

PEDIATRIX MEDICAL GROUP INC

Form DEF 14A

April 07, 2008

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## SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

### SCHEDULE 14A INFORMATION

#### Proxy Statement

(Pursuant to Section 14(a) of the Securities Exchange Act of 1934)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under Rule 14a-12

**PEDIATRIX MEDICAL GROUP, INC.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No Fee Required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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(3) Filing Party:

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(4) Date Filed:

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**1301 Concord Terrace**

**Sunrise, Florida 33323-2825**

**(954) 384-0175**

April 8, 2008

Dear Pediatrix Shareholder:

You are cordially invited to attend the 2008 Annual Shareholders Meeting of Pediatrix Medical Group, Inc. (Pediatrix) on Friday, May 23, 2008, beginning at 10:00 a.m., local time, at the Crowne Plaza Sawgrass Mills, 13400 W. Sunrise Boulevard, Sunrise, Florida 33323.

At the annual meeting, we will ask you to vote on the election of Pediatrix's Board of Directors, to approve the Pediatrix 2008 Incentive Compensation Plan, to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered certified public accounting firm for the 2008 fiscal year and to consider and act upon any other business properly brought before the meeting. Please vote on all the matters described in our proxy statement. Your Board of Directors unanimously recommends a vote FOR the election of each of the nine nominees for Director, FOR approval of the Pediatrix 2008 Incentive Compensation Plan and FOR ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered certified public accounting firm for the 2008 fiscal year.

Pursuant to the new rules recently adopted by the Securities and Exchange Commission, we have provided access to our proxy materials over the Internet. Accordingly, we are sending a Notice of Internet Availability of Proxy Materials (the E-Proxy Notice) on or about April 8, 2008 to Pediatrix's shareholders of record on March 25, 2008. The E-Proxy Notice contains instructions for your use of this new process, including how to access our Proxy Statement and Annual Report and how to vote online. In addition, the E-Proxy Notice contains instructions on how you may (i) receive a paper copy of the Proxy Statement and Annual Report or (ii) elect to receive your Proxy Statement and Annual Report over the Internet.

We encourage you to attend the annual meeting. Whether or not you plan to attend in person, it is important that your shares be represented and voted at the annual meeting. You may vote your shares over the Internet as described in the E-Proxy Notice. As an alternative, if you received a paper copy of the proxy card by mail, please mark, sign, date and promptly return the card in the self-addressed stamped envelope provided. You may also vote by telephone as described in your proxy card. Voting by telephone, over the Internet or by mailing a proxy card will not limit your right to attend the annual meeting and vote your shares in person.

We appreciate your continued support of our Company.

Sincerely,

Roger J. Medel, M.D.

*Chief Executive Officer*

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**PEDIATRIX MEDICAL GROUP, INC.**

**NOTICE OF 2008 ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 23, 2008**

To the Shareholders of

Pediatrix Medical Group, Inc.:

NOTICE IS HEREBY GIVEN that the 2008 Annual Shareholders Meeting of Pediatrix Medical Group, Inc., a Florida corporation (Pediatrix), will be held at 10:00 a.m., local time, on Friday, May 23, 2008, at the Crowne Plaza Sawgrass Mills, 13400 W. Sunrise Boulevard, Sunrise, Florida 33323, for the following purposes, as more fully described in our proxy statement:

to elect nine Directors, each for a term expiring at the next annual meeting or until his successor has been duly elected and qualified;

to approve the Pediatrix 2008 Incentive Compensation Plan;

to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered certified public accounting firm for the 2008 fiscal year; and

to consider and act upon such other business as may properly come before the annual meeting.

The Board of Directors of Pediatrix has fixed the close of business on March 25, 2008 as the record date for determining those shareholders entitled to notice of, to attend and to vote at the meeting and any postponement or adjournment thereof.

This is an important meeting. All shareholders are invited to attend the meeting in person. Whether or not you plan to attend, please vote your shares over the Internet, as described in the Notice of Internet Availability of Proxy Materials (the E-Proxy Notice). As an alternative, if you received a paper copy of the proxy card by mail, please mark, sign, date and promptly return the proxy card in the self-addressed stamped envelope provided. You may also vote by telephone as described in your proxy card. Shareholders who vote over the Internet, following the instructions provided in the E-Proxy Notice, who return proxy cards by mail or vote by telephone prior to the meeting may nevertheless attend the meeting, revoke their proxies and vote their shares in person.

By Order of the Board of Directors,

Thomas W. Hawkins

Senior Vice President,

General Counsel and Secretary

Sunrise, Florida

April 8, 2008

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**PEDIATRIX MEDICAL GROUP, INC.**

**1301 Concord Terrace**

**Sunrise, Florida 33323-2825**

**PROXY STATEMENT**

We are furnishing this proxy statement and related materials to Pediatrix's shareholders as part of the solicitation of proxies by Pediatrix's Board of Directors for use at Pediatrix's 2008 Annual Shareholders' Meeting and at any postponement or adjournment of the meeting. In this proxy statement, we refer to Pediatrix Medical Group, Inc. as "Pediatrix," "we," "our" and "the Company."

Under rules and regulations that the Securities and Exchange Commission recently adopted, instead of mailing a printed copy of our proxy materials, which include our Proxy Statement and Annual Report, to all Pediatrix's shareholders, we are now furnishing our proxy materials to our shareholders over the Internet and providing a Notice of Internet Availability of Proxy Materials (the "E-Proxy Notice") by mail. The E-Proxy Notice will instruct you how you may access and review all of the important information contained in the proxy materials. The E-Proxy Notice also instructs you how you may submit your proxy via the Internet. You will not receive a printed copy of the proxy materials unless you request to receive these materials in hard copy by following the instructions provided in the E-Proxy Notice.

We are mailing the E-Proxy Notice on or about April 8, 2008 to Pediatrix's shareholders of record on March 25, 2008.

**QUESTIONS AND ANSWERS ABOUT OUR ANNUAL MEETING**

**What Is the Date, Time and Place of the Annual Meeting?**

Pediatrix's 2008 Annual Shareholders' Meeting will be held on Friday, May 23, 2008, beginning at 10:00 a.m., local time, at the Crowne Plaza Sawgrass Mills, 13400 W. Sunrise Boulevard, Sunrise, Florida 33323.

**What Is the Purpose of the Annual Meeting?**

At the annual meeting, Pediatrix's shareholders will be asked to:

elect nine Directors, each for a term expiring at the next annual meeting or until his successor has been duly elected and qualified;

approve the Pediatrix 2008 Incentive Compensation Plan;

ratify the appointment of PricewaterhouseCoopers LLP as our independent registered certified public accounting firm for the 2008 fiscal year; and

consider and act upon such other business as may properly come before the meeting.

**Who Is Entitled to Vote at the Annual Meeting?**

Only holders of record of Pediatrix common stock at the close of business on March 25, 2008, the record date for the meeting, are entitled to notice of, to attend and to vote at the annual meeting, or any postponements or adjournments of the meeting. At the close of business on the record date, 47,114,673 shares of Pediatrix common stock were issued and outstanding and were held by approximately 172 holders of record.

**What Are the Voting Rights of Pediatrix's Shareholders?**



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Pediatrix's shareholders have one vote per share of Pediatrix common stock owned on the record date for each matter properly presented at the annual meeting. For example, if you owned 100 shares of Pediatrix common stock on the close of business on March 25, 2008, you can cast 100 votes for each matter properly presented at the annual meeting.

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### **What Constitutes a Quorum?**

A quorum will be present at the meeting if holders of a majority of the issued and outstanding shares of Pediatrix common stock on the record date are represented at the meeting in person or by proxy. If a quorum is not present at the meeting, Pediatrix expects to postpone or adjourn the meeting to solicit additional proxies. Abstentions, including broker non-votes (as described below), will be counted as shares present and entitled to vote for the purposes of determining the presence or absence of a quorum.

### **What Are Broker Non-Votes ?**

Broker non-votes occur when shares held by a brokerage firm are not voted with respect to a proposal because the firm has not received voting instructions from the shareholder and the firm does not have the authority to vote the shares at its discretion. Under the rules of the New York Stock Exchange, brokerage firms may have the authority to vote their customers' shares on certain routine matters for which they do not receive voting instructions, including the uncontested election of directors and ratification of the appointment of independent auditors. The rules of the New York Stock Exchange, however, expressly prohibit brokerage firms from voting their customers' shares with respect to proposals to authorize the implementation of any equity compensation plan. Therefore, while brokerage firms may have the authority to vote all shares of our common stock that they hold with respect to the proposal to elect the Director nominees named in this proxy statement and the ratification of the appointment of independent auditors even if they do not receive specific voting instructions from their customers, brokerage firms may not vote such shares to approve the Pediatrix 2008 Incentive Compensation Plan. In addition, if other matters are properly brought before the meeting and they are not considered routine under the applicable New York Stock Exchange rules, shares held by brokerage firms will not be voted on such non-routine matters by the brokerage firms unless they have received voting instructions and, accordingly, any such shares will be broker non-votes.

### **How Are Abstentions and Broker Non-Votes Treated?**

Abstentions and broker non-votes are counted as present for purposes of determining the presence of a quorum. Abstentions and broker non-votes will not be counted as votes cast either in favor of or against the election of the nominees for Director or the ratification of the appointment of our independent registered certified public accounting firm. With respect to the proposal to approve the Pediatrix 2008 Incentive Compensation Plan, for Florida corporate law purposes, abstentions and broker non-votes will have no effect on the outcome; however, pursuant to the New York Stock Exchange's interpretations of its stockholder approval policies, abstentions will have the same effect as votes against the proposal and broker non-votes will not be counted as votes cast.

### **Will My Shares Be Voted if I Do Not Provide My Proxy?**

If your shares are held in the name of a brokerage firm, they may be voted by the brokerage firm (to the extent described above) even if you do not give the brokerage firm specific voting instructions. If you are a registered shareholder and hold your shares directly in your own name, your shares will not be voted unless you provide a proxy or fill out a written ballot in person at the meeting.

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### **How Do I Vote?**

You can vote in any of the following ways.

To vote via the Internet:

Follow the instructions in the E-Proxy Notice; and

Vote your shares as instructed in the E-Proxy Notice.

To vote by mail if you are a registered shareholder who received a paper proxy card:

Mark, sign and date your proxy card; and

Return it in the envelope provided.

To vote if you hold in street name, follow the instructions of your bank or broker or vote in person as described below.

To vote in person if you hold in street name :

Attend our annual meeting;

Bring valid photo identification; and

Obtain a legal proxy from your bank or broker to vote the shares that are held for your benefit, attach it to your completed proxy card and deliver it in person.

To vote in person if you are a registered shareholder:

Attend our annual meeting;

Bring valid photo identification; and

Deliver your completed proxy card or ballot in person.

To vote by telephone, follow the instructions in your proxy card.

### **What Vote Is Required for the Proposals?**

Assuming that a quorum is present at the annual meeting, Director nominees receiving the greatest number of affirmative votes from holders of Pediatrix common stock will be elected as Directors of Pediatrix.

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Assuming that a quorum is present, approval of the Pediatrix 2008 Incentive Compensation Plan will require the affirmative vote of a majority of the votes cast on the proposal at the annual meeting, provided that, pursuant to the New York Stock Exchange's stockholder approval policy, the total votes cast on the proposal represent over 50% of all shares of our common stock entitled to vote on the proposal. In addition, under the New York Stock Exchange's interpretations of its stockholder approval policies, abstentions will have the same effect as votes against the proposal and broker non-votes are considered shares entitled to vote but as to which votes were not cast.

Assuming that a quorum is present, ratification of the appointment of our independent registered certified public accounting firm requires a majority of the votes cast on the proposal at the annual meeting.

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### **How Does the Board of Directors Recommend I Vote on the Proposals?**

The Board of Directors recommends that you vote:

FOR the election of each of the nominees for Director named in this proxy statement;

FOR approval of the Pediatrix 2008 Incentive Compensation Plan; and

FOR ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered certified public accounting firm for the 2008 fiscal year.

### **How Will My Proxy Holders Vote?**

The enclosed proxy designates Roger J. Medel, M.D., our Chief Executive Officer, Thomas W. Hawkins, our Senior Vice President, General Counsel and Secretary, and Karl B. Wagner, our Chief Financial Officer, each with full power of substitution, to hold your proxy and vote your shares. Dr. Medel and Messrs. Hawkins and Wagner will vote all shares of Pediatrix common stock represented by proxies properly submitted via telephone, the Internet or properly executed proxies received in time for the annual meeting in the manner specified by the holders of those shares. Dr. Medel and Messrs. Hawkins and Wagner intend to vote all shares of Pediatrix common stock represented by proxies properly submitted via telephone, the Internet or that are properly executed by the record holder but otherwise do not contain voting instructions as follows:

FOR the election of each of the nominees for Director named in this proxy statement;

FOR approval of the Pediatrix 2008 Incentive Compensation Plan;

FOR ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered certified public accounting firm for the 2008 fiscal year; and

in accordance with the recommendation of Pediatrix's Board of Directors, FOR or AGAINST all other matters as may properly come before the annual meeting.

### **Can I Change My Vote After I Have Voted?**

Voting by telephone, over the Internet or by mailing a proxy card does not preclude a shareholder from voting in person at the meeting. A shareholder may revoke a proxy, whether submitted via telephone, the Internet or mailed, at any time prior to its exercise by filing with Pediatrix's corporate secretary a duly executed revocation of proxy, by properly submitting, either by telephone, mail or Internet, a proxy to Pediatrix's corporate secretary bearing a later date or by appearing at the meeting and voting in person. Attendance at the meeting will not itself constitute revocation of a proxy.

