue (but in no event greater than the net profits of such PA Contractor), or a flat fee. PMG has the discretion to determine whether the fee shall be paid on a monthly, quarterly or annual basis. The management fee may be adjusted from time to time to reflect industry standards and the range of services provided by the PA Contractor. The agreements provide that the term of the arrangements are permanent, subject only to termination by PMG, and that the PA Contractor shall not terminate the agreement without PMG's prior written consent. Also, the agreements provide that PMG or its assigns has the right, but not the obligation, to purchase the stock of the PA Contractor. See Note 2 to the Consolidated Financial Statements and "Factors to be Considered - State Laws Regarding Prohibition of Corporate Practice of Medicine."

PHYSICIAN RELATIONSHIPS. The Company contracts with the PA Contractors to provide the medical services required to fulfill its obligations to hospitals. The physician employment agreements typically have terms of three to five years and can be terminated by either party at any time upon 90 days prior written notice. The physicians generally receive a base salary plus a productivity bonus. The physician is required to hold a valid license to practice medicine in the appropriate jurisdiction in which the physician practices and to become a member of the medical staff, with appropriate privileges at the hospital. The Company is responsible for billing patients and third party payors for services rendered by the physician, and the Company has the exclusive right to establish the schedule of fees to be charged for such services. Substantially all of the physicians employed by PMG or the PA Contractors have agreed not to compete with PMG or the PA Contractor within a specified radius of any hospital for which the physician is rendering medical services for a period of one to two years after termination of employment. The Company contracts for and pays the premiums for professional liability insurance on behalf of the physicians. See "Business -- Professional Liability and Insurance."

ACQUISITIONS. The Company structures acquisitions of physician practice groups as asset purchases, stock purchases and stock mergers. Generally, these structures provide for: (i) the assignment to the Company of the contracts between the physician practice group and the hospital at which the physician practice group provides medical services; (ii) physician "tail insurance" coverage under which the Company is an insured party to cover malpractice liabilities that may arise after the date of the acquisition which relate to events prior to the acquisition; and (iii) indemnification to the Company by the previous owners of the acquired entity. Generally, in acquisitions structured as asset purchases, the Company does not acquire the physician practice group's receivables or liabilities, including professional liability claims, arising from the physician practice group's activities prior to the date of the acquisition. Generally, in acquisitions structured as stock purchases or stock mergers, the physician practice group's receivables (net of any liabilities accruing prior to the acquisition and permitted indemnification claims) are assigned to the former owners of the physician practice group.

GOVERNMENT REGULATION

The Company's operations and relationships are subject to a variety of governmental and regulatory requirements relating to the conduct of its business. The Company is also subject to laws and regulations which relate to business corporations in general. The Company believes that it exercises care in an effort to structure its practices and arrangements with hospitals and physicians to comply with relevant federal and state law and believes that such arrangements and practices comply in all material respects with all applicable statutes and regulations.

Approximately 23% and 22% of the Company's net patient service revenue in 1996 and 1997, respectively, was derived from payments made by government-sponsored healthcare programs (principally Medicaid). These programs are subject to substantial regulation by the federal and state governments. Any change in reimbursement regulations, policies, practices, interpretations or statutes that places material limitations on reimbursement amounts or practices could adversely affect the operations of the Company. Medicaid and other government reimbursement programs are increasingly shifting to managed care, which could result in reduced payments to the Company for Medicaid patients. In addition, funds received under these programs are subject to audit with respect to the proper billing for physician services and, accordingly, retroactive adjustments of revenue from these programs may occur. See "Factors to be Considered -- Reliance upon Government Programs; Possible Reduction in Reimbursement."

The Company is also subject to (i) certain provisions of the Social Security Act, commonly referred to as the "Anti-kickback Statute," which prohibits entities, such as the Company, from offering, paying, soliciting, or receiving any form of remuneration in return for the referral of Medicare or state health program patients or patient care opportunities, or in return for the recommendation, arrangement, purchase, lease, or order of items or services that are covered by Medicare or state health programs, (ii) prohibitions against physician referrals, commonly known as "Stark II," which prohibit, subject to certain exemptions, a physician or a member of his immediate family from referring Medicare or Medicaid patients to an entity providing "designated health services" (which include inpatient and outpatient hospital services) in which the physician has an ownership or investment interest, or with which the physician has entered into a compensation arrangement including the physician's own group practice, (iii) state and federal civil and criminal statutes imposing substantial penalties, including civil and criminal fines and imprisonment, on healthcare providers which fraudulently or wrongfully bill governmental or other third party payors for healthcare services and (iv) state laws similar to the Anti-Kickback statute and Stark II which, in many cases, apply to privately paid or insured services as well as services covered under governmentally sponsored health care programs. Although the Company believes that it is not in violation of these provisions, there can be no assurance that the Company's current or future practices will not be found to be in violation of these provisions, and any such finding could have a material adverse effect on the Company. See "Factors to be Considered -- Risk of Applicability of Anti-Kickback and Self-Referral Laws."

In addition, business corporations such as PMG are generally not permitted under state law to practice medicine, exercise control over the medical judgments or decisions of physicians, or engage in certain practices such as fee-splitting with physicians. In states where PMG is not permitted to practice medicine, the Company performs only nonmedical administrative services, does not represent to the public or its clients that it offers medical services and does not exercise influence or control over the practice of medicine by the PA Contractors or the physicians employed by the PA Contractors. Accordingly, the Company believes it is not in violation of applicable state laws relating to the practice of medicine. In most states, PMG contracts with the PA Contractors (which are owned by a licensed physician employed by the respective PA Contractor), which in turn employ or contract with physicians to provide necessary physician services. There can be no assurance that regulatory authorities or other parties will not assert that PMG is engaged in the corporate practice of medicine or that the percentage fee arrangements between PMG and the PA Contractors constitute fee-splitting or the corporate practice of medicine. If such a claim were successfully asserted in any jurisdiction, PMG could be subject to civil and criminal penalties under such jurisdiction's laws and could be required to restructure its contractual arrangements, which could have a material adverse effect on the Company's financial condition and results of operations. See "Factors to be Considered -- State Laws Regarding Prohibition of Corporate Practice of Medicine."

In addition to current regulation, the public and state and federal governments have recently focused significant attention on reforming the healthcare system in the United States. Although the Company cannot predict whether these or other reductions in the Medicare or Medicaid programs will be adopted, the adoption of such proposals could have a material adverse effect on the Company's business. Concern about such proposals has been reflected in volatility of the stock prices of companies in healthcare and related industries. See "Factors to be Considered -- Healthcare Regulatory Environment Could Increase Restrictions on the Company."

PROFESSIONAL LIABILITY AND INSURANCE

The Company's business entails an inherent risk of claims of physician professional liability. The Company maintains professional liability insurance and general liability insurance on a claims-made basis in accordance with standard industry practice. The Company believes that its coverage is appropriate based upon claims experience and the nature and risks of its business. There can be no assurance that a pending or future claim or claims will not be successful or if successful will not exceed the limits of available insurance coverage or that such coverage will continue to be available at acceptable costs and on favorable terms. See "Factors to be Considered -- Professional Liability and Insurance" and "Legal Proceedings."

The physicians that are employed by or under contract with the Company are required to obtain professional liability insurance coverage, and the Company contracts for and pays the premiums with respect to such insurance for the physicians. The current professional liability insurance policy expires May 1, 1998 and the Company expects to be able to renew such policy upon expiration.

COMPETITION

The healthcare industry is highly competitive and has been subject to continual changes in the method in which healthcare services are provided and the manner in which healthcare providers are selected and compensated. The Company believes that private and public reforms in the healthcare industry emphasizing cost containment and accountability will result in an increasing shift of NICU and related pediatric care from highly fragmented, individual or small practice neonatology providers to physician management companies. Companies in other healthcare industry segments, such as managers of other hospital-based specialties or large physician group practices, some of which have financial and other resources greater than those of the Company, may become competitors in providing management of neonatal and pediatric services to hospitals. See "Factors to be Considered -- Competition."

SERVICE MARKS

The Company has registered the service mark "Pediatrix Medical Group" and its design with the United States Patent and Trademark Office, and has applied for registration of a baby design logo. The United States Patent and Trademark Office has issued a Notice of Allowance and registration should follow in due course.

EMPLOYEES AND PROFESSIONALS UNDER CONTRACT

In addition to the approximately 260 physicians employed or under contract with the Company as of December 31, 1997, Pediatrix employed or contracted with approximately 60 other clinical professionals and 310 other full-time and part-time employees. The Company's employees are not subject to any collective bargaining agreements.

FACTORS TO BE CONSIDERED

The parts of this Annual Report on Form 10-K titled "Item 1. Business," "Item 3. Legal Proceedings" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" contain certain forward-looking statements which involve risks and uncertainties. In addition, officers of the Company may from time to time make certain forward-looking statements which also involve risks and uncertainties. Set forth below is a discussion of certain factors that could cause the Company's actual results to differ materially from the results projected in such forward-looking statements. In addition, to the other information contained in this Annual Report on Form 10-K or incorporated by reference herein, such factors should be considered when evaluating the Company and its business.

HEALTHCARE REGULATORY ENVIRONMENT COULD INCREASE RESTRICTIONS ON THE COMPANY. The healthcare industry and physicians' medical practices are highly regulated. Neonatal and other healthcare services that the Company offers and proposes to offer are subject to extensive federal and state laws and regulations governing state matters such as licensure and certification of facilities and personnel, conduct of operations, audit and retroactive reimbursement policies, adjustment of prior government billings and prohibitions on payments for the referral of business and self referrals. Failure to comply with these laws, or a determination that in the past the Company has failed to comply with these laws, could have a material adverse effect on the Company's financial condition and results of operations. There can be no assurance that the healthcare regulatory environment will not change so as to restrict the Company's existing operations or limit the expansion of its business. Changes in government regulation could also impose new requirements, involving compliance costs which cannot be recovered through price increases. Finally, under the Health Insurance Portability and Accountability Act of 1996, Congress expanded the powers of and increased funding to the Office of Inspector General of the Department of Health and Human Services to investigate violations of healthcare laws. See "Business -- Government Regulations."

RELIANCE UPON GOVERNMENT PROGRAMS; POSSIBLE REDUCTION IN REIMBURSEMENT. A significant portion of the Company's net patient service revenue is derived from payments made by government-sponsored healthcare programs (principally Medicaid). Increasing budgetary pressures may lead to reimbursement reductions or limits, reductions in these programs or elimination of coverage for certain individuals or treatments under these programs. Federal legislation could result in a reduction of Medicaid funding or an increase in state discretionary funding through block grants, or a combination thereof. State Medicaid waiver requests if granted by the federal government could increase discretion, or reduce coverage of or funding for certain individuals or treatments under the Medicaid program, in the absence of new federal legislation. Increased state discretion in Medicaid, coupled with the fact that Medicaid expenditures compromised a substantial and growing share of state budgets, could lead to significant reductions in reimbursement. In addition, these programs generally reimburse on a fee schedule basis, rather than a charge-related basis. Therefore, the Company generally cannot increase its revenues by increasing the amount it charges for services provided. To the extent the Company's costs increase, the Company may not be able to recover such cost increases from government reimbursement programs. In various states, Medicaid managed care is encouraged and may become mandated. In such systems, health maintenance organizations ("HMO's") bargain for reimbursement with competing providers and contract with the state to provide benefits to Medicaid enrollees. Such systems are intended and expected to reduce Medicaid reimbursement of providers. Legislation enacted in states could result in reduced payments to the Company for Medicaid patients. Additionally, Proposition 187, which was adopted by referendum in California, but has been enjoined by a California court, may limit the access by illegal aliens to Medicaid funds in California. In the event similar legislation is passed in other states with large illegal alien populations, such as Arizona and Florida, the Company's ability to collect for medical services rendered to such patients could be adversely affected. Changes in government-sponsored healthcare programs which result in the Company being unable to recover cost increases through price increases or otherwise could have a material adverse effect on the Company's financial condition and results of operations. Because of cost containment measures and market changes in non-governmental insurance plans, the Company may not be able to shift cost increases to, or recover them from, non-governmental payors. Also, state and federal statutes impose substantial penalties, including civil and criminal fines and imprisonment, on healthcare providers that fraudulently or wrongfully bill governmental or other third party payors for healthcare services. The federal law prohibiting false billings allows a private person to bring a civil action in the name of the United States government for violations of its provisions. The Company believes it is in material compliance with such laws, but there can be no assurances that the Company's activities will not be challenged or scrutinized by governmental authorities. Noncompliance with such regulations may adversely affect the operations of the Company and subject it to penalties and additional costs. In addition, funds received under government programs are subject to audit with respect to the proper billing for physician services and, accordingly, retroactive adjustments of revenue from these programs may occur. See "Business--Government Regulation."

STATE LAWS REGARDING PROHIBITION OF CORPORATE PRACTICE OF MEDICINE. Business corporations, such as PMG, are generally not permitted under state law to practice medicine, exercise control over the medical judgments or decisions of physicians or engage in certain practices, such as fee-splitting with physicians. In the states in which the Company operates, other than Florida, there exist potential judicial or governmental interpretations which may extend the scope of the corporate practice of medicine and/or medical practices acts principles. For such reasons, or for business reasons, PMG contracts with the PA Contractors (which are owned by a licensed physician in the state) in such states, which in turn employ or contract with physicians to provide necessary physician management services. There can be no assurance that the regulatory authorities or other parties will not assert that PMG is engaged in the corporate practice of medicine or that the percentage fee arrangements between PMG and the PA Contractors constitute fee-splitting or the corporate practice of medicine. For example, an order by the Florida Board of Medicine, which has been stayed pending its appeal to the Florida courts, concludes that percentage-based management arrangements violate applicable fee-splitting statutes. If such order was upheld and adopted in other jurisdictions, or similar claim was successfully asserted in any jurisdiction, PMG could be subject to civil and criminal penalties under such jurisdiction's laws and could be required to restructure its contractual arrangements. Such results or the inability to successfully restructure contractual arrangements could have a material adverse effect on the Company's financial condition and results of operations. In states where PMG is not permitted to practice medicine, PMG performs only non-medical administrative services, does not represent to the public or its clients that it offers medical services and does not exercise influence or control over the practice of medicine by the physicians employed by the PA Contractors. Accordingly, the Company believes it is not in violation of applicable state laws in relation to the corporate practice of medicine. See "Business-Contractual Relationships."