### **Who Pays for the Preparation of the Proxy Statement?**

Pediatrix will bear the cost of the solicitation of proxies from its shareholders, including preparing, printing and mailing this Proxy Statement, should you request a printed copy of the proxy materials, and the E-Proxy Notice. In addition to solicitations by mail, Pediatrix's Directors, officers and employees, and those of its subsidiaries and affiliates, may solicit proxies from shareholders by telephone or other electronic means or in person but will receive no additional compensation for soliciting such proxies. Pediatrix will cause banks and brokerage firms and other custodians, nominees and fiduciaries to forward solicitation materials to the beneficial owners of Pediatrix common stock held of record by such banks, brokerage firms, custodians, nominees and fiduciaries. Pediatrix will reimburse such banks, brokerage firms, custodians, nominees and

fiduciaries for their reasonable out-of-pocket expenses in doing so.

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**PROPOSAL 1: ELECTION OF PEDIATRIX S DIRECTORS**

Pediatrix s Articles of Incorporation and Bylaws, each as amended and restated, provide that the number of directors constituting Pediatrix s Board of Directors will be determined from time to time by resolution adopted by Pediatrix s Board of Directors. Pediatrix s Board of Directors currently consists of nine members.

All of Pediatrix s incumbent Directors have been nominated by Pediatrix s Board of Directors as Directors to be elected at the annual meeting in 2008 by the holders of Pediatrix common stock.

The nominees for Director are as follows:

Roger J. Medel, M.D., who has served as a Director since 1979;

Cesar L. Alvarez, who has served as Chairman of the Board of Directors since May 2004 and as a Director since March 1997;

Waldemar A. Carlo, M.D., who has served as a Director since June 1999;

Michael B. Fernandez, who has served as a Director since October 1995;

Roger K. Freeman, M.D., who has served as a Director since May 2002;

Paul G. Gabos, who has served as a Director since November 2002;

Pascal J. Goldschmidt, M.D., who has served as a Director since March 2006;

Manuel Kadre, who has served as a Director since May 2007; and

Enrique J. Sosa, Ph.D., who has served as a Director since May 2004.

Please see below under Directors, Executive Officers and Key Employees for the biographies of these nominees for Director.

Each Director elected will serve for a term expiring at Pediatrix s 2009 Annual Meeting of Shareholders, which is expected to be held in May 2009, or until his successor has been duly elected and qualified.

Pediatrix s Board of Directors has no reason to believe that any nominee will refuse to act or be unable to accept election; however, in the event that a nominee for a directorship is unable to accept election or if any other unforeseen contingencies should arise, proxies will be voted for the remaining nominees and for such other person as may be designated by Pediatrix s Board of Directors, unless the proxies provide otherwise.

If a quorum is present and voting at the annual meeting, the nine nominees receiving the highest number of votes FOR election will be elected to the Board of Directors of Pediatrix. Proxies will be voted FOR all such nominees absent contrary instructions.

***Pediatrix s Board of Directors Recommends a Vote For the Election of Each of the Nine Nominees for Director.***





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### **GOVERNANCE AND RELATED MATTERS**

Our business, property and affairs are managed under the direction of our Board of Directors, except with respect to those matters reserved for our shareholders. Our Board of Directors establishes our overall corporate policies, reviews the performance of our senior management in executing our business strategy and managing our day-to-day operations and acts as an advisor to our senior management. Our Board of Directors' mission is to further the long-term interests of our shareholders. Members of the Board of Directors are kept informed of Pediatrix's business through discussions with Pediatrix's management, primarily at meetings of the Board of Directors and its committees, and through reports and analyses presented to them. Significant communications between our Directors and senior management occur apart from such meetings.

#### **Questions and Answers About Our Corporate Governance Practices**

##### **What Committees Have Our Board of Directors Established?**

The standing committees of Pediatrix's Board of Directors are the Executive Committee, the Medical Science and Technology Committee, the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. Copies of the charters for these committees, as well as our corporate governance principles, are available on our website at [www.pediatrix.com](http://www.pediatrix.com). Our Internet website and the information contained therein, other than material expressly referred to in this proxy statement, or connected thereto are not incorporated into this proxy statement. A copy of our committee charters and corporate governance principles are also available upon request from Pediatrix's Secretary at 1301 Concord Terrace, Sunrise, FL 33323.

##### **How Many Times Did Our Board of Directors Meet During 2007?**

During 2007, Pediatrix's Board of Directors held 10 meetings and took various actions by unanimous written consent. Committees of the Board of Directors held a combined total of 14 meetings and also took action by unanimous written consent. Each incumbent Director attended at least 75% of the total number of meetings of Pediatrix's Board of Directors and its committees held during 2007 during the period he was a member thereof. Although Pediatrix has no formal policy with respect to its Directors' attendance at Pediatrix's annual shareholders' meetings, in 2007 all of our incumbent Directors attended the annual shareholders' meeting except Mr. Fernandez.

##### **Are a Majority of Our Directors Independent?**

Our Board of Directors has reviewed information about each of our non-employee Directors and made the determination that we have a majority of independent Directors on our Board of Directors. In arriving at this conclusion, our Board of Directors made the affirmative determination that each of Drs. Carlo and Freeman and Messrs. Alvarez, Fernandez, Gabos, Sosa and Kadre met the Board of Directors' previously adopted categorical standards for determining independence in accordance with the New York Stock Exchange's corporate governance rules. Our adopted categorical standards for determining independence in accordance with the New York Stock Exchange's corporate governance rules are contained in our corporate governance principles, a copy of which is available on our website at [www.pediatrix.com](http://www.pediatrix.com).

##### **Who Is the Chairman of the Board or Presiding Director ?**

Following each annual meeting of the shareholders, Pediatrix's Board of Directors designates a non-management Director as Chairman of the Board or, alternatively, as Presiding Director. In addition to other responsibilities, the Chairman of the Board or Presiding Director presides over meetings of our non-management Directors. At least once a year, the Chairman of the Board or Presiding Director also presides over meetings of our independent directors. Following our 2007 annual meeting of the shareholders, our Board of Directors appointed Mr. Alvarez to serve as Chairman of the Board.

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### **How Can Shareholders Communicate with the Board of Directors?**

Anyone who has a concern about Pediatrix's conduct, including accounting, internal accounting controls or audit matters, may communicate directly with our Chairman of the Board of Directors (or Presiding Director), our non-management Directors, the Chairman of the Audit Committee or the Audit Committee. Such communications may be confidential or anonymous, and may be submitted in writing to the Chief Compliance Officer, Pediatrix Medical Group, Inc., 1301 Concord Terrace, Sunrise, Florida 33323 or reported by phone at 877-835-5764. All such concerns will be forwarded to the appropriate Directors for their review, and will be simultaneously reviewed and addressed by Pediatrix's General Counsel or Chief Compliance Officer in the same way that other concerns are addressed by us. Pediatrix's Code of Conduct, which is discussed below, prohibits any employee from retaliating or taking any adverse action against anyone for raising or helping to resolve an integrity concern.

### **Has Pediatrix Adopted a Code of Conduct?**

Pediatrix has adopted a Code of Conduct that applies to all Directors, officers, employees and independent contractors of Pediatrix and its affiliated medical practices. Pediatrix intends to disclose any amendments to, or waivers from, any provision of the Code that applies to any of Pediatrix's executive officers or Directors by posting such information on our website at [www.pediatrix.com](http://www.pediatrix.com).

Pediatrix has also adopted a Code of Professional Conduct – Finance that applies to all employees with access to, and responsibility for, matters of finance and financial management, including Pediatrix's Chief Executive Officer and Chief Financial Officer. Pediatrix intends to disclose any amendments to, or waivers from, any provision of the Code that applies to any of Pediatrix's Chief Executive Officer, Chief Financial Officer, principal accounting officer or controller or persons performing similar functions by posting such information on our website at [www.pediatrix.com](http://www.pediatrix.com).

The text of our Code of Conduct and the Code of Professional Conduct – Finance is available on our website at [www.pediatrix.com](http://www.pediatrix.com) and upon request from Pediatrix's Secretary at 1301 Concord Terrace, Sunrise, FL 33323.

### **Report of the Audit Committee**

*The following report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any of Pediatrix's filings under the Securities Act of 1933, as amended (the Securities Act), or the Securities Exchange Act of 1934, as amended (the Exchange Act), except to the extent that we specifically incorporate such report by reference.*

We act under a written charter that has been adopted by Pediatrix's Board of Directors. While we have the responsibilities set forth in this charter, it is not our duty to plan or conduct audits or to determine that Pediatrix's financial statements are complete, accurate or in compliance with generally accepted accounting principles. This is the responsibility of Pediatrix's management and independent auditors.

Our primary function is to assist the Board of Directors in their evaluation and oversight of the integrity of Pediatrix's financial statements, the qualifications and independence of Pediatrix's independent auditors and the performance of Pediatrix's audit functions. In addition, while we are also responsible for assisting the Board of Directors in their evaluation and oversight of Pediatrix's compliance with applicable laws and regulations, it is not our duty to assure compliance with such laws and regulations or Pediatrix's Compliance Plan and related policies.

We also oversee Pediatrix's auditing, accounting and financial reporting processes generally. Management is responsible for Pediatrix's financial statements and the financial reporting process, including the system of

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internal controls. We also review the preparation by management of Pediatrix's quarterly and annual financial statements. Pediatrix's independent auditors, who are accountable to us, are responsible for expressing an opinion as to whether the consolidated financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of Pediatrix in conformity with generally accepted accounting principles in the United States. Pediatrix's independent auditors are also responsible for auditing and reporting on the effective operation of Pediatrix's internal control over financial reporting. We are responsible for retaining Pediatrix's independent auditors, and maintain sole responsibility for their compensation, oversight and termination. We also are responsible for pre-approving all non-audit services to be provided by the independent auditors, and on an annual basis discussing with the independent auditors all significant relationships they have with Pediatrix to determine their independence. In addition, we concluded in July 2007 a comprehensive review of our historical practices related to the granting of stock options.

In fulfilling our oversight role, we met and held discussions with Pediatrix's management and independent auditors. Management advised us that Pediatrix's consolidated financial statements were prepared in accordance with generally accepted accounting principles, and we reviewed and discussed the consolidated financial statements for the fiscal year ended December 31, 2007. In addition, we reviewed and discussed the Management's Discussion and Analysis of Financial Condition and Results of Operations sections of Pediatrix's periodic reports, key accounting and reporting issues and the scope, adequacy and assessments of Pediatrix's internal controls and disclosure controls and procedures with management and Pediatrix's independent auditors. We discussed privately with the independent auditors matters deemed significant by the independent auditors, including those matters required to be discussed pursuant to *Statement on Auditing Standards No. 114 (The Auditor's Communication with Those Charged with Governance)*, as adopted by the Public Company Accounting Oversight Board.

The independent auditors also provided us with the written disclosures and the letter required by *Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees)*, as adopted by the Public Company Accounting Oversight Board in Rule 3600T, and we discussed with the independent auditors matters relating to their independence. We also reviewed a report by the independent auditors describing the firm's internal quality-control procedures and any material issues raised in the most recent internal-quality control review or external peer review or inspection performed by the Public Company Accounting Oversight Board.

Based on our review with management and the independent auditors of Pediatrix's audited consolidated financial statements and internal controls over financial reporting and the independent auditors' report on such financial statements and their evaluation of Pediatrix's internal controls over financial reporting, and based on the discussions and written disclosures described above and our business judgment, we recommended to the Board of Directors that the Company's audited consolidated financial statements for the fiscal year ended December 31, 2007 be included in Pediatrix's Annual Report on Form 10-K for the year ended December 31, 2007 for filing with the Securities and Exchange Commission.

**Submitted by the Audit Committee of the Board of Directors.**

Paul G. Gabos

Manuel Kadre

Enrique J. Sosa

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**Compensation Committee Report**

*The following report of the Compensation Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any of Pediatrix's filings under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate such report by reference.*

In fulfilling our role, we met and held discussions with Pediatrix's management and reviewed and discussed the Compensation Discussion and Analysis contained in this proxy statement on Schedule 14A. Based on the review and discussions with management and our business judgment, we recommended to Pediatrix's Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement on Schedule 14A for filing with the Securities and Exchange Commission.

**Submitted by the Compensation Committee of the Board of Directors.**

Michael B. Fernandez

Waldemar A. Carlo, M.D.

Roger K. Freeman, M.D.

**Table of Contents****DIRECTORS, EXECUTIVE OFFICERS AND KEY EMPLOYEES****Description of Pediatrx's Executive Officers and Directors**

Pediatrx's executive officers and Directors are as follows:

<b>Name</b>	<b>Age</b>	<b>Position with Pediatrx</b>
Roger J. Medel, M.D. (1)	61	Chief Executive Officer and Director
Cesar L. Alvarez (1)	60	Chairman of the Board of Directors
Waldemar A. Carlo, M.D. (3) (5)	55	Director
Michael B. Fernandez (3) (4)	55	Director
Roger K. Freeman, M.D. (3) (4) (5)	72	Director
Paul G. Gabos (1) (2)	43	Director
Pascal J. Goldschmidt, M.D. (5)	53	Director
Manuel Kadre (2)	42	Director
Enrique J. Sosa, Ph.D. (2) (4)	68	Director
Joseph M. Calabro	47	President and Chief Operating Officer
Thomas W. Hawkins	46	Senior Vice President, General Counsel and Secretary
Karl B. Wagner	42	Chief Financial Officer and Treasurer

- (1) Member of the Executive Committee.
- (2) Member of the Audit Committee.
- (3) Member of the Compensation Committee.
- (4) Member of the Nominating and Corporate Governance Committee.
- (5) Member of the Medical Science and Technology Committee.

*Roger J. Medel, M.D.* has been a Director of Pediatrx since he co-founded the Company in 1979. Dr. Medel served as Pediatrx's President until May 2000 and as Chief Executive Officer until December 2002. In March 2003, Dr. Medel reassumed the position of President, serving in that position until May 2004, and Chief Executive Officer, a position in which he continues to serve today. Dr. Medel is a member of the Board of Trustees of the University of Miami and a member of the Board of Directors of MBF Healthcare Acquisition Corp. Dr. Medel participates as a member of several medical and professional organizations.