RISK OF APPLICABILITY OF ANTI-KICKBACK AND SELF-REFERRAL LAWS. Federal anti-kickback laws and regulations prohibit any knowing and willful offer, payment, solicitation, or receipt of any form of remuneration, either directly or indirectly, in return for, or to induce (i) referral of an individual for a service for which payment may be made by Medicaid or another government-sponsored healthcare program or (ii) purchasing, leasing, ordering or arranging for, or recommending the purchase, lease or order of, any service or item for which payment may be made by a government sponsored healthcare program. Violations of anti-kickback rules are punishable by monetary fines, civil and criminal penalties and exclusion from participation in Medicare and Medicaid programs. Effective January 1, 1995, federal physician self-referral laws became applicable to inpatient and outpatient hospital services. Subject to certain exceptions, these laws, such as "Stark I" and "Stark II," prohibit Medicare or Medicaid payments for services furnished by a physician who has a financial relationship with the entity through ownership, investment, or compensation agreement. Possible sanctions for violation of these laws include civil monetary penalties, exclusion from Medicare and Medicaid programs and forfeiture of amounts collected in violation of such prohibitions. Certain states in which the Company does business have similar anti-kickback, anti-fee-splitting and self-referral laws, imposing substantial penalties for violations. In many cases, such state laws apply to privately insured or paid services as well as services covered under governmentally sponsored plans. The Company's relationships, including fee payments, among PA Contractors, hospital clients and physicians have not been examined by federal or state authorities under these laws and regulations. Although the Company believes it is in compliance with these laws and regulations, there can be no assurance that federal or state regulatory authorities will not challenge the Company's current or future activities under these laws. See "Business-Strategy" and "Business-Government Regulation."

RISKS RELATING TO ACQUISITION STRATEGY. The Company has expanded and intends to continue to expand its geographic and market penetration primarily through acquisitions of physician group practices. In implementing this acquisition strategy, the Company will compete with other potential acquirers, some of which may have greater financial or operational resources than the Company. Competition for acquisitions may intensify due to the ongoing consolidation in the healthcare industry, which may increase the costs of capitalizing on such opportunities. While the Company has recently completed several acquisitions, there can be no assurance that future acquisition candidates will be identified or that any future acquisition will be consummated or, if consummated, that any acquisition, including the recent acquisitions, will be integrated successfully into the Company's operations or that the Company will be successful in achieving its objectives. The recent acquisitions also involve numerous short and long term risks, including diversion of management's attention, failure to retain key personnel and amortization of acquired intangible assets. The Company may also incur one-time acquisition expenses in connection with acquisitions. Consummation of acquisitions could result in the incurrence or assumption by the Company of additional indebtedness and the issuance of additional equity. The issuance of shares of common stock for an acquisition may result in dilution to shareholders. Also, as the Company enters into new geographic markets, the Company will be required to comply with laws and regulations of states that differ from those in which the Company's operations are currently conducted. There can be no assurance that the Company will be able to effectively establish a presence in these new markets. While many of the expenses arising from the Company's efforts in these areas may have a negative effect on operating results until such time, if at all, as these expenses are offset by increased revenues, there can be no assurance that the Company will be able to implement its acquisition strategy, or that this strategy will be successful. See "Business-Strategy," "Business-Marketing" and "Business-Government Regulation."

GROWTH STRATEGY; RAPID GROWTH. Since the Initial Public Offering ("IPO") the Company has experienced rapid growth in its business and number of employees. Continued rapid growth may impair the Company's ability to efficiently provide its physician management services and to adequately manage its employees. While the Company is taking steps to manage rapid growth, future results of operations could be materially adversely affected if it is unable to do so effectively.

QUARTERLY FLUCTUATIONS IN OPERATING RESULTS; POTENTIAL VOLATILITY. The Company has historically experienced and expects to continue to experience quarterly fluctuations in net patient service revenue and associated net income due to unit specific volume and cost fluctuations. The Company has a high level of fixed operating costs, including physician costs, and, as a result, is highly dependent on the volume of births and capacity utilization of NICUs and PICUs to sustain profitability. Results of operations for any quarter are not necessarily indicative of results of operations for any future period or full year. As a result, there can be no assurance that the results of operations will not fluctuate significantly from period to period. There has been significant volatility in the market price of securities of healthcare companies that often has been unrelated to the operating performance of such companies. The Company believes that certain factors, such as legislative and regulatory developments, quarterly fluctuations in the actual or anticipated results of operations of the Company, lower revenues or earnings in the financial results of the Company than those anticipated by securities analysts, the overall economy and the financial markets, could cause the price of Common Stock to fluctuate substantially.

IMPACT OF PAYOR DISCOUNTS AND CAPITATION ARRANGEMENTS. The evolving managed care environment has created substantial cost containment pressures for the healthcare industry. The Company's business could be adversely affected by reductions in reimbursement amounts or rates, changes in services covered and similar measures which may be implemented by government sponsored healthcare programs or by other third party payors. The Company contracts with payors and managed care organizations traditionally have been fee-for-service arrangements. At December 31, 1997, the Company had eight shared-risk capitated arrangements with payors in California, Arizona, Texas and Florida. These arrangements and many future arrangements may adversely affect the Company's financial condition and results of operations if the Company is unable to limit the risks associated with such arrangements. See "Business-Contractual Relationships," "Business-Government Regulation" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

PROFESSIONAL LIABILITY AND INSURANCE. The Company's business entails an inherent risk of claims of physician professional liability. The Company periodically becomes involved as a defendant in medical malpractice lawsuits, some of which are currently ongoing, and is subject to the attendant risk of substantial damage awards. See "Legal Proceedings." The Company's contracts with hospitals generally require the Company to indemnify certain parties for losses resulting from the negligence of physicians who are managed by or affiliated with the Company. While the Company believes it has adequate professional liability insurance coverage, there can be no assurance that a pending or future claim or claims will not be successful or if successful, will not exceed the limits of available insurance coverage or that such coverage will continue to be available at acceptable costs and on favorable terms. See "Business-Professional Liability and Insurance."

COLLECTION AND REIMBURSEMENT RISK. The Company assumes the financial risk related to collection, including the potential uncollectibility of accounts and delays attendant to reimbursement by third party payors, such as government programs, private insurance plans and managed care plans. Failure to manage adequately the collection risks and working capital demands could have a material adverse effect on the Company's financial condition and results of operations. See "Business-Contractual Relationships" and "Business-Government Regulation."

CANCELLATION OR NON-RENEWAL OF CONTRACTS. The Company's net patient service revenue is derived primarily from fee-for-service billings for patient care provided by its physicians and from administrative fees. Certain contracting hospitals that do not generate sufficient patient volume pay the Company administrative fees to assure the Company a minimum revenue level. If, at the time of renewal of the contracts with the hospitals currently paying administrative fees to the Company, such hospitals continue to generate insufficient patient volume but elect not to pay administrative fees to assure the Company a minimum revenue level, then the Company could either choose not to renew the contract or renew the contract with lower gross profit margins at such hospitals. The Company's contracts provide for terms of three to five years and are generally terminable by the hospital upon 90 days written notice. While the Company has in most cases been able to negotiate renewal of its contracts in the past, no assurance can be given that the Company's contracts with hospitals will not be canceled or will be renewed in the future or that the administrative fees will be continued. To the extent that the Company's contracts with hospitals are canceled or are not renewed or replaced with other contracts with at least as favorable terms, the Company's financial position and results of operations could be adversely affected. See "Business-Contractual Relationships."

COMPETITION. The healthcare industry is highly competitive and subject to continual changes in the method in which services are provided and the manner in which healthcare providers are selected and compensated. The Company believes that private and public reforms in the healthcare industry emphasizing cost containment and accountability will result in an increasing shift of NICU and related pediatric care from highly fragmented, individual or small practice neonatology providers to physician practice management companies. Companies in other healthcare industry segments, such as managers of other hospital-based specialties or currently expanding large physician group practices, some of which have financial and other resources greater than those of the Company, may become competitors in providing management of neonatal and pediatric services to hospitals. Increased competition could have a material adverse effect on the Company's financial condition and results of operations. See "Business-Competition."

DEPENDENCE ON QUALIFIED NEONATALOGISTS. The Company's business strategy is dependent upon its ability to recruit and retain qualified neonatologists. The Company has been able to compete with many types of healthcare providers, as well as teaching, research, and government institutions, for the services of such physicians. No assurance can be given that the Company will be able to continue to recruit and retain a sufficient number of qualified neonatologists who provide services in markets served by the Company on terms similar to its current arrangements. The inability to successfully recruit and retain physicians could adversely affect the Company's ability to service existing or new units at hospitals, or expand its business.

DEPENDENCE ON KEY PERSONNEL. The Company's success depends to a significant extent on the continued contributions of its key management, business development, sales and marketing personnel, including one of the Company's principal shareholders, President, Chief Executive Officer and co-founder, Dr. Roger Medel, for management of the Company and successful implementation of its growth strategy. The loss of Dr. Medel or other key personnel could have a material adverse effect on the Company's financial condition, results of operations and plans for future development.

DEPENDENCE ON PA CONTRACTORS. The Company has a management agreement with a PA Contractor in each state in which it operates except Florida. The agreements provide that the terms of the arrangements are permanent, subject only to termination by PMG and that the PA Contractor shall not terminate the agreement without PMG's prior written consent. Any disruption of the Company's or the PA Contractors' relationships with contracting hospitals (including the determination that the PA Contractors arrangements with PMG constitute the corporate practice of medicine) or any other event adverse to the PA Contractors could have a material adverse effect on the Company's financial condition and results of operations. See "Business-Government Regulation" and "Business-Contractual Relationships."

ANTI-TAKEOVER PROVISIONS; ISSUANCE OF PREFERRED STOCK. The Company's Articles of Incorporation and Bylaws contain provisions that could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire control of, the Company. These provisions establish certain advance notice procedures for nomination of candidates for election as directors and for shareholder proposals to be considered at shareholders' meetings and provide that only the Board of Directors may call special meetings of the shareholders. In addition, the Company's Articles of Incorporation authorize the Board of Directors to issue preferred stock ("Preferred Stock") without shareholder approval and upon such terms as the Board of Directors may determine. While no shares of Preferred Stock are outstanding and the Company has no present plans to issue any shares of Preferred Stock, the rights of the holders of Common Stock will be subject to, and may be adversely affected by, the rights of any holders of Preferred Stock that may be issued in the future.

YEAR 2000. The Company has conducted a comprehensive review of its computer systems to identify the systems that could be affected by the transition to the year 2000 and has developed an implementation plan to resolve any related issues. The Year 2000 problem is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Company's programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a major system failure or miscalculations. The Company presently believes that, by modifying and upgrading its existing software the transition to the year 2000 will not pose significant operational problems. The Company has not had any discussion with its payors to determine the status of their systems. However, if the Company or its vendors or payors do not make the modifications and conversions required on a timely basis it could have a material adverse effect on the Company's financial condition and results of operations.

ITEM 2. PROPERTIES

The Company owns its executive offices located in Ft. Lauderdale, Florida (approximately 30,000 square feet) including a new building that was completed in the third quarter of 1996. The Company also leases space in other facilities in various states for its business offices, pediatric cardiology offices, storage space, and temporary housing of medical staff, with aggregate annual rents of approximately $395,000. To facilitate its acquisition and business integration programs, in September 1996, the Company entered into a contract to lease an aircraft. See Note 10 to the Consolidated Financial Statements.

ITEM 3. 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, based upon the investigations conducted by the Company to date, that the outcome of such legal actions and proceedings, individually or in the aggregate, will not have a material adverse effect on the Company's financial condition, results of operations or liquidity, notwithstanding any possible insurance recovery. If liability results from the medical malpractice claims, there can be no assurance that the Company's medical malpractice insurance coverage will be adequate to cover liabilities arising out of such proceedings. See "Factors to be Considered--Professional Liability and Insurance."

The Company is currently under examination by the Internal Revenue Service (the "IRS") for the tax years ended December 31, 1992, 1993, and 1994. The IRS has challenged certain deductions that, if ultimately disallowed, would result in additional taxes of approximately $4.5 million, plus interest. 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 or results of operations and cash flows.

In 1997, the Company was notified by a hospital customer of a dispute regarding the interpretation of the customer's contract with the Company. In December 1997, this dispute was resolved amicably and the Company continues to provide services to this hospital customer.

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

No matter was submitted to a vote of security holders during the fiscal quarter ended December 31, 1997.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock commenced trading on the NASDAQ National Market (the "NASDAQ") under the symbol "PEDX" on September 20, 1995. The Company's stock began trading on the New York Stock Exchange (the "NYSE") under the symbol "PDX" on September 11, 1996 and ceased trading on the NASDAQ on September 10, 1996. The following table sets forth, for the periods indicated, the high and low sales prices for the Common Stock as reported on the NASDAQ and the NYSE.

	HIGH	LOW
1996		
First Quarter	40 3/4	22 1/2
Second Quarter	64 3/4	35 1/4
Third Quarter	53	31 1/4
Fourth Quarter	50 3/8	32
1997		
First Quarter	44 1/2	30 1/2
Second Quarter	46	28 5/8
Third Quarter	50 7/16	39 7/8
Fourth Quarter	46 15/16	38 5/8

As of March 17, 1998 there were approximately 112 holders of record of the 15,175,087 outstanding shares of Common Stock. The closing sales price for the Common Stock on March 17, 1998 was $41.38.

The Company did not declare or pay in 1995, 1996 or 1997, nor does it currently intend to declare or pay in the future, any dividends on its Common Stock, but intends to retain all earnings for the operation and expansion

of its business. The payment of any future dividends will be at the discretion of the Board of Directors and will depend upon, among other things, future earnings, results of operations, capital requirements, the general financial condition of the Company, general business conditions and contractual restrictions on payment of dividends, if any, as well as such other factors as the Board of Directors may deem relevant. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

ITEM 6. SELECTED FINANCIAL DATA (in thousands, except per share and other operating data)

The selected consolidated financial data set forth as of and for each of the five years in the period ended December 31, 1997, have been derived from the Consolidated Financial Statements, which statements have been audited by Coopers & Lybrand L.L.P., independent accountants. The following data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Consolidated Financial Statements and the notes thereto included elsewhere herein.

	YEARS ENDED DECEMBER 31,				
	1993	1994	1995	1996	1997
CONSOLIDATED INCOME STATEMENT DATA:					
Net patient service revenue	$ 23,570	$ 32,779	$ 43,860	$ 80,833	$ 128,850
Operating expenses:					
Salaries and benefits	14,852	20,723	29,545	52,732	81,486
Supplies and other operating expenses	2,230	2,774	3,451	6,262	9,765
Depreciation and amortization	95	244	363	1,770	4,522
Total operating expenses	17,177	23,741	33,359	60,764	95,773
Income from operations	6,393	9,038	10,501	20,069	33,077
Investment income	45	208	804	2,096	2,102
Interest expense	(105)	(90)	(117)	(192)	(324)
Other expense, net	(17)	--	--	--	--
Income before income taxes	6,316	9,156	11,188	21,973	34,855
Income tax provision	2,166	3,749	4,475	8,853	13,942
Net income (1)	$ 4,150	$ 5,407	$ 6,713	$ 13,120	$ 20,913
PER SHARE DATA:					
Net income per common share					
Basic		$ 0.66	$ 0.70	$ 0.95	$ 1.39
Diluted		$ 0.49	$ 0.57	$ 0.90	$ 1.33
Weighted average shares outstanding					
Basic		6,272	8,092	13,806	15,021
Diluted		10,945	11,855	14,535	15,743
OTHER OPERATING DATA:					
Number of physicians at end of period	52	75	114	195	260
Number of births	32,532	39,541	59,186	132,796	200,616
NICU admissions	4,777	5,823	7,611	14,250	21,203
NICU patient days	59,024	64,615	87,672	185,702	325,199
CONSOLIDATED BALANCE SHEET DATA:					
Cash and cash equivalents	$ 2,469	$ 7,384	$ 18,499	$ 18,435	$ 18,562
Working capital	8,052	13,772	53,448	81,187	53,908
Total assets	14,239	20,295	69,881	159,026	196,812
Total liabilities	3,762	4,203	7,071	22,705	33,103
Long-term debt, including current maturities	965	879	815	2,950	2,750
Convertible preferred stock(2)	14,401	15,697	--	--	--
Stockholders' equity (deficit)	(3,924)	395	62,810	136,321	163,709

- ---------------

(1) The net income amounts do not include accrued and unpaid dividends with respect to the Convertible Preferred Stock. See footnote 2 below.