*Cesar L. Alvarez* was elected as Chairman of the Board of Directors in May 2004 and has been a Director since March 1997. Mr. Alvarez has served since 1997 as the Chief Executive Officer of the international law firm of Greenberg Traurig, P.A. Mr. Alvarez also serves on the Board of Directors of Watsco, Inc.

*Waldemar A. Carlo, M.D.* was elected as a Director in June 1999. Dr. Carlo has served as Professor of Pediatrics and Director of the Division of Neonatology at the University of Alabama School of Medicine since 1991. Dr. Carlo also has served as Director of Newborn Nurseries at the University of Alabama Medical Center and the Children's Hospital of Alabama since 1991. Dr. Carlo participates as a member of several medical and professional organizations. He has received numerous research awards and grants and has lectured extensively, both nationally and internationally.

*Michael B. Fernandez* was elected as a Director in October 1995. Mr. Fernandez has served as Chairman and is and has been a Managing Director of MBF Healthcare Partners, L.P., a private equity firm focused on investing in healthcare service companies, since February 2005 and has been Chairman and Chief Executive Officer of MBF Healthcare Acquisition Corp. since June 2006. He is also the Chairman of Navarro Discount Pharmacies, LLC. Mr. Fernandez previously served as Chairman and Chief Executive Officer of CarePlus Health Plans Inc., a managed care HMO, from January 2003 until February 2005, and as Chairman and Chief Executive Officer of Physicians Healthcare Plans, Inc., a Florida-based HMO, from 1992 until December 2002. Presently, Mr. Fernandez also serves on the Board of Directors of various private entities, including Healthcare Atlantic, Inc., a holding company that operates various health care entities.

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*Roger K. Freeman, M.D.* was elected as a Director in May 2002. Dr. Freeman is a maternal-fetal medicine physician. In 1975, he founded Perinatal Associates of Southern California, a physician practice group that has been affiliated with Pediatrix since we acquired Magella Healthcare Corporation ( Magella ) in May 2001. In September 1999, Dr. Freeman retired from the private practice of medicine. Dr. Freeman has served on many national and local OB/GYN and maternal-fetal organizations. He is currently a member of the Long Beach Memorial Medical Center Foundation Board and serves on the Board of Directors of Todd Cancer Institute at Long Beach Memorial Hospital. Dr. Freeman has authored numerous articles and three books.

*Paul G. Gabos* was elected as a Director in November 2002. Mr. Gabos has served as Chief Financial Officer of Lincare Holdings Inc. since June 1997 and previously served as Vice President Administration for Lincare. Prior to joining Lincare in 1993, Mr. Gabos worked for Coopers & Lybrand and for Dean Witter Reynolds, Inc.

*Pascal J. Goldschmidt, M.D.* was elected as a Director in March 2006. Dr. Goldschmidt has been the Senior Vice President for Medical Affairs and Dean of the University of Miami Leonard M. Miller School of Medicine since April 2006. Previously, Dr. Goldschmidt was a faculty member with the Department of Medicine at Duke University Medical Center where he served as Chairman from 2003 to 2006 and as Chief of the Division of Cardiology from 2000 to 2003. Dr. Goldschmidt currently serves on the Board of Directors of Opko Health, Inc.

*Manuel Kadre* was elected as a Director in May 2007. Mr. Kadre has served since 1995 as Vice President, General Counsel and Secretary of CC1 Companies, Inc., which distributes Coca-Cola and other beverage products in markets throughout the Caribbean. Mr. Kadre also serves on the Board of Directors of Equity Media Holdings Corporation, the Board of Trustees of the University of Miami and on the Board of Governors of University of Miami Hospital.

*Enrique J. Sosa, Ph.D.* was elected as a Director in May 2004. Mr. Sosa is currently a Director of FMC Corporation and Northern Trust Corporation. Mr. Sosa, who is presently retired, served as President of BP Amoco Chemicals from January 1999 to April 1999. From 1995 to 1998, he was Executive Vice President of Amoco Corporation. Prior to joining Amoco, Mr. Sosa served as Senior Vice President of The Dow Chemical Company, President of Dow North America and a member of its Board of Directors.

*Joseph M. Calabro* joined Pediatrix in January 1996 as Chief Information Officer. In January 2000, Mr. Calabro was appointed Executive Vice President, Management, in May 2000, he was appointed Chief Operating Officer and in May 2004, he was appointed President. Prior to joining Pediatrix, Mr. Calabro served as Director of Information Technology for the Ambulatory Surgery Group of Columbia/HCA. He served in various operational and technology positions for various healthcare companies from 1987 to 1994.

*Thomas W. Hawkins* joined Pediatrix in May 2003 and became Senior Vice President, General Counsel and Secretary in June 2003. From January 2000 to April 2003, he was a partner with New River Capital Partners, L.P., a private equity firm. Mr. Hawkins previously served as Senior Vice President, Corporate Development at AutoNation, Inc., from June 1996 to December 1999. From 1994 to 1996, Mr. Hawkins was Executive Vice President Administration of Blockbuster Entertainment Group, a division of Viacom, Inc. He served as General Counsel at Blockbuster Entertainment Corporation prior to its merger with Viacom, Inc. in 1994.

*Karl B. Wagner* joined Pediatrix in May 1997 and was appointed Chief Financial Officer and Treasurer in August 1998. Prior to his appointment, Mr. Wagner served as Pediatrix's Controller. Prior to joining Pediatrix, Mr. Wagner was Chief Financial Officer for the East Region of Columbia/HCA's Ambulatory Surgery Group from January 1995 until May 1997. From July 1993 through January 1995, Mr. Wagner was Assistant Controller of Medical Care International, Inc., a subsidiary of Medical Care America, Inc.

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### **Description of Certain Key Employees**

The following individuals, while not executive officers for purposes of the federal securities laws, are key employees of Pediatrix:

*Robert J. Balcom, M.D.* joined Pediatrix in 1993 and has been our Regional President, Central Region since January 2002. Dr. Balcom previously served as our Vice President of Medical Operations, Central Region. Dr. Balcom is Board Certified in Pediatrics and Neonatal-Perinatal Medicine.

*Robert C. Bryant* joined Pediatrix in 1996 and has been our Senior Vice President and Chief Information Officer since February 2004. Mr. Bryant previously served as our Vice President, Information Systems from January 2000 to January 2004 and as Director, Information Service from 1997 to January 2000.

*David A. Clark* joined Pediatrix in May 2001 and has been our Senior Vice President, Operations since December 2003. Mr. Clark previously served as Vice President of Operations, South Central Region from November 2001 to November 2003. From June 2000 to October 2001, Mr. Clark was Vice President of Operations for Magella, which we acquired in 2001, and prior thereto he was Vice President of Development for Magella. Mr. Clark is a certified public accountant.

*William C. Hawk* joined Pediatrix as a consultant in 2005 and has been our Senior Vice President of Operations, Anesthesia Services since May 2006. Prior to joining Pediatrix, Mr. Hawk founded and served as Chief Executive Officer of SHC Companies, Inc., a healthcare services company, and was a Senior Vice President with Medical Care America, Inc. from 1992 to 1995.

*Eric H. Kurzweil, M.D.* joined Pediatrix in 1996 and has been our Regional President, Mountain Region since January 2002. Dr. Kurzweil previously served as our Vice President of Medical Operations, Mountain Region. Dr. Kurzweil is Board Certified in Pediatrics and Pediatric Critical Care.

*Frederick V. Miller, M.D.* joined Pediatrix in 1991 and has been our Regional President, Atlantic Region since January 2002. Dr. Miller previously served as our Vice President of Medical Operations, Atlantic Region. Dr. Miller is Board Certified in Pediatrics and Neonatal-Perinatal Medicine.

*Carlos A. Perez, M.D.* joined Pediatrix in 1986 and has been our Regional President, Caribbean Region since January 2002. Dr. Perez previously served as our Vice President of Medical Operations, Caribbean Region. Dr. Perez is Board Certified in Pediatrics, Neonatal-Perinatal Medicine and Pediatric Critical Care.

*John F. Rizzo* joined Pediatrix in November 2002 as Senior Vice President, Business Development. Prior to joining Pediatrix, Mr. Rizzo served in strategic and financial executive roles with early stage, venture capital-backed companies. From 1996 to 2000, Mr. Rizzo was a senior executive with AutoNation, Inc., where he served as Vice President of Corporate Development and subsequently as Senior Vice President, Industry Relations. From 1985 to 1996, Mr. Rizzo was employed by Arthur Andersen LLP.

*Alan R. Spitzer, M.D.* joined Pediatrix in 2004 as Senior Vice President, Research and Education, following a long career in academic neonatal medicine. Prior to joining Pediatrix, Dr. Spitzer served as Chief of Neonatology at the State University of New York at Stony Brook and before that as Chief of Neonatology and Chair of Pediatrics at Thomas Jefferson University in Philadelphia. Dr. Spitzer has edited two major textbooks, *Intensive Care of the Fetus and Neonate*, the second edition of which was published in March 2005, and *Fetal and Neonatal Secrets*, the second edition of which was published in early 2007.

*Michael D. Stanley, M.D.* joined Pediatrix in 1997 and has been our Regional President, South Central Region since January 2002. Dr. Stanley previously served as our Vice President of Medical Operations, South Central Region. Dr. Stanley is Board Certified in Pediatrics and Neonatal-Perinatal Medicine.

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### **Committees of the Board of Directors**

#### **Audit Committee**

Pediatrix's Audit Committee held 5 meetings in 2007. Messrs. Gabos and Sosa were members of the committee throughout 2007. Mr. Gabos acted as chair of the committee throughout 2007. Dr. Carlo was a member of the committee until May 2007, when Mr. Kadre replaced Dr. Carlo as a member. Pediatrix's Board of Directors has determined that each of Messrs. Gabos and Sosa qualify as audit committee financial experts as defined by the rules and regulations of the Securities and Exchange Commission and that each of Messrs. Gabos, Sosa and Kadre meet the independence requirements under such rules and regulations and for a New York Stock Exchange listed company.

Pediatrix's Board of Directors has adopted a written charter for the Audit Committee setting out the functions that it is to perform. A copy of the Amended and Restated Audit Committee Charter is available on our website at [www.pediatrix.com](http://www.pediatrix.com).

Please refer to the Audit Committee Report, which is set forth above, for a further description of our Audit Committee's responsibilities and its recommendation with respect to our audited consolidated financial statements for the year ended December 31, 2007.

#### **Compensation Committee**

Pediatrix's Compensation Committee held 5 meetings in 2007. Drs. Carlo and Freeman and Mr. Fernandez were members of the committee throughout 2007. Mr. Fernandez acted as chair of the committee throughout 2007. Pediatrix's Board of Directors has determined that each of Drs. Carlo and Freeman and Mr. Fernandez meet the independence requirements for a New York Stock Exchange listed company.

Pediatrix's Board of Directors has adopted a written charter for the Compensation Committee setting out the functions that it is to perform. A copy of the Amended and Restated Compensation Committee Charter is available on our website at [www.pediatrix.com](http://www.pediatrix.com).

The primary purpose of Pediatrix's Compensation Committee is to assist Pediatrix's Board of Directors in the discharge of the Board of Directors responsibilities relating to compensation of executives. The scope of authority of Pediatrix's Compensation Committee includes the following:

Approving the performance goals and objectives, evaluating the performance and setting the compensation for Pediatrix's Chief Executive Officer and other executive officers;

Supervising and making recommendations to Pediatrix's Board of Directors with respect to incentive compensation plans and equity-based plans for executive officers;

evaluating whether or not to engage, retain, or terminate an outside consulting firm for the review and evaluation of Pediatrix's compensation plans and approving such outside consulting firm's fees and other retention terms; and

conducting an annual performance evaluation of Pediatrix's Compensation Committee.

Upon a determination of Pediatrix's full Compensation Committee membership, matters may be delegated to a subcommittee for evaluation and recommendation back to the full Committee. For a description of the role performed by executive officers and compensation consultants in determining or recommending the amount or form of executive and director compensation, see Executive Compensation Compensation Discussion and Analysis Executive Compensation Administration.



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### **Nominating and Corporate Governance Committee**

Pediatrix's Nominating and Corporate Governance Committee held 1 meeting in 2007. Dr. Freeman and Messrs. Fernandez and Sosa were members of the committee throughout 2007. Dr. Freeman acted as chair of the committee throughout 2007. Pediatrix's Board of Directors has determined that each of Messrs. Fernandez and Sosa and Dr. Freeman meet the independence requirements for a New York Stock Exchange listed company.

Pediatrix's Board of Directors has adopted a written charter for the Nominating and Corporate Governance Committee setting out the functions that it is to perform. A copy of the Amended and Restated Nominating and Corporate Governance Committee Charter is available on our website at [www.pediatrix.com](http://www.pediatrix.com).

The Nominating and Corporate Governance Committee assists the Board of Directors with respect to nominating new Directors and committee members and taking a leadership role in shaping the corporate governance of Pediatrix. To fulfill its responsibilities and duties, the committee, among other things, reviews the qualifications and independence of existing Directors and new candidates; assesses the contributions of current Directors; identifies and recommends individuals qualified to be appointed to committees of the Board of Directors; considers rotation of committee members; reviews the charters of the committees and makes recommendations to the full Board of Directors with respect thereto; develops and recommends to the Board of Directors corporate governance principles, including a code of business conduct; and evaluates and recommends succession plans for Pediatrix's chief executive officer and other senior executives.

Although the Nominating and Corporate Governance Committee does not solicit director nominations, the committee will consider candidates suggested by shareholders in written submissions to Pediatrix's Secretary in accordance with the procedures described below in the section entitled "Information Concerning Shareholder Proposals." In evaluating nominees for Director, the committee does not differentiate between nominees recommended by shareholders and others. In identifying and evaluating candidates to be nominated for Director, the committee reviews the desired experience, mix of skills and other qualities required for appropriate Board composition, taking into account the current Board members and the specific needs of Pediatrix and its Board of Directors. This process is designed so that the Board of Directors includes members with diverse backgrounds, skills and experience, and represents appropriate financial, clinical and other expertise relevant to the business of Pediatrix. At a minimum, Director candidates must meet the following qualifications: high personal and professional ethics, integrity and values and a commitment to the representation of the long-term interests of our shareholders. Although the committee's charter permits the committee to engage a search firm to identify Director candidates, Pediatrix did not pay any third parties a fee to assist in the process of identifying or evaluating Director candidates in 2007.

### **Certain Relationships and Related Person Transactions**

#### **Review and Approval of Related Person Transactions**

Pediatrix has a written policy for the review and approval or ratification of transactions (i) between Pediatrix (or any of its consolidated subsidiaries or affiliated professional associations, corporations and partnerships) and any Pediatrix director or any other entity in which any Pediatrix director is a director, officer or is financially interested; and (ii) in which Pediatrix (or any of its consolidated subsidiaries or affiliated professional associations, corporations and partnerships) is or will be a participant and any related person has or will have a direct or indirect material interest. For purposes of the policy a related person includes any Pediatrix director or director nominee, executive officer or holder of more than 5% of the outstanding voting stock of Pediatrix or any of their respective immediate family members. The policy does not apply to transactions pertaining to (i) director or officer compensation that is approved or recommended to Pediatrix's Board of Directors for approval by Pediatrix's Compensation Committee or (ii) the employment by Pediatrix (or any of its consolidated subsidiaries or affiliated professional associations, corporations and partnerships) of any immediate family member of a related person in a non-officer position and at compensation levels commensurate with that paid to other similarly situated employees.

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Pursuant to the terms of the policy, all covered transactions, if determined to be material by Pediatrix's general counsel or if the transaction involves the participation of a member of the Pediatrix Board of Directors, are required to be promptly referred to the disinterested members of the Pediatrix Audit Committee for their review or, if less than a majority of the members of Pediatrix Audit Committee are disinterested, to all the disinterested members of the Pediatrix Board of Directors. Pursuant to the terms of the policy, materiality determinations must be based on the significance of the information to investors in light of all circumstances, including, but not limited to, the (i) relationship of the related persons to the covered transaction, and with each other, (ii) importance to the person having the interest, and (iii) amount involved in the transaction. All transactions involving in excess of \$120,000 are automatically deemed to be material pursuant to the terms of the policy.

The disinterested directors of Pediatrix's Audit Committee or Board of Directors, as applicable, are required to review such material covered transactions at their next regularly-scheduled meeting, or earlier if a special meeting is called by the Chairman of the Audit Committee and may only approve such a material covered transaction if it has been entered into in good faith and on fair and reasonable terms that are no less favorable to Pediatrix than those that would be available to Pediatrix in a comparable transaction in arm's length dealings with an unrelated third party at the time it is considered by the disinterested directors of Pediatrix's Audit Committee or Board of Directors, as applicable.

All of the transactions described in Transactions with Related Persons below were covered transactions under our policy and the policies and procedures required by the policy were followed in connection with the review and approval or ratification of all of such transactions.

**Transactions with Related Persons**

In March 1997, Mr. Alvarez was appointed to Pediatrix's Board of Directors. Mr. Alvarez is the Chief Executive Officer of Greenberg Traurig, P.A., which serves as one of Pediatrix's outside counsels and receives customary fees for legal services. In 2007, Pediatrix paid Greenberg Traurig, P.A. approximately \$1,458,000 for such services and currently anticipates that this relationship will continue.

In 2007, Pediatrix reimbursed Dr. Medel, our Chief Executive Officer, approximately \$179,000, for Pediatrix's business use of an aircraft that Dr. Medel owns pursuant to a fractional ownership program. Pediatrix used the aircraft in connection with several business trips taken by Dr. Medel and other officers, directors and employees. The amounts reimbursed by Pediatrix for the use of Dr. Medel's aircraft did not exceed the hourly rate that Dr. Medel paid for such use under the aircraft's fractional ownership program.

Deborah Medel-Guerrero, the daughter of Dr. Medel, is employed by Pediatrix as its Director of Practice Integration and is responsible for matters relating to the integration of newly acquired physician practice groups into the operations of Pediatrix. In 2007, Pediatrix paid Ms. Medel-Guerrero \$94,546 in salary and bonus and provided her certain health and other benefits customarily provided to similarly situated Pediatrix employees. In addition, in 2007, Pediatrix granted Ms. Medel-Guerrero a restricted stock award of 833 shares of Pediatrix common stock and options to purchase 2,500 shares of Pediatrix common stock, each with a three year vesting period. The options granted to Ms. Medel-Guerrero were at an exercise price equal to the closing price of a share of Pediatrix's common stock on the date of the grant. Ms. Medel-Guerrero is also the holder of certain previously granted options that are subject to our program adopted by our Board of Directors for all similarly situated employees providing for the increase in the exercise price of these options and a compensating payment for the difference in 2008. Pursuant to such program, Ms. Medel-Guerrero received a compensating payment of \$20,350 in 2008.

Virginia Turnier, M.D., the wife of Dr. Medel, Pediatrix's Chief Executive Officer, was our Regional Vice President of Medical Operations until September 30, 1999, and continues to provide certain professional and administrative services to Pediatrix as an employee and as an officer and director for certain of our affiliated

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professional corporations. As compensation for her continuing services, Dr. Turnier's options to purchase shares of Pediatrix common stock, which she received when she served as our Regional Vice President of Medical Operations, remained exercisable in accordance with their terms. As a result of our previously disclosed stock option review, certain options granted to Dr. Turnier in 1997 and subsequently exercised were found to have been backdated. In July 2007, Dr. Turnier offered, and the Company accepted her offer, to repay the Company \$519,000, an amount equal to the difference between the proceeds she received upon exercise of these options and the proceeds she would have received had the exercise price been the closing sales price of a share of Pediatrix common stock on the revised measurement date.

As a result of the stock option review, certain options granted to Mr. Wagner, our Chief Financial Officer, and Mr. Calabro, our President and Chief Operating Officer, in 1998 and 1999 and subsequently exercised were found to have been backdated. In July 2007, Mr. Calabro and Mr. Wagner, offered, and the Company accepted these offers, to repay \$144,950 and \$154,975, respectively, amounts equal to the difference between the proceeds they received upon exercise of these options and the proceeds they would have received had the exercise price for their options been the closing sales price of a share of Pediatrix common stock on the revised measurement dates.

In January 2008, we entered into a Stipulation of Settlement to resolve a shareholder derivative lawsuit that was filed by Jacob Schwartz, one of the shareholders who had submitted a demand letter, in the United States District Court for the Southern District of Florida in August 2007, naming the Company as a nominal defendant and also naming as defendants certain of our current and former officers and directors. The lawsuit alleges that all or some of the defendant officers and directors, among other things, breached their fiduciary duties to the Company, violated the federal securities laws, and engaged in corporate waste, gross mismanagement, unjust enrichment and constructive fraud in connection with the Company's historical stock option practices. In consideration for the full settlement and release of claims against all defendants, the Stipulation of Settlement provides for our payment of \$1.5 million in attorneys fees and costs to the plaintiff's counsel and recognition that the plaintiff's demand letter, which was received prior to the commencement of the lawsuit, was a significant contributing factor to the implementation of various measures to enhance our stock option practices. The Stipulation of Settlement is subject to final approval by the District Court, a hearing for which has been scheduled in April 2008. We believe that the payment to the plaintiff's counsel will be covered by insurance.

In connection with the foregoing lawsuit and with ongoing investigations by the Securities and Exchange Commission and the U.S. Attorney's Office for the Southern District of Florida related to our stock option granting practices, we have advanced expenses through January 31, 2008 on behalf of the following individuals in the following approximate amounts: Dr. Medel \$212,000, Mr. Calabro \$145,000; Mr. Wagner \$224,000, Mr. Hawkins \$64,000 and Charlene D. Warren, a Vice President of the Company, \$15,000.

**Compensation Committee Interlocks and Insider Participation**

Dr. Goldschmidt, one of our Directors since March 2006 and a member of Pediatrix's Medical Science and Technology Committee, is also the Senior Vice President for Medical Affairs and Dean of the University of Miami Leonard M. Miller School of Medicine. Subsequent to Dr. Goldschmidt's election to Pediatrix's Board of Directors, Dr. Medel, Pediatrix's Chief Executive Officer, was appointed to the Trustee Services Committee for the University of Miami. As a member of the University of Miami's Trustee Services Committee, Dr. Medel participates in setting performance goals and annual bonus allocations for various University of Miami employees, including Dr. Goldschmidt. Dr. Medel's term of service on the Trustee Services Committee will conclude in May 2010.

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### **EXECUTIVE COMPENSATION**

#### **Compensation Discussion and Analysis**

The Compensation Committee of our Board of Directors determines the compensation for our executive officers and oversees the administration of our executive compensation programs. The Compensation Committee is composed entirely of independent directors and is advised as necessary by an independent consultant retained by the Compensation Committee.

#### **Executive Compensation Philosophy**

The Compensation Committee has designed our executive compensation programs with the following guiding principles in mind:

*Quality of Personnel* We are committed to employing the highest quality executive team in the health care services industry. In a challenging business environment, we believe that having highly qualified executive officers is critical for all our constituencies – our patients, hospitals, affiliated clinicians, third party payors, employees, and shareholders. We expect our executives to be of the highest caliber in terms of business acumen and integrity.

*Competitiveness* Our objective is to analyze and understand market forces and practices regarding compensation for executives at similarly situated companies. Our strategy is to establish compensation programs and levels in relation to the external market that best support our corporate strategy.

*Alignment of Interests* Our compensation plans for top executives are designed to have strong links to performance achievements, both in terms of operational and financial results as well as in optimizing shareholder value. We evaluate the relationship between compensation cost, shareholder value and company performance on a regular basis. At-risk elements such as cash incentives and stock-based compensation comprise a significant portion of our overall executive remuneration. For incentive plans, we establish performance goals along a wide range of potential performance results so that the level of compensation received appropriately corresponds to the level of performance achieved.

*Simplicity and Ease of Administration* Our plans are intended to be simple to understand, document, track and administer. As part of this objective, we attempt to limit the number of separate elements of compensation so that we can easily understand the relationships between programs.

*Responsiveness to Circumstances and Understood by Executives* We seek to understand the needs and objectives of our executive officers, and to the degree feasible, reflect those needs and objectives in the programs developed. Additionally, we strive to ensure that executives understand each element and the overall compensation program so that they fully appreciate the value being delivered.

*Compliance with Regulatory Guidelines and Sensible Standards of Corporate Governance* We develop our plans in recognition of, and in compliance with, all applicable rules, statutes, regulations and guidelines. Additionally, we monitor our programs on an ongoing basis to ensure they remain in compliance. Program designs reflect relevant considerations in the areas of accounting cost, tax impact, cash flow constraints and other relevant matters. Lastly, we strive to ensure that all programs are appropriate in light of reasonable and sensible standards of good corporate governance.

#### **Executive Compensation Administration**

The Compensation Committee continually reviews executive compensation to ensure that it reflects our compensation philosophy. In 2004, and again in 2006, the Compensation Committee commissioned Watson

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Wyatt, an independent compensation consultant, to assist it in a thorough review of our compensation practices. In 2006, the Compensation Committee received two comprehensive reports from Watson Wyatt. The first report contained Watson Wyatt's market assessment and recommendations with respect to annual cash compensation for our named executive officers and the second contained Watson Wyatt's market based assessment of total compensation for those named executive officers. The Compensation Committee used the information contained in these reports and its assessment of the performance of our named executive officers, in determining the base salaries of each of the named executive officers for 2006 and 2007 and the grants of stock options and restricted stock made to each of those named executives for both of those years as well (as described in more detail below).

Our Compensation Committee makes compensation decisions around program design and pay adjustments in the context of our compensation philosophy, market practices and total compensation objectives. The Compensation Committee ordinarily positions compensation opportunities at a strategically determined percentile of the market as a means to attract and retain the level of executive talent necessary to deliver sustained performance. Market positioning for individual elements of compensation and benefits, as well as the relationships among elements, are discussed below. Our compensation programs include significant variable components. For example, our annual bonus program for named executive officers is based on the achievement of predetermined target levels of our Company's income from operations and our equity compensation program is based upon the value and increases in the value of our common stock. Actual compensation realized therefore may be more or less than the targeted compensation opportunity in any given year. For 2007, the total direct compensation opportunity for the named executive officers, including salary, target annual bonus and the estimated fair value of equity-based grants was positioned at approximately the median of the market references developed for each of our named executive officers in the 2006 market assessment.

Although it has no formal policy for a specific allocation between current and long-term compensation, or cash and non-cash compensation, the Compensation Committee reviews pay mix for executive officers as compared to typical market practice. Our annual bonus program serves as a method for properly incentivizing and rewarding our named executive officers for the achievement of desired performance levels. Our long-term compensation program serves as both a retention tool as well as a financial incentive, helping to increase the likelihood that top performers will remain with us long-term and be appropriately rewarded for enhancing long-term shareholder value. The long-term compensation program also serves to align the interests of executive officers with our shareholders. We have no formal policy to either retroactively increase or claw back previously awarded bonuses or vested equity compensation in the event of a restatement of our financial results.

The Compensation Committee has considered a number of factors in making decisions on the structure of the programs and individual compensation awards and payments. The primary factors include the analysis and market data provided by Watson Wyatt as discussed below and the Compensation Committee's guiding principles for program design and operation.