(2) Immediately prior to the consummation of the Company's IPO in September 1995, the Convertible Preferred Stock was converted into 4,571,063 shares of Common Stock and unpaid dividends of approximately $3.7 million were forgiven pursuant to the terms of the Series A Preferred Stock Purchase Agreement, dated as of October 26, 1992. Upon conversion, such amounts were credited to the common stock and additional paid-in capital accounts.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Pediatrix is the nation's leading provider of physician management services to hospital-based NICUs. The Company also provides physician management services to hospital-based PICUs and pediatric departments in hospitals. Pediatrix was founded in 1979 by Drs. Roger Medel and Gregory Melnick. Since obtaining its first hospital contract in 1980, the Company has grown by increasing revenues at existing units ("same unit growth") and by adding new units.

In July 1995, the Company completed its first acquisition of a neonatal physician group practice. Since its initial public offering in September 1995, the Company has enhanced its management infrastructure, thereby strengthening its ability to identify acquisition candidates, consummate transactions and integrate acquired physician group practices into the Company's operations. During 1997, the Company completed ten acquisitions, which added 28 NICUs. Additionally, three NICUs were added through the Company's internal marketing activities. The Company has developed networks in Colorado, Arizona, Southern California and Texas and intends to develop additional regional and state-wide networks. The Company believes these networks, augmented by ongoing marketing and acquisition efforts, will strengthen its position with third party payors, such as Medicaid and managed care organizations.

The Company bills payors for services provided by physicians based upon rates for the specific services provided. The rates are substantially the same for all patients in a particular geographic area regardless of the party responsible for paying the bill. The Company determines its net patient service revenue based upon the difference between the gross fees for services and the ultimate collections from payors which differ from the gross fees due to (i) Medicaid reimbursements at government-established rates, (ii) managed care payments at contracted rates, (iii) various reimbursement plans and negotiated reimbursements from other third parties and (iv) discounted and uncollectible accounts of private pay patients.

The Company seeks to increase revenue at existing units in hospitals by providing support to areas of the hospital outside the NICU and PICU, particularly in the obstetrics, nursery and pediatric departments, where immediate accessibility to specialized care is critical. The following table indicates the point at which services originate, expressed as a percentage of net patient service revenue, exclusive of administrative fees, for the periods indicated.

	YEARS ENDED DECEMBER 31,		
	1995	1996	1997
NICU	74.7%	81.4%	85.4%
PICU and PEDS	6.0	3.4	2.2
Other(1)	19.3	15.2	12.4
	100.0%	100.0%	100.0%

- -----------------

(1) Represents principally the percentage of net patient service revenue generated by physicians providing support to areas of hospitals outside the NICU and PICU.

PAYOR MIX

The Company's payor mix is comprised of government (principally Medicaid), managed care, other third parties and private pay patients. The Company benefits when more patients are covered by Medicaid, despite Medicaid's lower reimbursement rates as compared with other payors, because typically these patients would not otherwise be able to pay for services due to lack of insurance coverage. In addition, the Company benefits from the fact that most of the medical services provided at the NICU or PICU are classified as emergency services, a category typically classified as a covered service by managed care payors. A significant increase in the managed care or capitated components of the Company's payor mix, however, could result in reduced reimbursement rates and, in the absence of increased patient volume, could have a material adverse effect on the Company's financial condition and results of operations. The following is a summary of the Company's payor mix, expressed as a percentage of net patient service revenue, exclusive of administrative fees, for the periods indicated (the amounts reported for 1995 and 1996 have been restated to reflect revised classifications in certain payor relationships).

	YEARS ENDED DECEMBER 31,		
	1995	1996	1997
Government	24%	23%	22%
Managed Care	24	34	31
Other third parties	50	42	44
Private pay	2	1	3
	100%	100%	100%

The payor mix shown above is not necessarily representative of the amount of services provided to patients covered under these plans. For example, services provided to patients covered under government programs represented approximately 44% of the Company's total gross patient service revenue during 1997.

RESULTS OF OPERATIONS

The following discussion provides an analysis of the Company's results of operations and should be read in conjunction with the Consolidated Financial Statements and related notes thereto appearing elsewhere in this Annual Report. The operating results for the periods presented were not significantly affected by inflation.

The following table sets forth, for the periods indicated, certain information related to the Company's operations expressed as a percentage of the Company's net patient service revenue (patient billings net of contractual adjustments and uncollectibles, and including administrative fees):

	YEARS ENDED DECEMBER 31,		
	1995	1996	1997
Net patient service revenue	100.0%	100.0%	100.0%
Operating expenses:			
Salaries and benefits	67.4	65.2	63.2
Supplies and other operating expenses	7.9	7.8	7.6
Depreciation and amortization	.8	2.2	3.5
Total operating expenses	76.1	75.2	74.3
Income from operations	23.9	24.8	25.7
Other income, net	1.6	2.4	1.3
Income before income taxes	25.5	27.2	27.0
Income tax provision	10.2	11.0	10.8
Net income	15.3%	16.2%	16.2%

YEAR ENDED DECEMBER 31, 1997 AS COMPARED TO YEAR ENDED DECEMBER 31, 1996

The Company reported net patient service revenue of $128.9 million for the year ended December 31, 1997, as compared with $80.8 million in 1996, a growth rate of 59.4%. Of this $48.1 million increase, approximately $47.5 million, or 98.8%, was attributable to new units, including units at which the Company provides services as a result of acquisitions. Same unit patient service revenue increased approximately $603,000, or 1.2%, for the year ended December 31, 1997, compared to the year ended December 31, 1996. Same units are those units at which the Company provided services for the entire period for which the percentage is calculated and the entire prior comparable period. The same unit growth resulted primarily from volume increases.

Salaries and benefits increased $28.8 million, or 54.5%, to $81.5 million for the year ended December 31, 1997, as compared with $52.7 million for the same period in 1996. Of this increase, $21.4 million, or 74.3%, was attributable to hiring new physicians, primarily to support new unit growth, and the remaining $7.4 million was primarily attributable to increased support staff and resources added in the areas of nursing, management and billing and reimbursement. Supplies and other operating expenses increased $3.5 million, or 55.9%, to $9.8 million for the year ended December 31, 1997, as compared with $6.3 million for the year ended December 31, 1996, primarily as a result of new units. Depreciation and amortization expense increased by $2.7 million, or 155.5%, to $4.5 million for the year ended December 31, 1997, as compared with $1.8 million for the year ended December 31, 1996, primarily as a result of amortization of goodwill in connection with acquisitions.

Income from operations increased $13.0 million, or 64.8%, to $33.1 million for the year ended December 31, 1997, as compared with $20.1 million for the year ended December 31, 1996, representing an increase in the operating margin from 24.8% to 25.7%. The increase in operating margin was primarily due to increased volume, principally from acquisitions, without comparable increases in corporate overhead.

The Company earned net interest income of approximately $1.8 million for the year ended December 31, 1997, as compared with $1.9 million for the year ended December 31, 1996.

The effective income tax rate was approximately 40.0% for the year ended December 31, 1997 as compared with 40.3% for the year ended December 31, 1996.

Net income increased 59.4% to $20.9 million for the year ended December 31, 1997, as compared with $13.1 million for the year ended December 31, 1996. Net income as a percentage of net patient service revenue remained consistent at 16.2% for the years ended December 31, 1996 and 1997.

YEAR ENDED DECEMBER 31, 1996 AS COMPARED TO YEAR ENDED DECEMBER 31, 1995

The Company reported net patient service revenue of $80.8 million for the year ended December 31, 1996, as compared with $43.9 million in 1995, a growth rate of 84.3%. Of this $36.9 million increase, $34.7 million, or 94.0%, was attributable to new units, including units at which the Company provides services as a result of acquisitions. Same unit patient service revenue increased $2.2 million, or 6.2%, for the year ended December 31, 1996, compared to the year ended December 31, 1995. The same unit growth resulted from volume increases as there were no general price increases during the periods.

Salaries and benefits increased $23.2 million, or 78.5%, to $52.7 million for the year ended December 31, 1996, as compared with $29.5 million for the same period in 1995. Of this $23.2 million increase, $18.0 million, or 77.6%, was attributable to hiring new physicians, primarily to support new unit growth, and the remaining $5.2 million was primarily attributable to increased support staff and resources added in the areas of nursing, management and billing and reimbursement. Supplies and other operating expenses increased $2.8 million, or 81.5%, to $6.3 million for the year ended December 31, 1996, as compared with $3.5 million for the year ended December 31, 1995, primarily as a result of new units. Depreciation and amortization expense increased by $1.4 million, or 387.6%, to $1.8 million for the year ended December 31, 1996, as compared with $363,000 for the year ended December 31, 1995, primarily as a result of amortization of goodwill in connection with acquisitions.

Income from operations increased approximately $9.6 million, or 91.1%, to $20.1 million for the year ended December 31, 1996, as compared with $10.5 million for the year ended December 31, 1995, representing an increase in the operating margin from 23.9% to 24.8%. The increase in operating margin was primarily due to increased volume, principally from acquisitions, without comparable increases in corporate overhead.

The Company earned net interest income of approximately $1.9 million for the year ended December 31, 1996, as compared with $687,000 for the year ended December 31, 1995. The increase in net interest income resulted primarily from additional funds available for investment due to proceeds from the initial and secondary public stock offerings, as well as cash flow from operations.

The effective income tax rate was approximately 40.3% for the year ended December 31, 1996 compared with 40.0% for the year ended December 31, 1995.

Net income increased 95.4% to $13.1 million for the year ended December 31, 1996, as compared with $6.7 million for the year ended December 31, 1995. Net income as a percentage of net patient service revenue increased to 16.2% for the year ended December 31, 1996, compared to 15.3% for the year ended December 31, 1995.

QUARTERLY RESULTS

The following table presents certain unaudited quarterly financial data for each of the quarters in the years ended December 31, 1996 and 1997. This information has been prepared on the same basis as the Consolidated Financial Statements appearing elsewhere in this Annual Report and include, in the opinion of the Company, all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the quarterly results when read in conjunction with the Consolidated Financial Statements and the notes thereto. The Company has historically experienced and expects to continue to experience quarterly fluctuations in net patient service revenue and net income. As a result, the operating results for any quarter are not necessarily indicative of results for any future period or for the full year.

	1996 CALENDAR QUARTERS				1997 CALENDAR QUARTERS			
	FIRST	SECOND	THIRD	FOURTH	FIRST	SECOND	THIRD	FOURTH
	(In thousands, except for per share data)							
Net patient service revenue	$16,127	$17,808	$22,404	$24,494	$27,013	$30,599	$34,444	$36,794
Operating expenses:								
Salaries and benefits	10,796	11,541	14,526	15,869	17,609	19,774	21,874	22,229
Supplies and other operating expenses	1,213	1,269	1,740	2,040	2,102	2,358	2,467	2,838
Depreciation and amortization	233	335	543	659	783	1,008	1,278	1,453
Total operating expenses	12,242	13,145	16,809	18,568	20,494	23,140	25,619	26,520
Income from operations	3,885	4,663	5,595	5,926	6,519	7,459	8,825	10,274
Other income, net	464	396	455	589	661	488	346	283
Income before income taxes	4,349	5,059	6,050	6,515	7,180	7,947	9,171	10,557
Income tax provision	1,737	2,024	2,485	2,607	2,872	3,179	3,668	4,223
Net income	$2,612	$3,035	$3,565	$3,908	$4,308	$4,768	$5,503	$6,334
Per share data:								
Net income per common and common equivalent share:								
Basic	$.20	$.23	$.25	$.26	$.29	$.32	$.37	$.42
Diluted	$.19	$.22	$.24	$.25	$.28	$.30	$.35	$.40

LIQUIDITY AND CAPITAL RESOURCES

During 1997, the Company completed the acquisition of ten physician group practices, utilizing approximately $59.0 million in cash. These acquisitions were funded principally by the net proceeds from the Company's initial public stock offering in September 1995, and a secondary public stock offering in August 1996. As of December 31, 1997, the Company had approximately $45.7 million of cash, cash equivalents and marketable securities on hand.

As of December 31, 1997, the Company had working capital of approximately $53.9 million, a decrease of $27.3 million from the working capital of $81.2 million available at December 31, 1996. The net decrease is principally the result of expenditures related to the acquisition of physician group practices and additions to property and equipment offset by funds generated from operations.

On June 27, 1996, the Company entered into an unsecured revolving credit facility (the "Credit Facility") with BankBoston and SunTrust Bank. During 1997, the Company increased the amount available under the Credit Facility to $75.0 million, which includes a $2.0 million amount reserved to cover deductibles under the Company's professional liability insurance policies. The Company intends to use the amount available under the Credit Facility primarily for acquisitions. The Credit Facility matures on September 30, 2000. At the Company's option, the

Credit Facility bears interest at either LIBOR plus .875%, or the prime rate announced by BankBoston. There is no balance currently outstanding under the Credit Facility.

The Company's annual capital expenditures have typically been for computer hardware and software and for furniture, equipment and improvements at the corporate headquarters. During the year ended December 31, 1997, capital expenditures amounted to approximately $2.2 million.

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

STATUS OF YEAR 2000 COMPLIANCE

The Company has completed a review of its computer systems to identify any software that could be affected by the transition to the year 2000. Currently, all the Company's systems are year 2000 compliant or are upgradeable to commercially available versions that are compliant. In addition, all of the vendors that the Company uses for the transmission of electronic claims information are expected to complete the transition to year 2000 compliant systems by the end of September 1998. The Company has not had any discussions with its payors to determine the status of their systems. However, if a substantial number of payors do not make the modifications and conversions required on a timely basis it could have a material adverse effect on the Company's financial condition and results of operations.

CHANGE IN ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," which must be implemented by the Company in 1998. This statement establishes standards for the reporting and display of comprehensive income and its components. The Company expects that the implementation of SFAS No. 130 will not have a material impact on its consolidated financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following Consolidated Financial Statements of the Company are included in this Annual Report on Form 10-K on the pages set forth below:

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Directors of
Pediatrix Medical Group, Inc.
Ft. Lauderdale, Florida

We have audited the consolidated financial statements and the financial statement schedule of Pediatrix Medical Group, Inc. listed in Item 14(a) of this Form 10-K. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pediatrix Medical Group, Inc. as of December 31, 1996 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included herein.

COOPERS & LYBRAND L.L.P.

Ft. Lauderdale, Florida
January 26, 1998, except
as to information presented
in Note 14, for which the
date is March 23, 1998

PEDIATRIX MEDICAL GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	DECEMBER 31,	
ASSETS	1996	1997
Current assets:		
Cash and cash equivalents	$18,435	$18,562
Investments in marketable securities	57,218	27,132
Accounts receivable, net	23,396	34,866
Prepaid expenses	1,283	873
Other assets	375	586
Income taxes receivable	202	--
Total current assets	100,909	82,019
Property and equipment, net	8,676	9,898
Other assets, net	49,441	104,895
Total assets	$159,026	$196,812
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$13,423	$16,170
Income taxes payable	--	1,348
Current portion of note payable	200	200
Deferred income taxes	6,099	10,393
Total current liabilities	19,722	28,111
Note payable	2,750	2,550
Deferred income taxes	233	2,442
Total liabilities	22,705	33,103
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; $.01 par value, 1,000,000 shares authorized, none issued and outstanding at December 31, 1996 and 1997	--	--
Common stock; $.01 par value, 50,000,000 shares authorized at December 31, 1996 and 1997, 14,864,694 and 15,141,418 shares issued and outstanding at December 31, 1996 and 1997, respectively	149	151
Additional paid-in capital	116,037	122,391
Retained earnings	20,165	41,078
Unrealized gain (loss) on investments	(30)	89
Total stockholders' equity	136,321	163,709
Total liabilities and stockholders' equity	$159,026	$196,812

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

PEDIATRIX MEDICAL GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)

	YEARS ENDED DECEMBER 31,		
	1995	1996	1997
Net patient service revenue	$43,860	$80,833	$128,850
Operating expenses:			
Salaries and benefits	29,545	52,732	81,486
Supplies and other operating expenses	3,451	6,262	9,765
Depreciation and amortization	363	1,770	4,522
Total operating expenses	33,359	60,764	95,773
Income from operations	10,501	20,069	33,077
Investment income	804	2,096	2,102
Interest expense	(117)	(192)	(324)
Income before income taxes	11,188	21,973	34,855
Income tax provision	4,475	8,853	13,942
Net income	$6,713	$13,120	$20,913
Per share data:			
Net income per common and common equivalent share:			
Basic	$.70	$.95	$1.39
Diluted	$.57	$.90	$1.33
Weighted average shares used in computing net income per common and common equivalent share:			
Basic	8,092	13,806	15,021
Diluted	11,855	14,535	15,743

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

PEDIATRIX MEDICAL GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	COMMON STOCK NUMBER OF SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS
Balance at December 31, 1994	6,266	$ 63	$ --	$ 332
Net income	--	--	--	6,713
Accrued and unpaid preferred stock dividends through conversion date, September 25, 1995	--	--	(1,040)	--
Conversion of preferred stock	4,571	46	16,691	--
Common stock issued	2,240	22	39,848	--
Common stock retired	(26)	--	(131)	--
Tax benefit related to employee stock options	--	--	252	--
Balance at December 31, 1995	13,051	131	55,620	7,045
Net income	--	--	--	13,120
Common stock issued	1,815	18	59,757	--
Common stock retired	(1)	--	(45)	--
Tax benefit related to employee stock options	--	--	705	--
Balance at December 31, 1996	14,865	149	116,037	20,165
Net income	--	--	--	20,913
Common stock issued	276	2	3,480	--
Tax benefit related to employee stock options and stock purchase plans	--	--	2,874	--
Balance at December 31, 1997	15,141	$ 151	$ 122,391	$ 41,078

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

PEDIATRIX MEDICAL GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	YEARS ENDED DECEMBER 31,		
	1995	1996	1997
Cash flows from operating activities:			
Net income	$ 6,713	$ 13,120	$ 20,913
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation and amortization	363	1,770	4,522
Deferred income taxes	1,456	4,423	6,503
Other	(2)	--	--
Changes in assets and liabilities:			
Accounts receivable	(3,131)	(11,300)	(11,470)
Prepaid expenses and other assets	(493)	(533)	199
Income taxes receivable/payable	101	833	4,424
Other assets	62	7	(232)
Accounts payable and accrued expenses	871	6,470	4,140
Net cash provided from operating activities	5,940	14,790	28,999
Cash flows used in investing activities:			
Physician group acquisition payments	(4,938)	(42,487)	(60,158)
Purchase of investments	(34,382)	(57,394)	(14,003)
Proceeds from sale of investments	6,681	27,850	44,207
Purchase of property and equipment	(1,861)	(4,688)	(2,200)
Net cash used in investing activities	(34,500)	(76,719)	(32,154)
Cash flows from financing activities:			
Borrowings on notes payable	--	3,000	--
Payments on notes payable	(64)	(865)	(200)
Proceeds from issuance of common stock	39,870	59,775	3,482
Payments made to retire common stock	(131)	(45)	--
Net cash provided from financing activities	39,675	61,865	3,282
Net increase (decrease) in cash and cash equivalents	11,115	(64)	127
Cash and cash equivalents at beginning of year	7,384	18,499	18,435
Cash and cash equivalents at end of year	$ 18,499	$ 18,435	$ 18,562
Supplemental disclosure of cash flow information:			
Cash paid for:			
Interest	$ 117	$ 164	$ 310
Income taxes	$ 2,943	$ 2,950	$ 2,651
Non-cash investing and financing activities:			
Accrued and unpaid preferred stock dividends	$ 1,040	$--	$--

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

PEDIATRIX MEDICAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL:

The principal business activity of Pediatrix Medical Group, Inc. ("Pediatrix" or the "Company") is to provide physician management services to hospital-based neonatal units in 20 states and Puerto Rico. Contractual arrangements with hospitals include a) fee-for-service contracts whereby hospitals agree, in exchange for the Company's services, to authorize the Company and its healthcare professionals to bill and collect the professional component of the charges for medical services rendered by the Company's healthcare professionals; and b) administrative fees whereby the Company is assured a minimum revenue level.

In September 1995, the Company completed its initial public offering whereby it issued 2,200,000 shares of common stock, resulting in net cash proceeds to the Company of approximately $39.7 million. In addition, in connection with the initial public offering, the Company authorized 50,000,000 shares of common stock and 1,000,000 shares of preferred stock.

In August 1996, the Company completed a secondary public offering whereby it issued 1,755,000 shares of common stock, resulting in net cash proceeds to the Company of approximately $59.1 million.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF PRESENTATION

The financial statements (the "consolidated financial statements") include all the accounts of Pediatrix and its wholly owned subsidiaries combined with the accounts of the professional associations (the "PA Contractors") with which the Company currently has specific management billing arrangements. All significant intercompany and interaffiliate accounts and transactions have been eliminated. The financial statements of the PA Contractors are consolidated with Pediatrix because Pediatrix, as opposed to affiliates of Pediatrix, has unilateral control over the assets and operations of the PA Contractors. Notwithstanding the lack of technical majority ownership, consolidation of the PA Contractors is necessary to present fairly the financial position and results of operations of Pediatrix because of the existence of a parent-subsidiary relationship by means other than record ownership of the PA Contractors' voting common stock. Control of the assets and operations of the PA Contractors by Pediatrix is permanent and other than temporary because the PA Contractor's agreements with Pediatrix provide that the term of the arrangements are permanent, subject only to termination by Pediatrix and that the PA Contractors shall not terminate the agreements without the prior written consent of Pediatrix. Also, the agreements provide that Pediatrix or its assigns has the right, but not the obligation, to purchase the stock of the PA Contractors.

In November 1997, the Emerging Issues Task Force of the FASB (the "EITF") reached a consensus relating to the conditions under which a physician practice management company would consolidate the accounts of an affiliated physician practice. The Company believes that its accounting policies conform to the EITF consensus.

PEDIATRIX MEDICAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

ACCOUNTS RECEIVABLE AND REVENUES

Accounts receivable are primarily amounts due under fee-for-service contracts from third party payors, such as insurance companies, self-insured employers and patients and government-sponsored healthcare programs geographically dispersed throughout the United States and its territories. These receivables are presented net of an estimated allowance for contractual adjustments and uncollectibles which is charged to operations based on the Company's evaluation of expected collections resulting from an analysis of current and past due accounts, past collection experience in relation to amounts billed and other relevant information. Contractual adjustments result from the difference between the physician rates for services performed and reimbursements by government-sponsored healthcare programs and insurance companies for such services. Bad debts are included in contractual allowances and uncollectibles because they are not considered material.

Concentration of credit risk relating to accounts receivable is limited by number, diversity and geographic dispersion of the neonatology units managed by the Company, as well as by the large number of patients and payors, including the various governmental agencies in the states in which the Company provides services. Receivables from government agencies made up approximately 41% and 37% of accounts receivable at December 31, 1996 and 1997, respectively.

CASH EQUIVALENTS

Cash equivalents are defined as all highly liquid financial instruments with maturities of 90 days or less from the date of purchase. The Company maintains its cash and cash equivalents which consist principally of demand deposits, short-term government securities and amounts on deposit in money market accounts with principally three financial institutions.

INVESTMENTS

The Company determines the appropriate classification of its investments in debt securities at the time of purchase and re-evaluates such determination at each balance sheet date. Investments are classified as available for sale and are carried at fair value, with unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity. Fair value is determined by the most recently traded price of the security at the balance sheet date.

PEDIATRIX MEDICAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

INVESTMENTS, CONTINUED

The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and interest income and declines in value judged to be other than temporary are included in investment income. Realized gains and losses are included in earnings using the specific identification method for determining the cost of securities sold.

Investments are stated at fair market value which approximates amortized cost and consist principally of tax exempt municipal obligations (fair value of $48.6 million and $26.6 million at December 31, 1996 and 1997, respectively), U.S. government and government agency securities (fair value of $6.8 million and $511,000 at December 31, 1996 and 1997, respectively) and commercial paper (fair value of $1.5 million at December 31, 1996). The Company's investments in marketable securities represent amounts available for current operations and are accordingly classified as current assets.

PROPERTY AND EQUIPMENT

Property and equipment is recorded at cost. Depreciation of property and equipment is computed on the straight-line method over the estimated useful lives which range from five to forty years. Upon sale or retirement of property and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in earnings.

OTHER ASSETS

Other assets consists principally of the excess of cost over the fair value of net assets acquired which is being amortized on a straight-line basis over twenty-five years.

In 1996, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." This statement requires companies to review certain assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable, in which case the asset generally would be written down to fair value. The adoption of SFAS No. 121 did not affect the Company's financial position, results of operations or liquidity.

At each balance sheet date following the acquisition of a business, the Company reviews the carrying value of the goodwill to determine if facts and circumstances suggest that it may be impaired or that the amortization period may need to be changed. The Company considers external factors relating to each acquired business, including hospital and physician contract changes, local market developments, changes in third party payments, national healthcare trends, and other publicly available information. If these external factors indicate the goodwill will not be recoverable, as determined based upon undiscounted cash flows before interest charges of the business acquired over the remaining amortization period, the carrying value of the goodwill will be reduced. The Company does not believe there currently are any indicators that would require an adjustment to the carrying value of the goodwill or its estimated periods of recovery at December 31, 1997.

PEDIATRIX MEDICAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

PROFESSIONAL LIABILITY COVERAGE

The Company maintains professional liability coverage which indemnifies the Company and its healthcare professionals on a claims made basis with a portion of self insurance retention. The Company records an estimate of its liabilities for claims incurred but not reported based on an actuarial valuation. Such liabilities are not discounted.

INCOME TAXES

The Company utilizes the liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

STOCK OPTIONS

SFAS No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require, companies to recognize compensation expense for grants of stock, stock options and other equity instruments to employees based on new fair value accounting rules. The Company has chosen the SFAS No. 123 alternative to disclose pro forma net income and earnings per share under the new method but not to apply the fair value accounting rules in the statements of income. No charge has been reflected in the consolidated statements of income as a result of the grant of stock options, as the market value of the Company's stock equals the exercise price on the date the options are granted. To the extent that the Company realizes an income tax benefit from the exercise or early disposition of certain stock options, this benefit results in a decrease in current income taxes payable and an increase in additional paid-in capital.

NET INCOME PER SHARE

During 1997, the Company adopted SFAS No. 128, "Earnings Per Share," which requires the presentation of both basic and diluted earnings per share. Net income per share information for all periods has been restated to conform with the requirements of the standard.

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.

PEDIATRIX MEDICAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivable, investments in marketable securities, and accounts payable and accrued expenses approximate fair value due to the short maturities of these items.

The carrying amount of the note payable approximates fair value because the interest rates on this instrument change with market interest rates.

CHANGE IN ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income," which must be implemented by the Company in 1998. This statement establishes standards for the reporting and display of comprehensive income and its components. The Company expects that the implementation of SFAS No. 130 will not have a material impact on its consolidated financial statements.

3. ACCOUNTS RECEIVABLE AND NET PATIENT SERVICE REVENUE

Accounts receivable consists of the following:

	DECEMBER 31,	
	1996	1997
	(IN THOUSANDS)	
Gross accounts receivable	$53,991	$80,237
Less allowance for contractual adjustments and uncollectibles	(30,595)	(45,371)
	$23,396	$34,866

Net patient service revenue consists of the following:

	YEARS ENDED DECEMBER 31,		
	1995	1996	1997
		(IN THOUSANDS)	
Gross patient service revenue	$79,360	$156,594	$260,112
Less contractual adjustments and uncollectibles	(40,843)	(82,759)	(137,385)
Hospital contract administrative fees	5,343	6,998	6,123
	$43,860	$80,833	$128,850

PEDIATRIX MEDICAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

4. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	DECEMBER 31, 1996	DECEMBER 31, 1997
	(IN THOUSANDS)	
Land and land improvements	$1,374	$1,493
Building	4,000	4,290
Equipment and furniture	4,312	6,351
	9,686	12,134
Less accumulated depreciation	(1,275)	(2,236)
Construction in progress	265	--
	$8,676	$9,898

5. OTHER ASSETS:

Other assets consists of the following:

	DECEMBER 31, 1996	DECEMBER 31, 1997
	(IN THOUSANDS)	
Excess of cost over net assets acquired	$48,963	$107,972
Physician agreements	1,692	1,692
Other	572	1,023
	51,227	110,687
Less accumulated amortization	(1,786)	(5,792)
	$49,441	$104,895

During 1996, the Company completed the acquisition of ten physician group practices. Total consideration and related costs for these acquisitions approximated $43.7 million. In connection with these transactions, the Company recorded assets totaling $43.7 million, including $43.0 million of goodwill, and liabilities of $3.4 million. In 1997, the Company paid an aggregate of $1.3 million to the prior shareholders of two physician group practices acquired in 1996. The payments were earned based upon the achievement of certain targets as outlined in the acquisition agreements.

During 1997, the Company completed the acquisition of ten physician group practices. Total consideration and related costs for these acquisitions approximated $59.0 million. In connection with these transactions, the Company recorded assets totaling approximately $59.0 million, principally goodwill, and liabilities of $1.9 million.