The Compensation Committee establishes and approves all elements of compensation for the Chief Executive Officer after careful consideration of all factors it deems appropriate. The Chief Executive Officer makes recommendations on compensation actions for the other executive officers based on market data from Watson Wyatt and according to the same philosophy and objectives the Compensation Committee has adopted (and after the other named executive officers have had an opportunity to review the data provided by Watson Wyatt and to provide the Chief Executive Officer with their input). The Chief Executive Officer's recommendations are then considered for approval by the Compensation Committee, and in some cases are modified by the Compensation Committee during the course of its deliberations.

The Compensation Committee has engaged Watson Wyatt as its independent consultant and advisor. Watson Wyatt also has provided services to management, including technical advice relating to equity compensation to employees generally, and assistance in developing compensation packages for our Regional Presidents and Regional Vice Presidents. In 2006, Watson Wyatt conducted two independent and comprehensive reviews of our executive compensation program, which included an evaluation of the market positioning for cash

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compensation and total compensation and individual pay elements and which were relied upon for 2007 compensation. Specifically, the review covered the following compensation areas:

*Cash Compensation:* direct cash compensation in the form of base salary and annual bonus.

*Total Compensation:* direct cash compensation elements including base salary, annual bonus and long-term incentives (both cash and stock).

*Peer Group Performance Analysis:* historical peer group analysis of key financial metrics relevant to base salary levels, our bonus plan and stock-based compensation.

In conducting the 2006 market assessment, a peer group of 14 healthcare companies with equity market values between \$1 billion and \$6 billion was used to benchmark compensation for the named executive officers. All of the peer group companies were members of the Dow Jones Health Care Providers, and the group constituted a blend of both small cap and large cap companies. The companies included in the peer group were Davita, Inc., Health Management Associates, Lincare Holdings, Inc., Triad Hospitals, Inc., Manor Corp., Community Health Systems, Universal Health Services, Sierra Health Services, Lifepoint Hospitals, Inc., Psychiatric Solutions, Inc., United Surgical Partners, Healthways, Inc., Sunrise Senior Living, Inc., and Apria Healthcare Group.

The following sections describe the various elements of our executive compensation program, including its objectives, market positioning, structure and operation, and other information specific to 2007 payments, awards, and pay actions.

**Base Salary**

Each executive officer is paid a base salary that is reviewed periodically by the Compensation Committee. The salary for our Chief Executive Officer is generally targeted at the market median, and the base salaries of our three other named executive officers are generally targeted at the 75th percentile of the peer group, although individual officer salaries may be above or below those targets. Adjustments to salaries consider the base salary and total compensation market data compiled by Watson Wyatt in the context of the executive's role and responsibilities, experience and tenure, individual performance and contribution to the Company's results as recommended to the Compensation Committee by the Chief Executive Officer (or the Compensation Committee in the case of the Chief Executive Officer).

In light of the significant adjustments to executive officer salaries in 2006 compared to 2005, the Compensation Committee determined that the salaries of the named executive officers should continue at the same levels as were payable for 2006. The schedule below indicates the 2005, 2006 and 2007 base salaries for each of those officers:

	2005 Base Salary	2006 Base Salary	2007 Base Salary
Roger J. Medel, M.D.	\$ 675,000	\$ 800,000	\$ 800,000
Joseph M. Calabro	\$ 450,000	\$ 515,000	\$ 515,000
Karl B. Wagner	\$ 375,000	\$ 430,000	\$ 430,000
Thomas W. Hawkins	\$ 350,000	\$ 400,000	\$ 400,000

The base salaries for 2006 and 2007 of our named executive officers are also included in the Salary column of the Summary Compensation Table.

**Annual Bonuses**

In 2004, our shareholders approved, at the recommendation of our Board of Directors, the Pediatrix Medical Group, Inc. 2004 Incentive Compensation Plan (the Incentive Plan). The purpose of the Incentive Plan is to assist us in attracting, motivating, retaining and rewarding high quality executives and other employees, by



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enabling them to acquire a proprietary interest in our Company and providing them with annual and long-term incentives to expend their maximum efforts in the creation of shareholder value. The Compensation Committee designed the Incentive Plan to satisfy the requirements for performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code.

In March 2007, the Compensation Committee established performance goals for 2007 annual cash bonuses for our named executive officers. The goals were based upon our Company's achievement of certain increases in levels of income from operations in 2007 over 2006. The measures were designed to encourage executive officers to focus on continuing to grow our business while managing associated general and administrative expenses.

Our philosophy is to reward our executive officers for growth in our Company's results of operations. As such, we target significant but steady increases in income from operations. For 2007, the Compensation Committee established a target bonus opportunity equal to 100% of each executive officer's base salary based upon our budgeted income from operations for 2007, adjusted to exclude the effect of anticipated expenses related to the independent review of our stock option practices. This target was approximately 13.7% greater than our 2006 income from operations. Minimum and maximum bonus opportunities were established using quartile extrapolations of the implied growth over our 2006 results provided that no bonus would exceed 200% of base salary.

The following table is illustrative of potential awards to our executive officers of between 0% and 150% of their target bonus for 2007:

Executive Officer	Bonus Opportunity as % of Base Salary							
	2007 Base Salary	\$198,486 or Less	\$198,487	\$207,978	\$216,830	\$225,682	\$234,533	\$243,385 or More
Roger J. Medel, M.D.	\$ 800,000	0.00%	25.00%	50.00%	75.00%	100.00%	125.00%	150.00%
Joseph M. Calabro	\$ 515,000	0.00%	25.00%	50.00%	75.00%	100.00%	125.00%	150.00%
Karl B. Wagner	\$ 430,000	0.00%	25.00%	50.00%	75.00%	100.00%	125.00%	150.00%
Thomas W. Hawkins	\$ 400,000	0.00%	25.00%	50.00%	75.00%	100.00%	125.00%	150.00%

The Compensation Committee establishes key business performance objectives for each of the named executive officers, and retains the right to reduce bonuses if and to the extent those objectives were not met. The Compensation Committee determined that each of the named executives had substantially achieved his key business objectives for 2007, and accordingly that no reductions were appropriate for the 2007 bonuses.

Following the end of the fiscal year, the Compensation Committee determined that our Company's 2007 income from operations, increased by the operating income of our metabolic screening unit which was reported as discontinued operations in our 2007 results, was \$225.6 million, and that each executive officer was eligible for a performance bonus equal to 99.9% of his base salary. The Compensation Committee determined to include the screening unit's operating income because the sale and related accounting treatment were not anticipated when the 2007 bonus targets were set. The Compensation Committee also determined to pay discretionary bonuses to the named executive officers to recognize their efforts during 2007. Inclusive of the discretionary bonuses, our executive officers received total cash bonuses equal to approximately 111% of their respective base salaries. The amounts of these bonuses are included in the Summary Compensation Table under the columns labeled Bonus and Non-equity Incentive Plan Compensation.

In March 2008, the Compensation Committee established the 2008 bonus opportunity for our named executive officers based upon targeted increases in our income from operations for 2008 over the Company's anticipated income from operations for 2007. This bonus opportunity was established so that such bonuses, if any, would qualify as performance-based compensation under Section 162(m). The bonus opportunity as a



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percentage of base salary is the same as what was used for 2007 (other than for Dr. Medel for whom the bonus opportunity is 50% higher at any level of performance, subject to a maximum bonus of 300% of base salary) and the target increases in income from operations are similar to what was used for 2007.

### **Equity-Based Awards**

The Compensation Committee's philosophy is to make equity awards (other than awards to new hires) annually close to mid-year. In 2007, the consideration of equity awards to named executive officers was delayed due to the Company's inability to file its periodic reports with the Securities and Exchange Commission as a result of our Audit Committee's stock option review (which was completed in July, 2007 and the Company's filings were subsequently made in August, 2007). At its meeting held on August 10, 2007, the Compensation Committee made the annual awards for 2007 to the named executive officers in the form of stock options and restricted stock.

### **Stock Options**

An important objective of our long-term incentive program is to provide a strong relationship between the long-term value of our stock and the potential financial gain for employees. Stock options provide our named executive officers with the opportunity to purchase our common stock at a fixed price regardless of future market price. Stock options granted by our Company in 2007 generally vest and become exercisable over a three-year vesting period.

A stock option becomes valuable only if our common stock price increases above the option exercise price and the holder of the option remains employed during the period required for the option to vest, thus providing an incentive for an option holder to remain employed by our Company. In addition, stock options link a portion of an employee's compensation to shareholders' interests by providing an incentive to build long-term value, which in turn should result in increases in the market price of our stock.

The exercise prices of the stock options granted to our named executive officers on August 10, 2007 were equal to the closing price of a share of the Company's common stock on the New York Stock Exchange on that date. Those exercise prices are shown in the Grants of Plan-Based Awards Table. Additional information on these grants, including the number of shares subject to each grant, also is shown in the Grants of Plan-Based Awards Table. All of the stock options granted to the named executive officers in 2007 were nonqualified stock options.

There is a limited term in which our named executive officers can exercise stock options, known as the option term. The option term is generally ten years from the date of grant. At the end of the option term, the right to purchase any unexercised options expires. Option holders generally forfeit any unvested options if their employment with us terminates. The terms of the employment agreement of each named executive officer provides that the executive will have 12 months after termination of the employment agreement for any reason (but not beyond the 10 year expiration date for the option) to exercise any vested non-qualified stock options. Those employment agreements also provide that all unvested stock options vest and become immediately exercisable in the event of a Change in Control (as defined in the employment agreements).

### **Restricted Stock Awards**

Restricted stock awards are intended to retain key employees, including the named executive officers, through vesting periods. Restricted stock awards provide the opportunity for capital accumulation and more predictable long-term incentive value.

Restricted stock awards are shares of our common stock that are awarded with the restriction that the recipient remain with us throughout the award's vesting period. Restricted stock awards by our Company generally vest at the rate of one-third per year beginning on the first anniversary of the date on which the award

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is granted. The purpose of granting restricted stock awards is to encourage ownership that results in business decisions that build long-term shareholder value and thus stock price appreciation, and encourage retention of our named executive officers. Named executive officers are allowed to vote restricted stock awards as a shareholder based on the number of shares held under restriction. Any dividends declared with respect to any restricted stock awards are held until the awards vest, at which time the dividends are paid to the named executive officers. If restricted stock is forfeited, the named executive officer's rights to receive the dividends declared with respect to that stock is forfeited as well. At present, the Company does not pay dividends and it has no current intention to do so in the future.

Any unvested restricted stock generally is forfeited upon termination of the employment of the named executive officer. The employment agreement of each named executive officer provides that in the event of a Change in Control, as defined in the employment agreement, all unvested restricted stock automatically vests.

The number of shares of restricted stock and stock options granted to each executive officer in 2007 was based on several factors including our overall 2006 performance, the Compensation Committee's evaluation of the senior management team in executing the business plan and strategic objectives for 2006, the individual executive's performance assessment in light of his performance objectives, and the peer group market data supplied by the Compensation Committee's consultant in 2006. Equity awards granted in 2007 were generally at the same approximate values as those granted in 2006. In general, long-term compensation is allocated on the basis of the Compensation Committee's judgment concerning the cash and equity incentives and time frames that are optimal to maintain our ability to compete for and retain talented leaders. Information regarding the grants of restricted stock made by our Company to our named executive officers during fiscal year 2007 is included in the Grant of Plan-Based Awards Table.

In 2007, the Compensation Committee continued the approach it began in 2006 of granting a mix of stock options and restricted stock with approximately equal values. This balanced approach was considered to be more effective in achieving program objectives than either granting stock options or restricted stock alone.

Stock options provide strong motivation for achieving sustained levels of share price appreciation, but a 2006 change in the accounting rules made stock options relatively less attractive due to the impact they now have on our financial statements. Gains realized by officers upon exercise of stock options are expected to qualify as performance-based compensation as defined by 162(m) and be fully tax deductible.

Because they have intrinsic value when granted, restricted stock with vesting conditions provide a stronger retention incentive and result in executives sharing immediate downside risk with shareholders. Using restricted stock also results in our using fewer shares to deliver the same value and reduces potential future dilution. After considering all of these factors, management recommended and the Compensation Committee approved the balanced approach used for 2007 grants.

The restricted stock awards granted by the Compensation Committee for 2007 were subject to performance-based vesting as follows: if the Company's net patient service revenue, as determined in accordance with generally accepted accounting principles, for the nine months ended March 31, 2008 equaled or exceeded \$656,250,000, then each of the executive officers' restricted shares will vest in three equal increments on June 1, 2008 ( Increment 1 ), June 1, 2009 ( Increment 2 ) and June 1, 2010 ( Increment 3 ). If, however, net patient service revenue does not equal or exceed \$656,250,000 for that period, then Increment 1 will vest on the later of June 1, 2008 or the date on which the Company's net patient service revenue, as determined in accordance with GAAP, for any 12 consecutive month period commencing on or after July 1, 2007 equals or exceeds \$875,000,000 (the Revenue Date ), Increment 2 will vest on the later of June 1, 2009 or the Revenue Date and Increment 3 will vest on the later of June 1, 2010 or the Revenue Date. The Compensation Committee intends that these restrictive stock awards qualify as performance-based compensation that is not subject to the deduction limitations imposed by Section 162(m).

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### **Equity Grant Practices**

The Compensation Committee generally makes annual equity awards close to mid-year. For the reasons discussed above, however, the annual grants for 2007 were delayed until August 31, 2007 when our 2006 results were available.

The Compensation Committee determines the effective date of such awards without regard to current or anticipated stock price levels. The Compensation Committee also may make, and in the past has made, special grants during the course of the year, primarily for new hires, promotions, to retain valued employees or to reward exceptional performance. These special grants may be subject to performance or time vesting, and are issued on the date of grant approval or upon a date certain following the grant approval date, such as the date on which a new hire commences his or her employment with the Company.