PEDIATRIX MEDICAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

5. OTHER ASSETS, CONTINUED:

The Company has accounted for the transactions 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 companies 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 companies acquired during 1996 and 1997 as if the acquisitions had occurred on January 1, 1996:

	YEARS ENDED DECEMBER 31,	
	1996	1997
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Net patient service revenue	$113,303	$136,519
Net income	14,603	21,143
Net income per share:		
Basic	$1.06	$1.41
Diluted	$1.00	$1.34

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

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

Accounts payable and accrued expenses consists of the following:

	DECEMBER 31,	
	1996	1997
	(IN THOUSANDS)	
Accounts payable	$2,489	$2,988
Accrued salaries and bonuses	3,508	5,340
Accrued payroll taxes and benefits	2,009	3,013
Accrued professional liability coverage	2,413	3,747
Other accrued expenses	3,004	1,082
	$13,423	$16,170

PEDIATRIX MEDICAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

7. NOTE PAYABLE:

Note payable consists of the following:

	DECEMBER 31, 1996	DECEMBER 31, 1997
	(IN THOUSANDS)	
Mortgage payable to bank	$2,950	$2,750
Less current portion	(200)	(200)
	$2,750	$2,550

During 1996, the Company negotiated a new mortgage loan agreement, increasing the principal balance to $3.0 million and adjusting the terms of the original mortgage. The new loan agreement requires quarterly payments totaling $200,400 per year plus interest through the maturity date of the loan, June 30, 2003, at which time the unpaid principal balance of $1,647,300 is due, bears interest at prime (8.5% at December 31, 1997), and is collateralized by the Company's two buildings.

In June 1996, the Company entered into an unsecured revolving credit facility. During 1997, the amounts available under the credit facility were increased to $75 million, which includes a $2 million amount reserved to cover deductibles under the Company's professional liability insurance policies. The credit facility matures on September 30, 2000. At the Company's option, the credit facility bears interest at either LIBOR plus .875% or prime. The Company had no outstanding balance at December 31, 1996 or 1997.

The Company is required to maintain certain financial covenants including a requirement that the Company maintain a minimum level of net worth, as defined under the terms of the mortgage and credit facility agreement.

8. PREFERRED STOCK:

In October 1992, the Company issued 4,571,063 shares of 9% voting, redeemable, cumulative convertible Preferred Stock for $13,000,103. In connection with the Company's initial public offering, the Preferred Stock was converted into common stock of the Company and the unpaid dividends of $3,736,589 were forgiven. As a result, the redemption value of the Preferred Stock was credited to common stock and additional paid-in capital accounts.

PEDIATRIX MEDICAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

9. INCOME TAXES:

The components of the income tax provision are as follows:

	DECEMBER 31,		
	1995	1996	1997
		(IN THOUSANDS)	
Federal:			
Current	$2,573	$3,072	$6,004
Deferred	1,184	3,667	5,913
	3,757	6,739	11,917
State:			
Current	454	1,358	1,054
Deferred	264	756	971
	718	2,114	2,025
Total	$4,475	$8,853	$13,942

The Company files its tax return on a consolidated basis with its subsidiaries. The PA Contractors file tax returns on an individual basis.

The effective tax rate on income was 40% for the years ended December 31, 1995, 1996 and 1997. The differences between the effective rate and the U.S. federal income tax statutory rate are as follows:

	DECEMBER 31,		
	1995	1996	1997
		(IN THOUSANDS)	
Tax at statutory rate	$3,804	$7,472	$12,199
State income tax, net of federal benefit	451	1,374	1,316
Permanent differences	16	(391)	43
Other, net	204	398	384
Income tax provision	$4,475	$8,853	$13,942

PEDIATRIX MEDICAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

9. INCOME TAXES, CONTINUED:

The significant components of deferred income tax assets and liabilities are as follows:

	DECEMBER 31, 1996			DECEMBER 31, 1997		
	TOTAL	CURRENT	NON CURRENT	TOTAL	CURRENT	NON CURRENT
	(IN THOUSANDS)					
Allowance for uncollectible accounts	$ 150	$ 150	$ --	$ 766	$ 766	$ --
Net operating loss carryforward	1,112	1,112	--	398	398	--
Other	--	--	--	304	304	--
Total deferred tax assets	1,262	1,262	--	1,468	1,468	--
Accrual to cash adjustment	(7,416)	(7,355)	(61)	(8,878)	(8,878)	--
Property and equipment	--	--	--	(1,251)	--	(1,251)
Receivable discounts	--	--	--	(2,966)	(2,966)	--
Other	(178)	(6)	(172)	(1,208)	(17)	(1,191)
Total deferred tax liabilities	(7,594)	(7,361)	(233)	(14,303)	(11,861)	(2,442)
Net deferred tax liability	$ (6,332)	$ (6,099)	$ (233)	$(12,835)	$(10,393)	$ (2,442)

The income tax benefit related to the exercise of stock options and the purchase of shares under the Company's non-qualified employee stock purchase plan, reduces taxes currently payable and is credited to additional paid-in capital. Such amounts totaled $252,180, $704,630 and $2,873,649 for the years ended December 31, 1995, 1996 and 1997, respectively.

The Company's PA Contractors have net operating loss carryforwards for federal and state tax purposes of approximately $1,377,000, $2,762,000 and $978,000 at December 31, 1995, 1996 and 1997, respectively, expiring at various times commencing in 1999.

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 ultimately disallowed, would result in additional taxes of approximately $4.5 million, plus interest. 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 or results of operations and cash flows.

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

PEDIATRIX MEDICAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

10. COMMITMENTS AND CONTINGENCIES, CONTINUED:

Rent expense for the years ended December 31, 1995, 1996 and 1997 was $189,408, $1,118,594 and $1,721,964, respectively. At December 31, 1997, the future minimum lease payments are as follows:

	(IN THOUSANDS)
1998	$1,565
1999	1,472
2000	1,367
2001	1,315
2002	1,177
Thereafter	5,495
	$12,391

11. RETIREMENT PLAN:

The Company has a qualified contributory savings plan (the "Plan") as allowed under Section 401(k) of the Internal Revenue Code. The Plan permits participant contributions and allows elective Company contributions based on each participant's contribution. Participants may defer up to 15% of their annual compensation by contributing amounts to the Plan. The Company approved contributions of $559,125, $1,107,092 and $1,731,829 to the Plan during the years ended December 31, 1995, 1996 and 1997, respectively.

PEDIATRIX MEDICAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

12. NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE:

The calculation of basic and diluted net income per share for the years ended December 31, 1995, 1996 and 1997 are as follows:

	YEARS ENDED DECEMBER 31,		
	1995	1996	1997
	(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)		
Basic net income per share:			
Net income	$ 6,713	$ 13,120	$ 20,913
Preferred stock dividends	(1,040)	--	--
Income applicable to common shareholders	$ 5,673	$ 13,120	$ 20,913
Weighted average common shares outstanding	8,092	13,806	15,021
Basic net income per share	$ 0.70	$ 0.95	$ 1.39
Diluted net income per share:			
Weighted average common shares outstanding	8,092	13,806	15,021
Preferred stock	3,354	--	--
Stock options	409	729	722
Weighted average common and potential common shares outstanding	11,855	14,535	15,743
Net income	$ 6,713	$ 13,120	$ 20,913
Diluted net income per share	$ 0.57	$ 0.90	$ 1.33

13. STOCK OPTION PLAN AND EMPLOYEE STOCK PURCHASE PLANS:

In 1993, the Company's Board of Directors authorized a stock option plan. Under the plan, options to purchase shares of common stock may be granted to certain employees at a price not less than the fair market value of the shares on the date of grant. The options must be exercised within ten years from the date of grant. The stock options become exercisable on a pro rata basis over a three year period from the date of grant. In 1997, the Company's shareholders approved an amendment to increase the number of shares authorized to be issued under the plan from 2,500,000 to 3,250,000. At December 31, 1997, 220,164 shares were available for future grants.

PEDIATRIX MEDICAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

13. STOCK OPTION PLAN AND EMPLOYEE STOCK PURCHASE PLANS, CONTINUED:

Pertinent information covering the stock option plan is as follows:

	NUMBER OF SHARES	OPTION PRICE PER SHARE	WEIGHTED AVERAGE EXERCISE PRICE	EXPIRATION DATE
Outstanding at December 31, 1994	1,231,700	$2.84-$10.00	$5.82	2003-2004
Granted	841,500	$10.00-$21.50	$17.95	
Canceled	(324,583)	$3.12-$12.50	$5.33	
Exercised	(39,709)	$3.12-$10.00	$3.46	
Outstanding at December 31, 1995	1,708,908	$2.84-$21.50	$12.03	2003-2005
Granted	600,400	$12.50-$36.75	$35.27	
Canceled	(34,660)	$3.12-$36.00	$16.46	
Exercised	(47,187)	$5.00-$20.50	$5.64	
Outstanding at December 31, 1996	2,227,461	$2.84-$36.75	$18.27	2003-2006
Granted	783,500	$29.00-$41.38	$33.38	
Canceled	(68,021)	$5.00-$36.00	$21.55	
Exercised	(229,710)	$5.00-$36.00	$9.69	
Outstanding at December 31, 1997	2,713,230	$2.84-$41.38	$23.28	2003-2007
Exercisable at:				
December 31, 1995	306,872	$2.84-$10.00	$6.15	
December 31, 1996	828,631	$2.84-$21.50	$10.20	
December 31, 1997	1,315,850	$2.84-$36.75	$14.74	

Significant option groups outstanding at December 31, 1997 and related price and life information follows:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$2.84	50,000	$2.84	5.5	50,000	$2.84
$5.00	278,770	$5.00	6.1	278,770	$5.00
$7.50	200,000	$7.50	6.8	200,000	$7.50
$10.00-$12.50	266,667	$10.80	7.0	226,249	$10.60
$19.25-$21.50	567,243	$19.59	7.2	369,074	$19.59
$24.00-$32.88	644,000	$29.71	9.2	51,788	$31.71
$36.00-$41.38	706,550	$38.22	8.7	139,969	$36.36
	2,713,230	$23.28	7.9	1,315,850	$14.74

Under the Company's stock purchase plans, employees may purchase the Company's common stock at 85% of the average high and low sales price of the stock as reported as of commencement of the purchase period or as of the purchase date, whichever is lower. Under these plans, 12,786 and 47,302 shares were issued during 1996 and 1997, respectively. At December 31, 1997, the Company has an additional 939,912 shares reserved under the stock purchase plans.

PEDIATRIX MEDICAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

13. STOCK OPTION PLAN AND EMPLOYEE STOCK PURCHASE PLANS, CONTINUED:

The Company has adopted the disclosure-only provisions of SFAS No. 123. Accordingly, no compensation expense has been recognized for stock options granted under the stock option plan or stock issued under the employee stock purchase plans. Had compensation expense been determined based on the fair value consistent with the provisions of SFAS No. 123, the Company's net income and net income per share would have been reduced to the pro forma amounts below:

	YEARS ENDED DECEMBER 31,		
	1995	1996	1997
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Net income	$6,381	$11,002	$16,272
Net income per share:			
Basic	$.66	$ .80	$1.08
Diluted	$.55	$ .77	$1.05

The fair value of each option or share to be issued is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 1995, 1996 and 1997, respectively: dividend yield of 0% for all years; expected volatility of 42%, 42% and 41%; and risk-free interest rates of 6.1%, 6.3% and 6.6% for options with expected lives of five years (certain management and physicians of the Company) and 6.1%, 6.1% and 6.6% for options with expected lives of three years (all other employees of the Company).

The pro forma effect on net income is not representative of the pro forma effect on net income in future periods because it does not take into consideration pro forma compensation expense related to grants made in prior periods.

14. SUBSEQUENT EVENTS:

Subsequent to December 31, 1997, the Company completed the acquisitions of eight physician group practices. Total consideration for these acquisitions approximated $48.6 million in cash and 2,951,327 shares of stock in a subsidiary of the Company. The acquisitions will be accounted for using the purchase method of accounting.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company has had no changes in or disagreements with its independent certified public accountants on accounting and financial disclosure.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information with respect to directors and executive officers of the Company is incorporated by reference to the registrant's Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

ITEM 11. EXECUTIVE COMPENSATION

The information required in response to this item is incorporated by reference to the registrant's Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required in response to this item is incorporated by reference to the registrant's Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required in response to this item is incorporated by reference to the registrant's Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(A) DOCUMENTS FILED AS PART OF THIS REPORT:

(1) FINANCIAL STATEMENTS.

An index to financial statements included in this annual report on Form 10-K appears on page 23.

(2) FINANCIAL STATEMENT SCHEDULES.

The following financial statement schedules for the years ended December 31, 1995, 1996 and 1997 are included in this Annual Report on Form 10-K on the pages set forth below.

Any required information not included in the above described schedules is included in the consolidated financial statements and notes thereto incorporated herein by reference.

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are not applicable and therefore have been omitted.

PEDIATRIX MEDICAL GROUP, INC.
SCHEDULE II: VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1995, 1996 AND 1997

	1995	1996	1997
Allowance for contractual adjustments and uncollectibles:			
Balance at beginning of year	$13,246,580	$13,087,899	$30,594,906
Portion charged against operating revenue	40,843,431	82,759,087	137,385,310
Accounts receivable written-off (net of recoveries)	(41,002,112)	(65,252,080)	(122,608,986)
Balance at end of year	$13,087,899	$30,594,906	$45,371,230

(3) EXHIBITS

3.1	Pediatrix's Amended and Restated Articles of Incorporation (3.1)(1)
3.2	Pediatrix's Amended and Restated Bylaws (3.2)(12)
4.1	Registration Rights Agreement, dated as of September 13, 1995 between Pediatrix and certain shareholders (4.1)(1)
10.1	Pediatrix's Amended and Restated Stock Option Plan (10.1)(10)
10.2	Form of Indemnification Agreement between Pediatrix and each of its directors and certain executive officers (10.2)(1)
10.3	Employment Agreement, dated as of January 1, 1995, as amended, between Pediatrix and Roger J. Medel, M.D. (10.3)(1)
10.4	Employment Agreement, dated as of February 1, 1995, as amended, between Pediatrix and Richard J. Stull, II (10.4)(1)
10.5	Employment Agreement, dated as of May 1, 1995, as amended, between Pediatrix and Larry M. Mullen (10.5)(1)
10.6	Employment Agreement, dated as of February 1, 1995, as amended, between Pediatrix and Brian D. Udell, M.D., as amended (10.7)(1)
10.7	Employment Agreement, dated November 6, 1995, between Kristen Bratberg and Pediatrix (10.9)(4)
10.8	Employment Agreement, dated June 1, 1996, between Pediatrix and M. Douglas Cunningham, M.D. (10.21)(3)
10.9	Mortgage, Security Agreement and Assignment of Leases and Rents, dated as of September 30, 1993, made by Pediatrix in favor of The First National Bank of Boston (10.22)(1)
10.10	The Company's Profit Sharing Plan (10.23)(1)
10.11	Form of Non-competition and Nondisclosure Agreement (10.24)(1)
10.12	Form of Exclusive Management and Administrative Services Agreement between Pediatrix and each of the PA Contractors (10.25)(1)
10.13	Agreement for Purchase and Sale of Stock, dated July 27, 1995, between Pediatrix Medical Group of California and Neonatal and Pediatric Intensive Care Medical Group, Inc. and the individual physicians set forth in Exhibit A therein (10.26)(1)
10.14	Stock Purchase Agreement, effective January 16, 1996, between Jack C. Christensen, M.D., Cristina Carballo-Perelman, M.D., Michael C. McQueen, M.D., Neonatal Specialists, Ltd. and Brian Udell, M.D. (2.1)(4)
10.15	Asset Purchase Agreement, effective January 16, 1996, between Med-Support, L.P. and Neonatal Specialists, Ltd.(2.2)(4)
10.16	Asset Purchase Agreement, effective January 16, 1996, between CMJ Leasing, L.P. and Neonatal Specialists, Ltd. (2.3)(4)
10.17	Asset Purchase Agreement, dated January 29, 1996, among Pediatrix Medical Group of Colorado, P.C., Pediatrix and Newborn Consultants, P.C., and the shareholders of PNC (2.1)(5)
10.18	Agreement and Plan of Merger, dated January 29, 1996, among Pediatrix Medical Group of Colorado, P.C., Colorado Neonatal Associates, P.C. and the shareholders of CNA (2.1)(5)
10.19	Amendment No. 4 to Credit Agreement dated as of December 30, 1995, between Pediatrix, certain PA Contractors and The First National Bank of Boston (10.24)(2)
10.20	1996 Qualified Employee Stock Purchase Plan (10.25)(2)
10.21	1996 Non-Qualified Employee Stock Purchase Plan (10.26)(2)
10.22	Agreement and Plan of Merger, dated May 1, 1996, among Pediatrix Acquisition Corp., Rocky Mountain Neonatology, P.C. and the shareholders of RMN (2.1)(7)

10.23	Asset Purchase Agreement, dated as of May 30, 1996, by and among Pediatrix Medical Group of Texas, P.A., West Texas Neonatal Associates and the individual physicians set forth in Exhibit A therein (2.1)(8)
10.24	Agreement for Purchase and Sale of Assets, dated as of June 5, 1996, by and among Pediatrix Medical Group of California, P.C., Infant Care Specialists Medical Group, Inc. and the individual physicians set forth in Exhibit A therein (2.1)(9)
10.25	Airplane Purchase Agreement, dated March 22, 1996, between Pediatrix and Learjet Inc. (10.22)(3)
10.26	First Amended and Restated Credit Agreement, dated as of June 27, 1996, between Pediatrix, certain PA Contractors, The First National Bank of Boston and Sun Trust Bank (10.25)(3)
10.27	Modification of Mortgage, dated as of June 27, 1996, between PMG and The First National Bank of Boston (10.26)(3)
10.28	Amendment No. 2 to the employment agreement between Pediatrix and Roger J. Medel, M.D. (10.34)(10)
10.29	Amendment No. 1 to the employment agreement between Pediatrix and Kristen Bratberg (10.35)(10)
10.30	Amendment No. 2 to First Amended and Restated Credit Agreement, dated October 21, 1997, between Pediatrix, certain PA Contractors, BankBoston and SunTrust Bank (10.36)(11)
10.31	Regional Vice President of Medical Operations appointment, dated as of June 1, 1997, between Pediatrix and M. Douglas Cunningham, M.D. (12)
10.32	Employment Agreement, dated as of April 7, 1997, between Pediatrix and Bruce A. Jordan (12)
21.1	Subsidiaries of Pediatrix (12)
23.1	Consent of Coopers & Lybrand L.L.P. (12)
27.1	Financial Data Schedule for current period and restated Financial Data Schedules for other periods. (12)

- ----------------------

(1) Incorporated by reference to the exhibit shown in parentheses and filed with the Pediatrix Form S-1 (File No. 33-95086).

(2) Incorporated by reference to the exhibit shown in parentheses and filed with the Pediatrix Form 10-Q for the quarterly period ended March 31, 1996.

(3) Incorporated by reference to the exhibit shown in parentheses and filed with the Pediatrix Form S-1 (File No. 333-07125).

(4) Incorporated by reference to the exhibit shown in parentheses and filed with the Pediatrix Form 8-K, dated January 31, 1996.

(5) Incorporated by reference to the exhibit shown in parentheses and filed with the Pediatrix Form 8-K, dated February 8, 1996.

(6) Incorporated by reference to the exhibit shown in parentheses and filed with the Pediatrix Annual Report on Form 10-K for the year ended December 31, 1995.

(7) Incorporated by reference to the exhibit shown in parentheses and filed with the Pediatrix Form 8-K, dated May 9, 1996.

(8) Incorporated by reference to the exhibit shown in parentheses and filed with the Pediatrix Form 8-K, dated May 30, 1996.

(9) Incorporated by reference to the exhibit shown in parentheses and filed with the Pediatrix Form 8-K, dated June 5, 1996.

(10) Incorporated by reference to the exhibit shown in parentheses and filed with the Pediatrix Form 10-Q for the quarterly period ended June 30, 1997.

(11) Incorporated by reference to the exhibit shown in parentheses and filed with the Pediatrix Form 10-Q for the quarterly period ended September 30, 1997.

(12) Filed herewith.

(B) REPORTS ON FORM 8-K

No reports on Form 8-K were filed by the Registrant during the last quarter of the period covered by this Report.

(C) EXHIBITS REQUIRED BY ITEM 601 OF REGULATION S-K

The index to exhibits that are listed in Item 14(a)(3) of this report and not incorporated by reference follows the "Signatures" section hereof and is incorporated herein by reference.

(D) FINANCIAL STATEMENT SCHEDULES REQUIRED BY REGULATION S-X

The financial statement schedules required by Regulation S-X which are excluded from the Registrant's Annual Report to Shareholders for the Year ended December 31, 1997, by Rule 14a-3(b)(1) are included above. See Item 14(a)(2) for index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 30, 1998

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

ROGER J. MEDEL, M.D., M.B.A., President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ ROGER J. MEDEL, M.D., M.B.A. Roger J. Medel, M.D., M.B.A.	President, Chief Executive Officer and Director (principal executive officer)	March 30, 1998
/s/ LAWRENCE M. MULLEN Lawrence M. Mullen	Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)	March 30, 1998
/s/ E. ROE STAMPS, IV E. Roe Stamps, IV	Director	March 30, 1998
/s/ BRUCE R. EVANS Bruce R. Evans	Director	March 30, 1998
/s/ M. DOUGLAS CUNNINGHAM, M.D. M. Douglas Cunningham, M.D.	Director	March 30, 1998
/s/ MICHAEL FERNANDEZ Michael Fernandez	Director	March 30, 1998
/s/ ALBERT H. NAHMAD Albert H. Nahmad	Director	March 30, 1998
/S/ CESAR L. ALVAREZ CESAR L. ALVAREZ	Director	March 30, 1998

EXHIBIT 3.2

AMENDED AND RESTATED

BYLAWS

OF

PEDIATRIX MEDICAL GROUP, INC.

(A FLORIDA CORPORATION)

INDEX

PEDIATRIX MEDICAL GROUP, INC.

BYLAWS

ARTICLE ONE

OFFICES

Section 1. REGISTERED OFFICE. The registered office of PEDIATRIX MEDICAL GROUP, INC., a Florida corporation (the "Corporation"), shall be at 1455 Northpark Drive, in the City of Ft. Lauderdale, County of Broward, State of Florida, unless otherwise designated by the Board of Directors.

Section 2. PRINCIPAL OFFICE. The principal office of the Corporation shall be at 1455 Northpark Drive, in the City of Ft. Lauderdale, County of Broward, State of Florida, unless otherwise designated by the Board of Directors.

Section 3. OTHER OFFICES. The Corporation may also have offices at such other places, either within or without the State of Florida, as the Board of Directors of the Corporation (the "Board of Directors") may from time to time determine or as the business of the Corporation may require.

ARTICLE TWO

MEETINGS OF SHAREHOLDERS

Section 1. PLACE. All annual meetings of shareholders shall be held at such place, within or without the State of Florida, as may be designated by the Board of Directors and stated in the notice of the meeting or in a duly executed waiver of notice thereof. Special meetings of shareholders may be held at such place, within or without the State of Florida, and at such time as shall be stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. TIME OF ANNUAL MEETING. Annual meetings of shareholders shall be held on such date and at such time fixed, from time to time, by the Board of Directors, provided that there shall be an annual meeting held every year at which the shareholders shall elect a Board of Directors (or the appropriate class of the Board of Directors if the Board of Directors is divided into two or more classes) and transact such other business as may properly be brought before the meeting.

Section 3. CALL OF SPECIAL MEETINGS. Special meetings of the shareholders shall be held if called in accordance with the procedures set forth in the Corporation's Articles of Incorporation (the "Articles of Incorporation") for the call of a special meeting of shareholders.

Section 4. CONDUCT OF MEETINGS. The Chairman of the Board (or in his absence, the President or such other designee of the Chairman of the Board) shall preside at the annual and special meetings of shareholders and shall be given full discretion in establishing the rules and procedures to be followed in conducting the meetings, except as otherwise provided by law, the Articles of Incorporation or in these Bylaws.

Section 5. NOTICE AND WAIVER OF NOTICE. Except as otherwise provided by law, written or printed notice stating the place, day and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten (10) nor more than sixty (60) days before the day of the meeting, either personally or by first-class mail, by or at the direction of the President, the Secretary, or the officer or person calling the meeting, to each shareholder of record entitled to vote at such meeting. If the notice is mailed at least thirty (30) days before the date of the meeting, it may be done by a class of United States mail other than first class. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to the shareholder at his address as it appears on the stock transfer books of the Corporation, with postage thereon prepaid. If a meeting is adjourned to another time and/or place, and if an announcement of the adjourned time and/or place is made at the meeting, it shall not be necessary to give notice of the adjourned meeting unless the Board of Directors, after adjournment, fixes a new record date for the adjourned meeting. Whenever any notice is required to be given to any shareholder, a waiver thereof in writing signed by the person or persons entitled to such notice, whether signed before, during or after the time of the meeting stated therein, and delivered to the Corporation for inclusion in the minutes or filing with the corporate records, shall be equivalent to the giving of such notice. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the shareholders need be specified in any written waiver of notice. Attendance of a person at a meeting shall constitute a waiver of (a) lack of or defective notice of such meeting, unless the person objects at the beginning to the holding of the meeting or the transacting of any business at the meeting, or (b) lack of defective notice of a particular matter at a meeting that is not within the purpose or purposes described in the meeting notice, unless the person objects to considering such matter when it is presented.

Section 6. BUSINESS AND NOMINATIONS FOR ANNUAL AND SPECIAL MEETINGS. Business transacted at any special meeting shall be confined to the purposes stated in the notice thereof. At any annual meeting of shareholders, only such business shall be conducted as shall have been properly brought before the meeting in accordance with the requirements and procedures set forth in the Articles of Incorporation. Only such persons who are nominated for election as directors of the Corporation in accordance with the requirements and procedures set forth in the Articles of Incorporation shall be eligible for election as directors of the Corporation.

Section 7. QUORUM. Shares entitled to vote as a separate voting group may take action on a matter at a meeting only if a quorum of these shares exists with respect to that matter. Except as otherwise provided in the Articles of Incorporation or by law, a majority of the shares entitled to vote on the matter by each voting group, represented in person or by proxy, shall constitute a quorum at any meeting of shareholders, but in no event shall a quorum consist of less than one-third (1/3) of the shares of each voting group entitled to vote. In the event shareholder approval is a prerequisite to the listing of any additional or new securities on the New York Stock Exchange, the minimum vote for such approval shall be a majority of the votes cast on such a proposal, provided that the total votes cast on such proposal represents over 50% in interest of securities entitled to vote upon such matter. If less than a majority of outstanding shares entitled to vote are represented at a meeting, a majority of the shares so represented may adjourn the meeting from time to time without further notice. After a quorum has been established at any shareholders' meeting, the subsequent withdrawal of shareholders, so as to reduce the number of shares entitled to vote at the meeting below the number required for a quorum, shall not affect the validity of any action taken at the meeting or any adjournment thereof. Once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for that adjourned meeting.

Section 8. VOTING PER SHARE. Except as otherwise provided in the Articles of Incorporation or by law, each shareholder is entitled to one (1) vote for each outstanding share held by him on each matter voted at a shareholders' meeting.

Section 9. VOTING OF SHARES. A shareholder may vote at any meeting of shareholders of the Corporation, either in person or by proxy. Shares standing in the name of another corporation, domestic or foreign, may be voted by the officer, agent or proxy designated by the bylaws of such corporate shareholder or, in the absence of any applicable bylaw, by such person or persons as the board of directors of the corporate shareholder may designate. In the absence of any such designation, or, in case of conflicting designation by the corporate shareholder, the chairman of the board, the president, any vice president, the secretary and the treasurer of the corporate shareholder, in that order, shall be presumed to be fully authorized to vote such shares. Shares held by an administrator, executor, guardian, personal representative, or conservator may be voted by him, either in person or by proxy, without a transfer of such shares into his name. Shares standing in the name of a trustee may be voted by him, either in person or by proxy, but no trustee shall be entitled to vote shares held by him without a transfer of such shares into his name or the name of his nominee. Shares held by or under the control of a receiver, a trustee in bankruptcy proceedings, or an assignee for the benefit of creditors may be voted by such person without the transfer thereof into his name. If shares stand of record in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety or otherwise, or if two or more persons have the same fiduciary relationship respecting the same shares, unless the Secretary of the Corporation is given notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, then acts with respect to voting shall have the following effect: (a) if only one votes, in person or by proxy, his act binds all; (b) if more than one vote, in person or by proxy, the act of the majority so voting binds all; (c) if more than one vote, in person or by proxy, but the vote is evenly split on any particular matter, each faction is entitled to vote the share or shares in question proportionally; or (d) if the instrument or order so filed shows that any such tenancy is held in unequal interest, a majority or a vote evenly split for purposes hereof shall be a majority or a vote evenly split in interest. The principles of this paragraph shall apply, insofar as possible, to execution of proxies, waivers, consents, or objections and for the purpose of ascertaining the presence of a quorum.

Section 10. PROXIES. Any shareholder of the Corporation, other person entitled to vote on behalf of a shareholder pursuant to law, or attorney-in-fact for such persons may vote the shareholder's shares in person or by proxy. Any shareholder of the Corporation may appoint a proxy to vote or otherwise act for him by signing an appointment form, either personally or by his attorney-in-fact. An executed telegram or cablegram appearing to have been transmitted by such person, or a photographic, photostatic, or equivalent reproduction of an appointment form, shall be deemed a sufficient appointment form. An appointment of a proxy is effective when received by the Secretary of the Corporation or such other officer or agent which is authorized to tabulate votes, and shall be valid for up to 11 months, unless a longer period is expressly provided in the appointment form. The death or incapacity of the shareholder appointing a proxy does not affect the right of the Corporation to accept the proxy's authority unless notice of the death or incapacity is received by the secretary or other officer or agent authorized to tabulate votes before the proxy exercises his authority under the appointment. An appointment of a proxy is revocable by the shareholder unless the appointment is coupled with an interest.