In discharging its responsibility for administering the Company's stock-based compensation programs, the Compensation Committee regularly monitors and evaluates the total cost of such programs. In prior years and most recently in 2006, Watson Wyatt prepared an analysis of the Company's programs in the areas of total share utilization, annual grant rates, and operating expense as compared to peer companies. The analysis results are used by the Compensation Committee in evaluating management's annual equity grant recommendations for all program participants, including the named executive officers. In evaluating the Company's total cost from stock compensation programs, the Compensation Committee takes into consideration the fact that compared to peer company practices, the Company's retirement benefit programs are relatively conservative, particularly for the named executive officers.

For a number of years, the Company has implemented enhanced equity grant procedures. Stemming, in part, from the results of our Audit Committee's review of historical stock option granting practices, the Board of Directors has adopted further revised procedures designed to promote the proper authorization, documentation and accounting for all equity grants. As a result of these enhancements, it is now our policy that the Compensation Committee or the Board of Directors must formally approve all equity awards during an in person or telephonic meeting or by the unanimous written consent executed by all members of the Compensation Committee or the Board of Directors, as the case may be, it being understood that no equity award granted pursuant to any such written consent may have an effective date earlier than the date that all executed counterparts of such unanimous written consent are delivered to the General Counsel of the Company.

The exercise price for any equity award, the value of which is based upon a grant date value of the Company's common stock, will be the closing sales price for a share of the Company's common stock as reported on the New York Stock Exchange on the effective date of the grant as approved by the Compensation Committee or the Board of Directors, which date may not be prior to either the date such grant was approved or the commencement date of employment of the employee to whom the equity award is being made.

Subject to these policies and procedures, the Compensation Committee or the Board of Directors may approve grants of equity awards at any time. However, grants to employees other than newly hired employees or prospective employees not yet hired may be effective only on a date within a trading window as defined by the Company's Policy Statement on Inside Information and Insider Trading (effective February 2004), as amended from time to time (the Insider Trading Policy). For example, a grant approved by the Compensation Committee or the Board of Directors during a black-out period (as defined in such policy) will be effective on a date during the next trading window as determined by the Compensation Committee or the Board of Directors on the date such grant is approved.

The Company has not adopted any stock ownership guidelines for its executives or directors. The Compensation Committee does, however, periodically review the levels of equity ownership by its executives. The May 2006 report from Watson Wyatt contained information reviewed by the Compensation Committee with respect to values of the Company stock owned by each of the named executive officers, the percentages of total

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stock ownership of the Company owned by each, and the multiples of salary owned by each, and compared that information to stock ownership by executives within the Company's peer group. The Compensation Committee did take that information into account in determining equity awards for 2007.

Our insiders can only buy or sell Company stock in accordance with our Insider Trading Policy and our employees generally can only buy or sell Company stock in accordance with our Statement of Policy Prohibiting Insider Trading To All Employees (effective August 2003).

### **Retirement and Deferred Compensation Plans**

We maintain the Pediatrix Medical Group Thrift and Profit Sharing Plan (the 401(k) Plan), which is a 401(k) plan, to enable eligible employees to save for retirement through a tax-advantaged combination of elective employee contributions and our matching contributions, and provide employees the opportunity to directly manage their retirement plan assets through a variety of investment options. The 401(k) Plan allows eligible employees to elect to contribute from 1% to 60% of their eligible compensation to an investment trust on a pre-tax basis, up to the maximum dollar amounts permitted by law. In 2007, the maximum employee elective contribution to the 401(k) Plan was \$15,500, plus an additional \$5,000 for employees who were at least 50 years old in 2007. Eligible compensation generally means all wages, salaries and fees for services from the Company. Matching contributions under the 401(k) Plan are discretionary. For 2007, the Company matched 100% of the first 4% of eligible compensation that each eligible participant elected to be contributed to the 401(k) Plan on his or her behalf. The portion of an employee's account under the 401(k) Plan that is attributable to matching contributions vests as follows: 30% after 1 year of service, 60% after 2 years of service, and 100% after 3 years of service. However, regardless of the number of years of service, an employee is fully vested in our matching contributions (and the earnings thereon) if the employee retires at age 65 or later, or terminates employment by reason of death or total and permanent disability. The 401(k) Plan provides for a variety of different investment options, in which the employee's and the Company's contributions are invested. One of those investments is a fund that is invested solely in the Company's common stock.

Although the Company maintains a non-qualified deferred compensation plan, none of the named executive officers participates in that Plan.

The amounts of the Company's matching contributions under the 401(k) Plan for 2007 for each of the named executive officers is included in the All Other Compensation column of the Summary Compensation Table.

### **Other Benefits and Perquisites**

We provide officers with certain benefits designed to protect them and their immediate families in the event of illness, disability, or death. We believe it is necessary to provide these benefits in order for us to be successful in attracting and retaining executives in a competitive marketplace, and to provide financial security in these circumstances. Named executive officers are eligible for health and welfare benefits available to all eligible Company employees during active employment under the same terms and conditions. These benefits include medical, dental, vision, short-term and long-term disability and group-term life insurance coverage.

Pursuant to the terms of their employment agreements, Dr. Medel and Messrs. Calabro and Wagner each are entitled to not less than 38 days, and Mr. Hawkins is entitled to not less than 28 days, paid leave time each year for vacation, illness, injury and other similar purposes in accordance with our policies in effect from time to time. Any leave time not used during a calendar year may be carried over to the next year to the extent permitted under those policies. Dr. Medel and Mr. Calabro each are entitled under their employment agreements, to utilize our aircraft in which the Company owns a fractional interest for personal travel. Dr. Medel's personal use of the aircraft may not exceed 75 hours of flight in any calendar year, and Mr. Calabro's personal use of the aircraft may not exceed 40 hours of flight in any calendar year, without the consent of the Compensation Committee.

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Dr. Medel and Mr. Calabro did utilize our aircraft for personal travel in 2007. The incremental cost to the Company of these benefits for Dr. Medel and Mr. Calabro is included in the All Other Compensation column of the Summary Compensation Table.

The Compensation Committee has reviewed our perquisites expenditures, and believes they continue to be an important element of the overall compensation package to retain current officers, and in fact command a higher perceived value than the actual cost.

## **Termination of Employment and Change in Control Agreements**

As described in greater detail below, the employment agreements between the Company and each of the named executive officers provide for the payment of certain compensation and benefits in the event of the termination of an executive's employment, the amount of which varies depending upon the reason for such termination. The Compensation Committee has reviewed the essential terms of these termination provisions, and believes they are reasonable, appropriate, and generally consistent with market practice. Those provisions include a reimbursement by the Company to the executive of any excise tax imposed upon the executive pursuant to Section 4999 of the Code with respect to any excess parachute payments, as that term is defined in Section 280G of the Code, that the executive receives as a result of a change in control of the Company (as defined in the employment agreements). The effects of Section 4999 are unpredictable and can have widely divergent and unexpected effects based on an executive's personal compensation history. Therefore, to provide an equal level of benefit across individuals without regard to the effect of the excise tax, the Company has determined that the Section 4999 gross up payments are appropriate for the Company's most senior level executives.

**Table of Contents****Summary Compensation Table**

The following table sets forth the 2007 and 2006 compensation for our principal executive officer, principal financial officer, and all of our other executive officers.

Name and Principal Position	Year	Salary	Bonus(7)	Stock Awards(1)	Option Awards(2)	Non-equity	All Other Compensation	Total Compensation
						Incentive Plan Compensation		
Roger J. Medel, M.D.	2007	\$ 800,000	89,600	\$ 1,131,587	\$ 589,887	\$ 799,200	\$ 83,282(3)	\$ 3,493,556
Chief Executive Officer	2006	\$ 800,000		\$ 1,478,223	\$ 668,986	\$ 945,846	\$ 50,516(3)	\$ 3,943,571
Joseph M. Calabro	2007	\$ 515,000	57,680	\$ 848,691	\$ 442,411	\$ 514,485	\$ 31,505(4)	\$ 2,409,772
President and	2006	\$ 515,000		\$ 1,477,629	\$ 455,950	\$ 608,888	\$ 9,424(4)	\$ 3,066,891
Chief Operating Officer								
Karl B. Wagner	2007	\$ 430,000	48,160	\$ 636,497	\$ 331,805	\$ 429,570	\$ 9,420(5)	\$ 1,885,452
Chief Financial Officer and Treasurer	2006	\$ 430,000		\$ 1,108,231	\$ 341,965	\$ 508,392	\$ 9,424(5)	\$ 2,398,012
Thomas W. Hawkins	2007	\$ 400,000	44,800	\$ 565,746	\$ 294,936	\$ 399,600	\$ 420(6)	\$ 1,705,502
Senior Vice President,	2006	\$ 400,000		\$ 739,172	\$ 365,537	\$ 472,923	\$ 624(6)	\$ 1,978,256
General Counsel and Secretary								

- (1) Stock awards for 2007 consist of performance-based restricted stock awards. Stock awards for 2006 consist of time-vested restricted stock awards. The amounts in this column do not reflect compensation actually received by the named executive officer nor do they reflect the actual value that will be recognized by the named executive officer. Instead, the amounts reflect the compensation cost recognized by us in fiscal years 2007 and 2006 for financial statement reporting purposes in accordance with SFAS 123(R) for stock awards granted in 2007, 2006 and in prior years. See the Grants of Plan-Based Awards Table for information on restricted stock awards granted in 2007. For information regarding the assumptions made in calculating the amounts reflected in this column, see Note 13, Stock Incentive Plans and Stock Purchase Plans, to our Consolidated Financial Statements included in our 2007 Annual Report to Shareholders.
- (2) The amounts in this column do not reflect compensation actually received by the named executive officer nor do they reflect the actual value that will be recognized by the named executive officer. Instead, the amounts reflect the compensation cost recognized by us in fiscal years 2007 and 2006 for financial statement reporting purposes in accordance with SFAS 123(R) for stock options granted in 2007, 2006 and in prior years. See the Grants of Plan-Based Awards Table for information on stock options granted in 2007. For information regarding the assumptions made in calculating the amounts reflected in this column, see Note 13, Stock Incentive Plans and Stock Purchase Plans, to our Consolidated Financial Statements included in our 2007 Annual Report to Shareholders.
- (3) Reflects incremental costs in 2007 and 2006 of \$67,778 and \$41,092, respectively, for Dr. Medel's personal use of an aircraft, which Pediatrix owned pursuant to a fractional ownership program, in accordance with his employment agreement, additional compensation of \$9,000 and \$8,800, respectively, for 401(k) thrift and profit sharing matching contributions, and costs incurred by Pediatrix of \$420 and \$624, respectively, for term life insurance coverage. Also includes costs incurred by Pediatrix in 2007 and 2006 for spousal travel to and entertainment (recreational activities) at Pediatrix's annual board retreats which do not exceed the greater of \$25,000 or 10% of the total amount of perquisites and personal benefits received in either year.
- (4) Reflects incremental costs in 2007 of \$12,994 for Mr. Calabro's personal use of an aircraft, which Pediatrix owns pursuant to a fractional ownership program, in accordance with his employment agreement, additional compensation in 2007 and 2006 of \$9,000 and \$8,800, respectively, for 401(k) thrift and profit sharing matching contributions, and costs incurred by Pediatrix in 2007 and 2006 of \$420 and \$624, respectively, for term life insurance coverage. Also includes costs incurred by Pediatrix in 2007 for spousal travel to and entertainment (recreational activities) at the Pediatrix board retreat which do not exceed the greater of \$25,000 or 10% of the total amount of perquisites and personal benefits received.
- (5) Reflects other compensation in 2007 and 2006 of \$9,000 and \$8,800, respectively, for 401(k) thrift and profit sharing matching contributions and \$420 and \$624, respectively, for term life insurance coverage.
- (6) Reflects other compensation in 2007 and 2006 of \$420 and \$624, respectively, for term life insurance coverage.
- (7) These discretionary bonuses were paid to recognize the efforts during 2007 of the named executive officers.

**Table of Contents****Grants of Plan-Based Awards in 2007**

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(2)	All Other Option Awards: Number of Securities Underlying Options(3)	Exercise or Base Price of Option Awards (\$/Sh)(4)	Grant Date Fair Value of Stock and Option Awards(5)
		Threshold \$	Target \$	Maximum \$				
Roger J. Medel, M.D.	8/10/07				16,667			\$ 934,185
	8/10/07	\$ 0	\$ 800,000	\$ 1,600,000		50,000	\$ 56.05	\$ 763,500
Joseph M. Calabro	8/10/07				12,500			\$ 700,625
	8/10/07	\$ 0	\$ 515,000	\$ 1,030,000		37,500	\$ 56.05	\$ 572,625
Karl B. Wagner	8/10/07				9,375			\$ 525,469
	8/10/07	\$ 0	\$ 430,000	\$ 860,000		28,125	\$ 56.05	\$ 429,469
Thomas W. Hawkins	8/10/07				8,333			\$ 467,065
	8/10/07	\$ 0	\$ 400,000	\$ 800,000		25,000	\$ 56.05	\$ 381,750

- (1) These columns reflect the range of payouts for 2007 annual cash bonuses under the Pediatrix 2004 Incentive Compensation Plan. Amounts actually earned in 2007 are reported as Non-Equity Incentive Plan Compensation in the Summary Compensation Table. For a more detailed description of the annual cash awards, see the section entitled "Annual Bonuses" in the Compensation Discussion and Analysis.
- (2) Represents restricted stock awards granted under the Pediatrix 2004 Incentive Compensation Plan. The restricted stock awards for all of the named executive officers vest as follows: if the Company's net patient service revenue, as determined in accordance with generally accepted accounting principles, for the nine months ended March 31, 2008 equaled or exceeded \$656,250,000, then each of the executive officers' restricted shares will vest in three equal increments on June 1, 2008 (Increment 1), June 1, 2009 (Increment 2) and June 1, 2010 (Increment 3). If, however, net patient service revenue does not equal or exceed \$656,250,000 for that period, then Increment 1 will vest on the later of June 1, 2008 or the date on which the Company's net patient service revenue, as determined in accordance with GAAP, for any 12 consecutive month period commencing on or after July 1, 2007 equals or exceeds \$875,000,000 (the Revenue Date), Increment 2 will vest on the later of June 1, 2009 or the Revenue Date and Increment 3 will vest on the later of June 1, 2010 or the Revenue Date. For a more detailed description of our restricted stock and restricted stock granting policies, see the sections entitled "Restricted Stock Awards" and "Equity Grant Practices" in the Compensation Discussion and Analysis.
- (3) Represents stock option awards granted under the Pediatrix 2004 Incentive Compensation Plan. The stock option awards for all of the named executive officers vest in three equal annual installments beginning on June 1, 2008. For a more detailed description of our stock options and stock option granting policies, see the sections entitled "Stock Options" and "Equity Grant Practices" in the Compensation Discussion and Analysis.
- (4) This column shows the exercise price for the stock options granted, which was the closing price of a share of Pediatrix's common stock on the New York Stock Exchange on August 10, 2007.
- (5) The grant date fair value of the restricted stock and stock option awards is determined pursuant to SFAS 123(R) and represents the total amount that we will expense in our financial statements over the relevant vesting period. For information regarding the assumptions made in calculating the amounts reflected in this column, see Note 13, "Stock Incentive Plans and Stock Purchase Plans," to our Consolidated Financial Statements included in our 2007 Annual Report to Shareholders.