Section 11. SHAREHOLDER LIST. After fixing a record date for a meeting of shareholders, the Corporation shall prepare an alphabetical list of the names of all its shareholders who are entitled to notice of the meeting, arranged by voting group with the address of, and the number and class and series, if any, of shares held by each. The shareholders' list must be available for inspection by any shareholder for a period of ten (10) days prior to the meeting or such shorter time as exists between the record date and the meeting and continuing through the meeting at the Corporation's principal office, at a place identified in the meeting notice in the city where the meeting will be held, or at the office of the Corporation's transfer agent or registrar. Any shareholder of the Corporation or his agent or attorney is entitled on written demand to inspect the shareholders' list (subject to the requirements of law), during regular business hours and at his expense, during the period it is available for inspection. The Corporation shall make the shareholders' list available at the meeting of shareholders, and any shareholder or his agent or attorney is entitled to inspect the list at any time during the meeting or any adjournment.

Section 12. ACTION WITHOUT MEETING. Any action required by law to be taken at a meeting of shareholders, or any action that may be taken at a meeting of shareholders, may be taken without a meeting or prior notice if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted with respect to the subject matter thereof, and such consent shall have the same force and effect as a vote of shareholders taken at such a meeting. Within 10 days after obtaining such action by written consent, notice thereof must be given to those shareholders who have not consented or who are not entitled to vote on the action, in accordance with the requirements of Section 607.0704 of the Florida Business Corporation Act.

Section 13. FIXING RECORD DATE. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purposes, the Board of Directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than seventy (70) days, and, in case of a meeting of shareholders, not less than ten (10) days, prior to the date on which the particular action requiring such determination of shareholders is to be taken. If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the date on which the notice of the meeting is mailed or the date on which the resolutions of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this Section 13, such determination shall apply to any adjournment thereof, except where the Board of Directors fixes a new record date for the adjourned meeting or as required by law.

Section 14. INSPECTORS AND JUDGES. The Board of Directors in advance of any meeting may, but need not, appoint one or more inspectors of election or judges of the vote, as the case may be, to act at the meeting or any adjournment(s) thereof. If any inspector or inspectors, or judge or judges, are not appointed, the person presiding at the meeting may, but need not, appoint one or more inspectors or judges. In case any person who may be appointed as an inspector or judge fails to appear or act, the vacancy may be filled by the Board of Directors in advance of the meeting, or at the meeting by the person presiding thereat. The inspectors or judges, if any, shall determine the number of shares of stock outstanding and the voting power of each, the shares of stock represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots and consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate votes, ballots and consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all shareholders. On request of the person presiding at the meeting, the inspector or inspectors or judge or judges, if any, shall make a report in writing of any challenge, question or matter determined by him or them, and execute a certificate of any fact found by him or them.

Section 15. VOTING FOR DIRECTORS. Unless otherwise provided in the Articles of Incorporation, directors shall be elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present.

ARTICLE THREE

DIRECTORS

Section 1. NUMBER; ELECTION AND TERM; REMOVAL. The number of directors of the Corporation shall be fixed from time to time, within the limits specified by the Articles of Incorporation, by resolution of the Board of Directors; provided, however, that no director's term shall be shortened by reason of a resolution reducing the number of directors. The directors (or the appropriate class of the Board of Directors if the Board of Directors is divided into two or more classes) shall be elected at the annual meeting of the shareholders, except as provided in Section 2 of this Article, and each director elected shall hold office for the term for which he is elected and until his successor is elected and qualified or until his earlier resignation, removal from office or death. Directors must be natural persons who are 18 years of age or older but need not be residents of the State of Florida, shareholders of the Corporation or citizens of the United States. Shareholders shall have the right to remove directors only as provided in the Articles of Incorporation.

Section 2. VACANCIES. A director may resign at any time by giving written notice to the Corporation, the Board of Directors or the Chairman of the Board. Such resignation shall take effect when the notice is delivered unless the notice specifies a later effective date, in which event the Board of Directors may fill the pending vacancy before the effective date if they provide that the successor does not take office until the effective date. Any vacancy occurring in the Board of Directors and any directorship to be filled by reason of an increase in the size of the Board of Directors shall be filled only by the affirmative vote of a majority of the current directors though less than a quorum of the Board of Directors. Shareholders shall not, and shall have no power to, fill any vacancy on the Board of Directors. A director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office, or until the next election of one or more directors by shareholders if the vacancy is caused by an increase in the number of directors.

Section 3. POWERS. Except as provided in the Articles of Incorporation and by law, all corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be managed under the direction of, its Board of Directors.

Section 4. PLACE OF MEETINGS. Meetings of the Board of Directors, regular or special, may be held either within or without the State of Florida.

Section 5. ANNUAL MEETING. The first meeting of each newly elected Board of Directors shall be held, without call or notice, immediately following each annual meeting of shareholders.

Section 6. REGULAR MEETINGS. Regular meetings of the Board of Directors may also be held without notice at such time and at such place as shall from time to time be determined by the Board of Directors.

Section 7. SPECIAL MEETINGS AND NOTICE. Special meetings of the Board of Directors may be called by the Chairman of the Board or by the President and shall be called by the Secretary on the written request of any two directors. Written notice of special meetings of the Board of Directors shall be given to each director at least forty-eight (48) hours before the meeting. Except as required by statute, neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting. Notices to directors shall be in writing and delivered personally or mailed to the directors at their addresses appearing on the books of the Corporation. Notice by mail shall be deemed to be given at the time when the same shall be received. Notice to directors may also be given by telegram, teletype or other form of electronic communication. Notice of a meeting of the Board of Directors need not be given to any director who signs a written waiver of notice before, during or after the meeting. Attendance of a director at a meeting shall constitute a waiver of notice of such meeting and a waiver of any and all objections to the place of the meeting, the time of the meeting and the manner in which it has been called or convened, except when a director states, at the beginning of the meeting or promptly upon arrival at the meeting, any objection to the transaction of business because the meeting is not lawfully called or convened.

Section 8. QUORUM; REQUIRED VOTE; PRESUMPTION OF ASSENT. A majority of the number of directors fixed by, or in the manner provided in, the Articles of Incorporation and these Bylaws shall constitute a quorum for the transaction of business; provided, however, that whenever, for any reason, a vacancy occurs in the Board of Directors, a quorum shall consist of a majority of the remaining directors until the vacancy has been filled except that in no event may a quorum consist of fewer than one-third of the number of directors so fixed. The act of a majority of the directors present at a meeting at which a quorum is present when the vote is taken shall be the act of the Board of Directors. A director of the Corporation who is present at a meeting of the Board of Directors or a committee of the Board of Directors when corporate action is taken shall be presumed to have assented to the action taken, unless he objects at the beginning of the meeting, or promptly upon his arrival, to holding the meeting or transacting specific business at the meeting, or he votes against or abstains from the action taken.

Section 9. ACTION WITHOUT MEETING. Any action required or permitted to be taken at a meeting of the Board of Directors or a committee thereof may be taken without a meeting if a consent in writing, setting forth the action taken, is signed by all of the members of the Board of Directors or the committee, as the case may be, and such consent shall have the same force and effect as a unanimous vote at a meeting. Action taken under this section is effective when the last director signs the consent, unless the consent specifies a different effective date. A consent signed under this Section 9 shall have the effect of a meeting vote and may be described as such in any document.

Section 10. CONFERENCE TELEPHONE OR SIMILAR COMMUNICATIONS EQUIPMENT MEETINGS. Members of the Board of Directors may participate in a meeting of the Board by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time. Participation in such a meeting shall constitute presence in person at the meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground the meeting is not lawfully called or convened.

Section 11. COMMITTEES. The Board of Directors, by resolution adopted by a majority of the full Board of Directors, may designate from among its members one or more other committees, each of which, to the extent provided in such resolution, shall have and may exercise all of the authority of the Board of Directors in the business and affairs of the Corporation except where the action of the full Board of Directors is required by statute. Each committee must have two or more members who serve at the pleasure of the Board of Directors. The Board of Directors, by resolution adopted in accordance with this Article Three, may designate one or more directors as alternate members of any committee, who may act in the place and stead of any absent member or members at any meeting of such committee. Vacancies in the membership of a committee shall be filled by the Board of Directors at a regular or special meeting of the Board of Directors. Each committee shall keep minutes and other appropriate records of its proceedings and report the same to the Board of Directors when required. The designation of any such committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed upon it or him by law.

Section 12. COMPENSATION OF DIRECTORS. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings. Directors may receive such other compensation as may be approved by the Board of Directors.

Section 13. CHAIRMAN OF THE BOARD. The Board of Directors may, in its discretion, choose a Chairman of the Board who shall preside at meetings of the shareholders and of the directors. The Chairman of the Board shall have such other powers and shall perform such other duties as shall be designated by the Board of Directors. The Chairman of the Board shall be a member of the Board of Directors but no other officers of the Corporation need be a director. The Chairman of the Board shall serve until his successor is chosen and qualified, but he may be removed at any time by the affirmative vote of a majority of the Board of Directors.

ARTICLE FOUR

OFFICERS

Section 1. POSITIONS. The officers of the Corporation shall consist of a President, one or more Vice Presidents, a Secretary and a Treasurer, and, if elected by the Board of Directors by resolution, a Chairman of the Board. Any two or more offices may be held by the same person.

Section 2. ELECTION OF SPECIFIED OFFICERS BY BOARD. The Board of Directors at its first meeting after each annual meeting of shareholders shall elect a President, one or more Vice Presidents, a Secretary and a Treasurer.

Section 3. ELECTION OR APPOINTMENT OF OTHER OFFICERS. Such other officers and assistant officers and agents as may be deemed necessary may be elected or appointed by the Board of Directors, or, unless otherwise specified herein, appointed by the President of the Corporation. The Board of Directors shall be advised of appointments by the President at or before the next scheduled Board of Directors meeting.

Section 4. SALARIES. The salaries of all officers of the Corporation to be elected by the Board of Directors pursuant to Article Four, Section 2 hereof shall be fixed from time to time by the Board of Directors or pursuant to its discretion. The salaries of all other elected or appointed officers of the Corporation shall be fixed from time to time by the President of the Corporation or pursuant to his direction.

Section 5. TERM; RESIGNATION. The officers of the Corporation shall hold office until their successors are chosen and qualified. Any officer or agent elected or appointed by the Board of Directors or the President of the Corporation may be removed, with or without cause, by the Board of Directors. Any officers or agents appointed by the President of the Corporation pursuant to Section 3 of this Article Four may also be removed from such officer positions by the President, with or without cause. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise shall be filled by the Board of Directors, or, in the case of an officer appointed by the President of the Corporation, by the President or the Board of Directors. Any officer of the Corporation may resign from his respective office or position by delivering notice to the Corporation. Such resignation is effective when delivered unless the notice specifies a later effective date. If a resignation is made effective at a later date and the Corporation accepts the future effective date, the Board of Directors may fill the pending vacancy before the effective date if the Board provides that the successor does not take office until the effective date.

Section 6. PRESIDENT. The President shall be the Chief Executive Officer of the Corporation, shall have general and active management of the business of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. In the absence of the Chairman of the Board or in the event the Board of Directors shall not have designated a Chairman of the Board, the President shall preside at meetings of the shareholders and the Board of Directors.

Section 7. VICE PRESIDENTS. The Vice Presidents in the order of their seniority, unless otherwise determined by the Board of Directors, shall, in the absence or disability of the President, perform the duties and exercise the powers of the President. They shall perform such other duties and have such other powers as the Board of Directors shall prescribe or as the President may from time to time delegate.

Section 8. SECRETARY. The Secretary shall attend all meetings of the Board of Directors and all meetings of the shareholders and record all the proceedings of the meetings of the shareholders and of the Board of Directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the shareholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or President, under whose supervision he shall be. He shall keep in safe custody the seal of the Corporation and, when authorized by the Board of Directors, affix the same to any instrument requiring it.

Section 9. TREASURER. The Treasurer shall have the custody of corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. He shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the President and the Board of Directors at its regular meetings or when the Board of Directors so requires an account of all his transactions as treasurer and of the financial condition of the Corporation unless otherwise specified by the Board of Directors, the Treasurer shall be the Corporation's Chief Financial Officer.

Section 10. OTHER OFFICERS; EMPLOYEES AND AGENTS. Each and every other officer, employee and agent of the Corporation shall possess, and may exercise, such power and authority, and shall perform such duties, as may from time to time be assigned to him by the Board of Directors, the officer so appointing him and such officer or officers who may from time to time be designated by the Board of Directors to exercise such supervisory authority.

ARTICLE FIVE

CERTIFICATES FOR SHARES

Section 1. ISSUE OF CERTIFICATES. The Corporation shall deliver certificates representing all shares to which shareholders are entitled; and such certificates shall be signed by the Chairman of the Board, President or a Vice President, and by the Secretary or an Assistant Secretary of the Corporation, and may be sealed with the seal of the Corporation or a facsimile thereof.

Section 2. LEGENDS FOR PREFERENCES AND RESTRICTIONS ON TRANSFER. The designations, relative rights, preferences and limitations applicable to each class of shares and the variations in rights, preferences and limitations determined for each series within a class (and the authority of the Board of Directors to determine variations for future series) shall be summarized on the front or back of each certificate. Alternatively, each certificate may state conspicuously on its front or back that the Corporation will furnish the shareholder a full statement of this information on request and without charge. Every certificate representing shares that are restricted as to the sale, disposition, or transfer of such shares shall also indicate that such shares are restricted as to transfer and there shall be set forth or fairly summarized upon the certificate, or the certificate shall indicate that the Corporation will furnish to any shareholder upon request and without charge, a full statement of such restrictions. If the Corporation issues any shares that are not registered under the Securities Act of 1933, as amended, or registered or qualified under applicable state securities laws, the transfer of any such shares shall be restricted substantially in accordance with the following legend:

> "THESE SHARES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR UNDER ANY APPLICABLE STATE LAW. THEY MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR PLEDGED WITHOUT (1) REGISTRATION UNDER THE SECURITIES ACT OF 1933 AND ANY APPLICABLE STATE LAW, OR (2) AT HOLDER'S EXPENSE, AN OPINION (SATISFACTORY TO THE CORPORATION) OF COUNSEL (SATISFACTORY TO THE CORPORATION) THAT REGISTRATION IS NOT REQUIRED."

Section 3. FACSIMILE SIGNATURES. The signatures of the Chairman of the Board, the President or a Vice President and the Secretary or Assistant Secretary upon a certificate may be facsimiles, if the certificate is manually signed by a transfer agent, or registered by a registrar, other than the Corporation itself or an employee of the Corporation. In case any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer at the date of the issuance.

Section 4. LOST CERTIFICATES. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost or destroyed.

Section 5. TRANSFER OF SHARES. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

Section 6. REGISTERED SHAREHOLDERS. The Corporation shall be entitled to recognize the exclusive rights of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Florida.

Section 7. REDEMPTION OF CONTROL SHARES. As provided by the Florida Business Corporation Act, if a person acquiring control shares of the Corporation does not file an acquiring person statement with the Corporation, the Corporation may, at the discretion of the Board of Directors, redeem the control shares at the fair value thereof at any time during the 60-day period after the last acquisition of such control shares. If a person acquiring control shares of the Corporation files an acquiring person statement with the Corporation, the control shares may be redeemed by the Corporation, at the discretion of the Board of Directors, only if such shares are not accorded full voting rights by the shareholders as provided by law.