**Table of Contents****Outstanding Equity Awards at 2007 Fiscal Year-End**

Name	Option Awards					Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Yet Vested(1)
	Number of Securities Underlying Options Exercisable	Number of Securities Underlying Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unearned Awards	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Yet Vested	Market Value of Shares or Units of Stock That Have Not Yet Vested(1)	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Yet Vested	
Roger J. Medel, M.D.	50,000(2)			\$ 18.15	12/17/2011	22,222(9)	\$ 1,514,429	16,667(11)	\$ 1,135,856
	50,000(3)			\$ 19.92	12/16/2012	13,888(10)	\$ 946,467		
	400,000(4)			\$ 12.90	04/02/2013				
	200,000(5)			\$ 30.99	05/20/2014				
	20,834(6)			\$ 44.70	06/01/2016				
		41,666(7)		\$ 44.70	06/01/2016				
		50,000(8)		\$ 56.05	08/10/2017				
Joseph M. Calabro		31,250(7)		\$ 44.70	06/01/2016	16,667(9)	\$ 1,135,856	12,500(11)	\$ 851,875
		37,500(8)		\$ 56.05	08/10/2017	10,416(10)	\$ 709,850		
Karl B. Wagner		23,437(7)		\$ 44.70	06/01/2016	12,500(9)	\$ 851,875	9,375(11)	\$ 638,906
		28,125(8)		\$ 56.05	08/10/2017	7,812(10)	\$ 532,388		
Thomas W. Hawkins	10,417(6)			\$ 44.70	06/01/2016	11,111(9)	\$ 757,215	8,333(11)	\$ 567,894
		20,833(7)		\$ 44.70	06/01/2016	6,944(10)	\$ 473,234		
		25,000(8)		\$ 56.05	08/10/2017				

- (1) Based on a stock price of \$68.15, which was the closing price of a share of Pediatrix's common stock on the New York Stock Exchange on December 31, 2007.
- (2) These stock options vested on December 17, 2001.
- (3) These stock options vested on December 17, 2002.
- (4) These stock options vested in three equal installments on each of April 2, 2004, April 2, 2005 and April 2, 2006.
- (5) These stock options vested in three equal installments on each of November 20, 2004, November 20, 2005 and November 20, 2006.
- (6) These stock options vested on June 1, 2007.
- (7) These stock options vest in two equal installments on each of June 1, 2008 and June 1, 2009.
- (8) These stock options vest in three equal installments on each of June 1, 2008, June 1, 2009 and June 1, 2010.
- (9) These restricted stock grants vest on June 1, 2008.
- (10) These restricted stock grants vest on each of June 1, 2008 and June 1, 2009.
- (11) These restricted stock grants vest as follows: if the Company's net patient service revenue, as determined in accordance with generally accepted accounting principles, for the nine months ended March 21, 2008 equaled or exceeded \$656,250,000, then each of the executive officers' restricted shares will vest in three equal increments on June 1, 2008 ( Increment 1 ), June 1, 2009 ( Increment 2 ) and June 1, 2010 ( Increment 3 ). If, however, net patient service revenue does not equal or exceed \$656,250,000 for that period, then Increment 1 will vest on the later of June 1, 2008 or the date on which the Company's net patient service revenue, as determined in accordance with GAAP, for any 12 consecutive month period commencing on or after July 1, 2007 equals or exceeds \$875,000,000 (the Revenue Date ), Increment 2 will vest on the later of June 1, 2009 or the Revenue Date and Increment 3 will vest on the later of June 1, 2010 or the Revenue Date.



**Table of Contents****Option Exercises and Stock Vested in Fiscal Year 2007**

Name	Option Awards		Stock Awards(1)	
	Number of Shares Acquired Upon Exercise	Value Realized on Exercise(2)	Number of Shares Acquired Upon Vesting	Value of Shares Acquired Upon Vesting(3)
Roger J. Medel, M.D.		\$	29,167	\$ 1,680,603
Joseph M. Calabro	65,625	\$ 1,515,711	21,875	\$ 1,260,438
Karl B. Wagner	49,219	\$ 1,136,254	16,407	\$ 945,371
Thomas W. Hawkins	33,336	\$ 853,458	14,584	\$ 840,272

- (1) These columns reflect restricted stock awards previously awarded to the named executive officer that vested during 2007.
- (2) Calculated based on the sales price received by the named executive upon the sale of the shares of Pediatrix common stock acquired upon the exercise of such stock options less the exercise price of such options.
- (3) Calculated based on the closing price of a share of Pediatrix's common stock on the New York Stock Exchange on the vesting date.

**Potential Payments Upon Termination or Change-in-Control**

Each of the named executive officers has an employment agreement with our Company that provides for the Company to make certain payments and provide certain benefits to the executive upon termination of employment with the Company. Those provisions are summarized below.

*Termination by Company for Cause.* In the event that an executive's employment with the Company is terminated by the Company for Cause (as defined in the employment agreement), then the Company will pay the executive his base salary through the termination date at the rate in effect at the termination date and reimburse the executive for any reasonable business expenses incurred through the date of termination. In addition, if the executive's employment is terminated by reason of his failure or refusal to perform his duties in any material respect as reasonably assigned to him, then the Company will continue to pay the employee his base salary for a period of 12 months after the termination date.

The term "Cause" is defined in each of the employment agreements to mean (a) any act or omission of the executive, which is materially contrary to the business interests, reputation or goodwill of the Company; (b) a material breach by the executive of the executive's obligations under his employment agreement, which breach is not promptly remedied upon written notice from the Company; (c) executive's failure or refusal to perform executive's duties in any material respect as reasonably assigned pursuant to his employment agreement, other than a failure or refusal which is remedied by the executive promptly after receipt of written notice thereof by the Company; or (d) executive's failure or refusal to comply with a reasonable policy, standard or regulation of the Company in any material respect, including but not limited to the Company's sexual harassment, or other unlawful harassment, work place discrimination or substance abuse policies.

*Termination by executive due to poor health or due to executive's death.* In the event that an executive terminates his employment because his health has become impaired to any extent that makes the continued performance of his duties hazardous to the executive's physical or mental health or life or the executive's employment terminates because of his death, then the Company will pay to the executive (or his estate) his base salary to the termination date, pay the executive a pro rata portion of the bonus that the executive would have received had his employment not terminated (as determined in accordance with the employment agreement) and reimburse the executive for any reasonable business expenses incurred through the date of termination. In addition, if the executive terminates his employment due to poor health, the executive will receive any disability payments otherwise payable under any plans provided by the Company.

*Termination due to disability.* If the executive's employment terminates by reason of his Disability (as defined in his employment agreement), then the Company will continue to pay to the executive his base salary

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for the first 90 days of Disability. Thereafter, payments, if any, will be administered pursuant to the Company's long-term disability policy. The executive also would receive 50% of his annual base salary at the rate in effect at the termination date, payable in 6 equal monthly installments after the termination date, a pro-rata bonus for the year in which his employment terminates and a reimbursement for any reasonable business expenses incurred through the date of termination.

*Termination by Company without Cause or by Executive for Good Reason.* If the Company terminates an executive's employment without Cause (as defined in the employment agreement), the Company terminates the executive's employment for any reason within 24 months after a Change in Control (as defined in the employment agreement), or an executive terminates his employment for Good Reason (as defined in the employment agreement), then the Company will (a) pay executive's base salary through the termination date plus any reimbursement owed to the executive for any reasonable business expenses incurred through the date of termination, (b) continue to pay the executive's base salary for a period of 24 months after the termination date, (c) on the first and second anniversaries of the termination date, pay the executive an amount equal to the lesser of his average annual performance bonus or his bonus for the year immediately preceding his termination, and (d) pay the executive a pro rata portion of the bonus he would have received for the year in which his employment terminates. For this purpose, average annual performance bonus means the executive's base salary multiplied by a percentage equal to the average of the percentages that the performance bonuses paid to the executive for the three full calendar years prior to the termination bear to the executive's base salary for the calendar year for which the performance bonus relates. If the termination is in connection with a Change in Control (as defined in the employment agreement), then the performance bonuses referred to in (c) above would be paid to the executive in a lump sum within 90 days of the termination date.

The employment agreement for each named executive officer defines "Good Reason" to mean:

- (a) the assignment to the executive of any duties inconsistent in any material respect with the executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as assigned by executive's supervisor, or any other action by the Company that results in a material diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of written notice from the executive;
- (b) any material failure by the Company to comply with its obligations to pay the executive the compensation and benefits provided under the executive's employment agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of written notice from the executive;
- (c) the requirement by the Company that the executive be based at any office or location outside of twenty-five (25) miles from the location of the executive's service as of the date hereof, except for travel reasonably required in the performance of the executive's duties;
- (d) a decrease in executive's base salary or failure to award incentive compensation as contemplated by the executive's employment agreement;
- (e) the failure of the Company to set a performance bonus target in accordance with the executive's employment agreement or to pay a performance bonus otherwise due to the executive;
- (f) the termination by the Company of the employment of two (2) Key Executives within one (1) year period or three (3) Key Executives within a two (2) year period. For this purpose the employment agreement defines, "Key Executives" to mean the individuals serving as the Company's Chief Executive Officer, President, Chief Financial Officer and General Counsel as of the date on which the employment agreement was entered into; or

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(g) a Change in Control of the Company. For purposes of the employment agreement, Change in Control is defined to 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 Company's Board of Directors during any two (2) consecutive year period after the date of the agreement (the Two-Year Period). Applicable Directors shall mean those individuals who are members of the Board of Directors at the inception of the Two-Year Period and any new director whose election to the Board of Directors or nomination for election to the Board of Directors 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.

*Termination by employee.* If the executive terminates his employment other than for Good Reason (as defined in his employment agreement), the Company will continue to pay the executive his base salary for a period of 90 days, and if in connection with such termination the executive gives sufficient notice and executes a general release of the Company, the Company will pay the executive a pro rata portion of the bonus that the executive would have received had his employment not terminated (as determined in accordance with the employment agreement). In addition, the Company will reimburse the executive for any reasonable business expenses incurred through the date of termination. If the Company specifies a termination date that is less than 90 days after the Company's receipt of written notice of such termination from the executive, then the Company will continue to pay to the executive his base salary for a period equal to 90 days minus the number of days from the executive's notice of the termination date.

*Continuation of Benefit Plans.* The employment agreements for each of the named executive officers also provide for the continuation of health, medical, hospitalization and other similar health insurance programs as if the executive were still an employee of the Company during any period in which the executive is entitled to a continuation of his base salary on account of the termination of his employment by reason of his Disability, by the Company without Cause, or by the executive for Good Reason. In addition, if (a) the executive has been an employee of the Company for at least 5 years, (b) the termination is for any reason other than by the Company for Cause, and (c) if requested by the Company, the executive continues to provide certain transition services to the Company (see discussion below), then the executive and his dependents will be entitled to continue to participate in the Company's group health and welfare plans for a period of 5 years following the termination date (or the last day of the period during which he provides transition services) at the same cost to the executive (or the executive's family in the case of the executive's death) as such benefits are provided to other similarly situated active employees of the Company.

*Payments in the Event of a Change in Control of the Company.* Each of the employment agreements for the named executive officers requires the Company to increase or gross-up any amounts payable to an executive that are contingent upon a Change in Control (as defined in the employment agreements) by an amount that will reimburse the executive, on an after-tax basis, for any excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended, on any amounts that are deemed to be excess parachute payments, and for any interest or penalties incurred by an executive with respect to any such excise tax. In addition, in the event of a Change in Control (as defined in the employment agreements), all unvested stock options, stock appreciation rights, restricted stock and other incentive compensation awards held by the executive will automatically vest and, in the case of stock options, become immediately exercisable. The executive also will be allowed a period of 12 months after termination of employment for any reason during which to exercise any vested options that may be granted under the Company's 2004 Incentive Compensation Plan and/or any other similar plan adopted by the Company.

*Employment Transition and Severance Agreement.* If the Company so requests within five business days following a termination of the executive's employment by reason of the executive's disability, termination by the

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Company without Cause, termination by the executive due to poor health, or termination by the executive for Good Reason, then the executive will continue to be employed by the Company on a part time basis for a period (the transition period ) to be determined by the Company of up to 90 days, unless extended by mutual agreement. During this transition period, the executive is required to perform such services as may reasonably be required for the transition to others of matters previously within the executive's responsibilities. Unless otherwise mutually agreed, the executive will not be required to serve more than five days per month during the transition period. For services during the transition period, the executive will be compensated at a daily rate equal to his base salary immediately prior to the termination of his employment divided by 365. In addition, if the executive fully satisfies his obligations during the transition period and complies with the various restrictive covenants contained in his employment agreement, then all stock options, restricted stock and other incentive compensation awards granted to the executive by the Company prior to termination of employment will continue to vest.