ARTICLE SIX

GENERAL PROVISIONS

Section 1. DIVIDENDS. The Board of Directors may from time to time declare, and the Corporation may pay, dividends on its outstanding shares in cash, property, or its own shares pursuant to law and subject to the provisions of the Articles of Incorporation.

Section 2. RESERVES. The Board of Directors may by resolution create a reserve or reserves out of earned surplus for any proper purpose or purposes, and may abolish any such reserve in the same manner.

Section 3. CHECKS. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

Section 4. FISCAL YEAR. The fiscal year of the Corporation shall end on December 31st of each year, unless otherwise fixed by resolution of the Board of Directors.

Section 5. SEAL. The corporate seal shall have inscribed thereon the name and state of incorporation of the Corporation. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

Section 6. GENDER. All words used in these Bylaws in the masculine gender shall extend to and shall include the feminine and neuter genders.

ARTICLE SEVEN

AMENDMENT OF BYLAWS

Unless otherwise provided by law, these Bylaws may be altered, amended or repealed in whole or in part, or new Bylaws may be adopted, by action of the Board of Directors.

Exhibit 10.31

PEDIATRIX MEDICAL GROUP

APPOINTMENT

REGIONAL VICE PRESIDENT OF MEDICAL OPERATIONS

APPOINTMENT, made effective as of the 1st day of June, 1997, by and between, DOUGLAS CUNNINGHAM, M.D. ("Physician") and PEDIATRIX MEDICAL GROUP, INC., a Florida corporation ("Company").

WHEREAS, Physician and Pediatrix Medical Group Inc., have entered into an employment agreement as of June 1, 1996 under which the Company employed Physician as Chief Medical Officer of the Company (the "Employment Agreement"); and

WHEREAS, Company also desires to appoint Physician, and Physician wishes to accept such appointment, to the position of Regional Vice President of Medical Operations ("RMO");

NOW THEREFORE, in consideration of the foregoing recitals, mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

1. APPOINTMENT

Company hereby appoints Physician, and Physician accepts appointment from Company, as Regional Vice President of Medical Operations-Pacific Region, to be based in Orange, California. Physician agrees to devote his time and efforts to the performance of the duties of RMO in an efficient, trustworthy and professional manner, and to undertake such duties and responsibilities as described in Addendum 1 and such other duties as may, from time to time, be reasonably assigned by Company's Chief Executive Officer. Physician shall be subject to direction from the Company's Chief Executive Officer.

2. TERM

This Appointment shall commence on June 1, 1997, and shall terminate on May 31, 1998, PROVIDED THAT this Agreement shall be automatically extended on each anniversary of the commencement date for an additional one year term unless either party provides the other with written notice of such party's intent not to renew at least ninety (90) days prior to the relevant anniversary date.

3. POSITION COMPENSATION

Physician's annual base compensation for services rendered pursuant to this Appointment shall be One Hundred Fifty Thousand Dollars ($150,000) for the term of this Appointment. Physician shall continue to receive all standard Company benefits and shall be entitled to four (4) weeks paid vacation per year. On or about the inception date of this Appointment, Physician shall receive 50,000 stock options at market price with a three year vesting period. The terms of the Stock Option Agreement and the Company Stock Option Plan shall control the RMO's rights and interests in said options, which shall be in addition to any other Company stock options he may have as of the date of this Appointment. Physician shall be entitled to receive the following as incentive compensation:

a. A commission of two percent (2%) of the initial annual "Gross Profit" contribution from medical groups which may be acquired by Company (or its affiliates) from within Physicians region. "Gross Profit" is defined as 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. Payment shall be made as follows: The Physician shall receive one percent (1%) 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 . Additionally, at the end of the initial fiscal year of the merger and/or acquisition upon closure of the accounting period, Physician shall receive two percent (2%) of the ACTUAL Gross Profit for the initial fiscal year from each consummated merger and/or acquisition, LESS amounts previously paid as the one percent (1%) PROJECTED Gross Profit for the initial fiscal year.

b. A commission of two and one-half percent (21/2%) of the increase (if any) in gross profit contribution from units in Physician's region when compared year-to-year and on a same unit combined basis. Medical groups acquired which result in a commission payment in Section 3a. above shall be included commencing on the three hundred sixty-sixth (366th) day after the acquisition was consummated.

c. A commission of five percent (5%) of annual administrative fee, if any, from hospital contracts in Physician's Region, included in the renewal contract for each year that the contract and administrative fee remains in force.

d. A commission of one percent (1%) of the annual base gross profit contributions from units (on a combined basis) in Physician's Region.

This paragraph supersedes the provisions of paragraph 2, sections 2.1 and 2.2 contained in the Physician's Employment Agreement.

4. COMPANY'S MEDICAL BOARD

As an RMO, Physician shall belong to the Medical Board of the Company. As a member of the Company's Medical Board, Physician shall participate in the administration of the following activities, which may be modified by the Company from to time:

Arbiters all medical issues which arise in his region. Sets medical policy for prospective groups in his region.

Reviews the CPT book every year, and makes or recommends changes in coding of bills. Reviews the ICD - 9 book every year, and makes or recommends changes in coding of bills. Reviews all active medical malpractice cases pending in his region, and makes recommendations. Works with other RMO's in reviewing issues of common interest.

5. EDUCATIONAL LEAVE & EXPENSES

In recognition that the appointment of RMO is critical to ensuring the integrity and mission of the Company, Physician shall be entitled to educational leave of 10 days annually during this Appointment without diminution of compensation. Company shall reimburse expenses incurred by

Physician while attending educational meetings and for publications, association membership, and other materials related to medical management, in the amount of $3,500.00 annually. Said days and expenses for educational leave are in lieu of those provided under the coexisting Employment Agreement.

6. ACTIVITIES

Physician agrees during the term of this Appointment to devote his productive time and effort to the Company and shall not directly or indirectly render professional services to any other person or entity for compensation except as an employee of Company, unless Physician shall first obtain consent from the Company's Chief Executive Officer to render other such services. Physician further agrees that during the term of this Appointment, and thereafter, he will not disclose, other than to employees of the Company, any information related to Company's patients or practices without prior written consent of Company, and that upon termination of this Appointment, Physician shall not remove or retain, without Company's written consent, any lists, letters, files, confidential information of any type or description, or other property of Company.

7. TERMINATION OF APPOINTMENT

This Appointment may be terminated upon mutual consent of the parties. Company may terminate this Appointment immediately, without penalty, for "cause." For the purposes of this Appointment, the term "cause" shall mean:

a. Dishonesty in the performance as RMO.

b. Failure to perform the duties of RMO in a reasonable and timely manner.

c. Substance abuse in a manner which materially affects the performance of Physician's duties as RMO.

d. Conviction in a court of competent jurisdiction of any felony, or any misdemeanor that adversely affects Physician's ability to carry out his obligations hereunder.

e. Mental illness which interferes with the performance of Physician's duties as RMO.

f. Termination or non-renewal of the Employment Agreement.

Either party may terminate this Appointment without cause upon ninety (90) days notification prior to termination.

8. QUALIFICATIONS

In accepting this Appointment as an RMO, Physician confirms he possesses the following qualifications:

* B/C Pediatrician or Obstetrician.
* Extensive physician management experience.
* MBA or equivalent (preferred).
* Unit Medical Director with the Company for at least 3 years (preferred).

THIS AGREEMENT has been executed by the parties this 1st day of June, 1997.

/s/Douglas Cunningham, M.D.
- ------------------------------------
DOUGLAS CUNNINGHAM, M.D.

/s/Lawrence M. Mullen
- ------------------------------------
LAWRENCE M. MULLEN
CHIEF FINANCIAL OFFICER
PEDIATRIX MEDICAL GROUP, INC.

ADDENDUM 1

REGIONAL VICE PRESIDENT OF MEDICAL OPERATIONS

DUTIES AND RESPONSIBILITIES

1. Overall quality of care.

2. Profitable management of units.

3. Represents physician aspect of company for business development efforts.

4. Responsible for same store growth of units in region. Encourages ideas from unit medical directors, evaluates proposals (with home office help) and recommends projects.

5. Responsible for coordinating integration of acquired practices (with practice integration department) in region.

6. Coordinates timely re-negotiation of hospital contracts (with hospital contracting department) for units in region.

7. Coordinates managed care contracting (with managed care department) for units in region.

8. Coordinates physician scheduling of units in region (with scheduling department).

9. Addresses complaints and concerns of hospital administrators, patients, referring physicians and payers in region (clinical, billing, etc.).

10. Coordinates recruiting needs and efforts (with recruiting department) for region.

11. Keeps track of Q/A and statistical outcomes for units in region.

12. Conducts peer review and performance evaluation for medical directors in region.

13. Coordinates research and education efforts (with research and education department) of physicians and units in region.

REGIONAL VICE PRESIDENT OF MEDICAL OPERATIONS

DUTIES AND RESPONSIBILITIES (CON'T.)

14. Implements information initiatives in region (V-O, NeoData, etc.) with information department.

15. Coordinates credentialing efforts (with credentialing department) for physicians in region.

16. NNPs

17. Sets up regional meetings.

18. Site visits once a month.

19. Reports to CEO.

20. Charity/contribution requests.

21. Set up assistant medical director's program - identify candidates, make recommendations for openings, review data, Ob's, etc.

EXHIBIT 10.32

4/11/95

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made and entered into as of the April 7, 1997, by and between PEDIATRIX MEDICAL GROUP, INC., a Florida corporation (hereinafter called the "Company"), and BRUCE A. JORDAN (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 many years of experience in providing legal services.

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 employ the Executive and the Executive hereby agrees to serve the Company, on the terms and conditions set forth herein, for a period of three (3) years (the "Initial Term") commencing on May 1, 1997 and expiring on April 30, 2000 (the "Expiration Date") unless sooner terminated as hereinafter set forth. The Initial Term of this Agreement, and the employment of the Executive hereunder, may be renewed and/or extended for such period or periods as may be mutually agreed to by the Company and the Executive in a written supplement to this Agreement signed by the Executive and the Company. If this Agreement is not renewed and/or extended prior to the expiration of the Initial Term, this Agreement, and the employment of the Executive hereunder, shall automatically terminate on the Expiration Date. (The Initial Term and any extensions shall be hereinafter referred to as the "Employment Period").

1.2. DUTIES OF THE EXECUTIVE. During the Employment Period, the Executive shall serve as Vice President and General Counsel of the Company. The Executive shall report to, and shall be subject to the supervision and direction of, the Chief Financial Officer. 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 $165,000 (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 Company, 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.

2.2. PERFORMANCE BONUS. The Executive shall be entitled to a performance bonus for each of the Company's fiscal years during the Employment Period (the "Performance Bonus") of up to thirty thousand dollars ($30,000.00) per year. The Compensation Committee of the Company's Board of Directors ("Board") shall have the exclusive right to increase or decrease the Executive's Performance Bonus to reflect the Executive's and the Company's performance for the year.

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 an office, a secretary and such other 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 four (4) 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. Executive shall receive 20,000 options at market price with a three year vesting period. The terms of the Stock Option Agreement and the Company Stock Option Plan shall control the Employee's rights and interest in said options.

3.6 PROFESSIONAL MEETINGS AND SEMINARS AND EXPENSES. The Executive shall be entitled to be reimbursed for up to $2,000 per year for professional meetings and seminars in accordance with written policies and procedures of the Company. Any time taken by the Executive for such professional meetings and seminars shall be counted as part of (and is not in addition to) the four (4) weeks of paid vacation provided to the Executive referenced in Section 3.4 hereof.

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 Company 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 EXECUTIVE 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 BY THE EXECUTIVE 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 is (i) assigned any position, duties or responsibilities that are significantly diminished or changed when compared with the position, duties or responsibilities of the Executive prior to such Change in Control, (ii) forced to relocate to another location more than 25 miles from the Executive's location prior to the Change in Control, or (iii) terminated, 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. NON-RENEWAL. In the event that this Agreement is not renewed beyond the Initial Term as provided in Section 1.1 hereof, then this Agreement shall terminate at the end of such Initial Term of this Agreement. The last day of the Initial Term shall be the Termination Date for a termination pursuant to this Section 4.7. 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.

4.8. 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 4.8 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 4.8, 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 50% of his annual Base Salary at the rate in effect at the Termination Date, payable in six equal monthly installments, reduced by 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 Executive an amount equal to 50% of his annual Base Salary at the highest rate in effect during the 12 months immediately preceding the Termination Date, payable to the Executive in six equal monthly installments. Upon payment of the amounts specified under this Section 5.4, the Company shall have no further obligation under this Agreement.

5.5. TERMINATION BY THE EXECUTIVE UPON A CHANGE IN CONTROL. If the Executive 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 an amount equal to 100% of the average taxable compensation of the Executive for the five taxable years prior to such termination (all as determined to compute the "base amount" for purposes of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code")), 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 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 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. NON-RENEWAL OR OTHER TERMINATION. If this Agreement terminates pursuant to Section 4.7 or Section 4.8 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 or Section 4.8, 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 Section 5.5 of this Agreement and, in all cases, as provided by any applicable law. The Executive shall also be entitled to receive additional 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(b) 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 business of the type performed by the Company in the geographical area where the Company is actively doing business or soliciting business.

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 Six" 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, except as otherwise provided in Section 3.7 hereof. 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:	If to the Executive:
Lawrence M. Mullen Pediatrix Medical Group, Inc. 1455 Northpark Drive Ft. Lauderdale, Florida 33326	Bruce A. Jordan 2210 N.E. 204th Street North Miami Beach, Florida 33180

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.

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

PEDIATRIX MEDICAL GROUP, INC.

By:/s/Lawrence M. Mullen

THE EXECUTIVE:

/s/Bruce A. Jordan

Bruce A. Jordan

EXHIBIT 21.1
SUBSIDIARIES OF PEDIATRIX

1. PMG Acquisition Corporation

2. Pediatrix Medical Group of Delaware, Inc.

3. Pediatrix Medical Group of Florida, Inc.

    Neonatal Associates of Northwest Florida, P.A.

4. Florida Regional Neonatal Associates, P.A.

5. Obstetrix Medical Group, Inc.

    Obstetrix Medical Group of Florida, Inc.

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Pediatrix Medical Group, Inc. on Forms S-8 (File Nos. 333-07057, 333-07061 and 333-07059) of our report dated January 26, 1998, except for Note 14, as to which the date is March 23, 1998, on our audits of the consolidated financial statements and financial statement schedule of Pediatrix Medical Group, Inc. as of December 31, 1996 and 1997, and for the years ended December 31, 1995, 1996 and 1997, which report is included in this Annual Report on Form 10-K.

Coopers & Lybrand L.L.P.

Fort Lauderdale, Florida
March 27, 1998

5

THIS SCHEDULE CONTAINS SUMMARY INFORMATION EXTRACTED FROM THE AUDITED CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1997 AND THE AUDITED CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR
DEC-31-1997
JAN-01-1997
DEC-31-1997
18,562
27,132
34,866
0
0
82,019
9,898
0
196,812
28,111
2,550
0
0
151
163,558
196,812
0
128,850
0
95,773
(2,102)
0
324
34,855
13,942
20,913
0
0
0
20,913
1.39
1.33

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