*Payments of Unused Leave Time.* In accordance with the Company's Paid Time Off policies, an executive will be paid any earned but unused paid time off upon termination. This payment shall occur in all termination events. In addition to the leave time that the executive accrues in any year, such executive may carry forward fifteen days of leave time from the prior year; therefore, the maximum payout upon termination for each executive would be the value of such executive's contracted annual leave time plus fifteen carry-over days.

*Restrictive Covenants.* Pursuant to his employment agreement, each executive officer is subject to certain restrictive covenants that survive termination of employment. If the executive fails to comply with any of those restrictive covenants, he will not be entitled to receive any further payments or benefits as a result of the termination of his employment (other than his base salary through the date of termination and reimbursement of any reasonable business expenses incurred through the date of termination.) In addition, the Company then will have the right to terminate without advance notice any future payments and benefits of every kind that otherwise would be due to the executive on account of his termination of employment.

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The following tables illustrate the payments and benefits that each named executive officer would have received under his employment agreement if his employment with the Company had terminated for any of the reasons described above on December 31, 2007. The amounts presented in the tables are estimates only and do not necessarily reflect the actual value of the payments and other benefits that would be received by the named executive officers, which would only be known at the time that employment actually terminates.

Executive	Compensation Components	Change in Control	TRIGGERING EVENT				
			By Executive without Good Reason	By Company for Cause	By Company w/out Cause or by Executive for Good Reason	By the Company by Reason of Executive Disability	By Executive Due to Poor Health or Death
Roger J. Medel, M.D.	Cash Severance(1)		\$ 1,086,060	(5)	\$ 4,266,400	\$ 1,285,260	\$ 888,800
	Long term Incentives(2)	\$ 5,178,819					
	Welfare Benefits and PTO(3) Section 280G Gross-up(4)		\$ 241,407	\$ 163,080	\$ 241,407	\$ 241,407	\$ 241,407
	<b>Total Benefit to Employee</b>	<b>\$ 5,178,819</b>	<b>\$ 1,327,467</b>	<b>\$ 163,080</b>	<b>\$ 4,507,807</b>	<b>\$ 1,526,667</b>	<b>\$ 1,130,207</b>
Joseph M. Calabro	Cash Severance(1)		\$ 699,151	(6)	\$ 2,746,495	\$ 827,901	\$ 572,165
	Long term Incentives(2)	\$ 3,884,143					
	Welfare Benefits and PTO(3) Section 280G Gross-up(4)		\$ 164,351	\$ 104,983	\$ 164,351	\$ 164,351	\$ 164,351
	<b>Total Benefit to Employee</b>	<b>\$ 3,884,143</b>	<b>\$ 863,502</b>	<b>\$ 104,983</b>	<b>\$ 2,910,846</b>	<b>\$ 992,252</b>	<b>\$ 736,516</b>
Karl B. Wagner	Cash Severance(1)		\$ 583,757	(7)	\$ 2,293,190	\$ 691,257	\$ 477,730
	Long term Incentives(2)	\$ 2,913,079					
	Welfare Benefits and PTO(3) Section 280G Gross-up(4)		\$ 165,521	\$ 87,656	\$ 165,521	\$ 165,521	\$ 165,521
	<b>Total Benefit to Employee</b>	<b>\$ 2,913,079</b>	<b>\$ 749,278</b>	<b>\$ 87,656</b>	<b>\$ 2,458,711</b>	<b>\$ 856,778</b>	<b>\$ 643,251</b>
Thomas W. Hawkins	Cash Severance(1)		\$ 543,030	(8)	\$ 2,133,200	\$ 643,030	\$ 444,400
	Long term Incentives(2)	\$ 2,589,377					
	Welfare Benefits and PTO(3) Section 280G Gross-up(4)		\$ 67,428	\$ 66,155	\$ 76,844	\$ 68,700	\$ 66,155
	<b>Total Benefit to Employee</b>	<b>\$ 2,589,377</b>	<b>\$ 610,458</b>	<b>\$ 66,155</b>	<b>\$ 2,210,044</b>	<b>\$ 711,730</b>	<b>\$ 510,555</b>

- (1) Cash severance includes: (i) in the case of a termination by the executive without Good Reason (as defined in the executive's employment agreement), continuation of base salary for 90 days, the actual performance bonus on a pro rata basis that would have been payable to executive for the fiscal year if executive had not been terminated so long as executive gives sufficient notice and executes a general release of Company and a reimbursement for any reasonable business expenses incurred through the date of termination, (ii) in the case of termination by the Company without Cause or by the executive for Good Reason, (a) continuation of base salary through the termination date, plus any reimbursement owed to the executive for any reasonable business expenses incurred through the date of termination, (b) continuation of base salary for 24 months after the termination date, (c) on the first and second anniversaries of the termination date, the lesser of the executive's average annual performance bonus (as defined in the executive's employment agreement) or his prior year's bonus (this amount is paid as a lump sum if the termination is in connection with a Change in Control (as defined in the executive's employment agreement)) and (d) the actual performance bonus on a pro rata basis that would have been payable to executive for the fiscal year if executive had not been terminated, (iii) in the case of termination by the Company on account of the executive's Disability (as defined in the executive's employment agreement), continuation of base salary for 90 days, continuation of 50% of base salary for an additional 6 months, the actual performance bonus on a pro rata basis that would have been payable to executive for the fiscal year if executive had not been terminated and a reimbursement for any reasonable business expenses incurred through the date of termination, and (iv) in the case of termination by the executive due to executive's Poor Health or Death (as defined in the executive's employment agreement), the executive's base salary through the termination date, the actual performance bonus on a pro rata basis that would have been payable to executive for the fiscal year if executive had not been terminated and a reimbursement for any reasonable business expenses incurred through the date of termination.

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- (2) This amount reflects the intrinsic value (i.e. the amount by which the closing price of a share of the Company's common stock on the New York Stock Exchange on December 31, 2007 (\$68.15) exceeded the exercise price) of each of the executive's unvested stock options that would become vested as a result of a Change in Control. Also included is the value of each of the executive's unvested restricted shares as of December 31, 2007 that would become vested as a result of a Change in Control. Those are the only equity awards outstanding as of December 31, 2007 for named executive officers as to which there would be any acceleration of vesting if a Change in Control had occurred on December 31, 2007. This accelerated vesting will occur whether or not the executive's employment is terminated.
- (3) These amounts are based on the current cost to us of providing the named executive's current medical, dental, vision and life insurance coverage during the period over which base salary continuation is required as described above. In the case of Dr. Medel and Messrs. Calabro and Wagner, who were employed for at least 5 years on December 31, 2007, the Company provides such coverage for 5 years after termination of the executive's employment. The cost of these welfare benefits was derived by using the current cost to the Company and increasing such cost by 10% per year for the applicable period. The Company continues to pay the employer portion of these welfare benefits during the applicable period, provided that the employee must continue to make the required employee contributions. These amounts also include the value of accrued but unused paid leave time off (PTO) as of December 31, 2007, (assuming executive used no leave time during 2007 and had the maximum amount of leave time from 2006 (15 days) carried over into the 2006 leave time balance) which would be payable regardless of the reason for termination. In the case of termination by Company for Cause, executive is only entitled to the value of accrued but unused PTO.
- (4) If both a change in control occurred and the executive's employment terminated on December 31, 2007, and the executive received the estimated payments shown in the Change in Control column of this table on that date, those payments would not have resulted in any excess parachute payments under Section 280G of the Internal Revenue Code of 1986, as amended, and thus no gross-up payments would have been required with respect to those payments. Whether or not a payment will constitute an excess parachute payment, however, depends not only upon the value of the payments that are contingent upon a change in control but also upon the average of an executive's W-2 compensation for the 5 years immediately prior to the year in which the change in control occurs. Thus, facts and circumstances at the time of any change in control and termination thereafter, as well as changes in the executive's compensation history preceding the change in control, could materially impact whether and to what extent any excise tax would be imposed and therefore the amount of any gross-up payment.
- (5) If the executive is terminated for cause by reason of his failure or refusal to perform his duties in any material respect as reasonably assigned to him, then Company will continue to pay the executive his base salary for 12 months after the termination date, which would be in the amount of \$800,000.
- (6) If the executive is terminated for cause by reason of his failure or refusal to perform his duties in any material respect as reasonably assigned to him, then Company will continue to pay the executive his base salary for 12 months after the termination date, which would be in the amount of \$515,000.
- (7) If the executive is terminated for cause by reason of his failure or refusal to perform his duties in any material respect as reasonably assigned to him, then Company will continue to pay the executive his base salary for 12 months after the termination date, which would be in the amount of \$430,000.
- (8) If the executive is terminated for cause by reason of his failure or refusal to perform his duties in any material respect as reasonably assigned to him, then Company will continue to pay the executive his base salary for 12 months after the termination date, which would be in the amount of \$400,000.

**Table of Contents****DIRECTOR COMPENSATION**

In 2007, each non-employee Director received the following: (i) an annual retainer fee of \$50,000, payable quarterly, (ii) an annual fee of \$7,500 for attendance at meetings, payable quarterly, (iii) an additional retainer fee of \$50,000, payable quarterly, for the Chairman of the Board of Directors, (iv) an additional retainer of \$20,000, payable quarterly, for the chair of the Audit Committee, and (v) an additional retainer of \$10,000 per committee, payable quarterly, for the chair of any committee of the Board of Directors other than the Audit Committee. In addition, it is Pediatrix's policy to award annually (on the date of each annual shareholders' meeting) to each non-employee Director options vesting in three equal annual installments over a 3-year period commencing on the anniversary of the date of grant to purchase 5,334 shares of Pediatrix common stock at an exercise price equal to the closing price of a share of Pediatrix's common stock on the New York Stock Exchange on the date of grant.

It has also been and continues to be Pediatrix's policy to award each non-employee Director upon his or her initial appointment to the Board of Directors an option to purchase 13,334 shares of Pediatrix common stock effective on the date of such non-employee Director's appointment, at an exercise price equal to the closing price of a share of Pediatrix's common stock on the New York Stock Exchange on the date of grant with a three year vesting period. We grant stock options to purchase Pediatrix common stock to our Directors because we believe that it helps foster a long-term perspective and aligns our Directors' interests with that of our shareholders. Pediatrix also reimburses all of its Directors for out-of-pocket expenses incurred in connection with the rendering of services as a Director.

See Executive Compensation for information regarding Dr. Medel's compensation as Chief Executive Officer of Pediatrix.

Name(1)	Fees Earned or Paid in Cash(2)	Option Awards(3)	All Other Compensation	Total Compensation
Cesar L. Alvarez	\$ 107,500	\$ 43,055	\$ 0	\$ 150,555
Waldemar A. Carlo, M.D.	\$ 57,500	\$ 43,055	\$ 0	\$ 100,555
Michael B. Fernandez	\$ 67,500	\$ 43,055	\$ 0	\$ 110,555
Roger K. Freeman, M.D.	\$ 67,500	\$ 43,055	\$ 0	\$ 110,555
Paul G. Gabos	\$ 77,500	\$ 43,055	\$ 0	\$ 120,555
Pascal J. Goldschmidt, M.D.	\$ 65,000	\$ 126,543	\$ 0	\$ 191,543
Manuel Kadre	\$ 37,280	\$ 86,960	\$ 0	\$ 124,240
Enrique J. Sosa	\$ 57,500	\$ 53,341	\$ 0	\$ 110,841

- (1) This table includes all non-employee directors who served as directors in 2007. Compensation for Dr. Medel is disclosed in the Summary Compensation Table. Dr. Medel does not earn additional income for his service as a director.
- (2) This column reports the amount of cash compensation earned in 2007 for Board and committee service.
- (3) This column represents the dollar amount of compensation expense recognized in our financial statements for the 2007 fiscal year in accordance with SFAS 123(R). Under SFAS 123(R), the compensation expense related to stock option grants is based on grant date fair value and allocated over the corresponding vesting periods. The amounts reflected include compensation expense related to grants with vesting in 2007, including grants awarded prior to 2007. The options awarded to Mr. Kadre upon his appointment in May 2007 had a fair value of \$15.60 per share, based on assumptions of 4 years expected life, 23% expected volatility and a risk free interest rate of 4.6%. All other options awarded to directors in 2007 had a fair value of \$16.73, based on assumptions of 4 years expected life, 24% expected volatility and a risk free interest rate of 3.9%. The following directors had outstanding option awards at the 2007 fiscal year end for the following number of shares of Pediatrix common stock: Mr. Alvarez (70,668), Dr. Carlo (58,668), Mr. Fernandez (70,668), Dr. Freeman (34,668), Mr. Gabos (54,668), Dr. Goldschmidt (25,334), Mr. Kadre (15,921) and Mr. Sosa (38,668).

**Table of Contents****SHARE OWNERSHIP INFORMATION****Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires Pediatrix's executive officers and Directors, and persons who own more than 10% of Pediatrix's common stock, to file with the Securities and Exchange Commission reports of ownership and changes in ownership of Pediatrix common stock. Our executive officers, Directors and greater than 10% shareholders are also required by rules promulgated by the Securities and Exchange Commission to furnish Pediatrix with copies of all Section 16(a) forms they file.

Based solely on a review of the copies of such reports furnished to Pediatrix, the absence of a Form 3, 4 or 5, or representations from certain reporting persons that no Forms 5 were required, Pediatrix believes that all Section 16(a) filing requirements applicable to its officers, Directors and greater than 10% beneficial owners were complied with during the fiscal year ended December 31, 2006 except that one Form 4 was filed late for Dr. Goldschmidt as a result of an administrative error. The late Form 4 was filed on November 14, 2007 and reported the acquisition of stock options pursuant to Pediatrix's 2004 Incentive Compensation Plan that occurred on November 1, 2007.

**Security Ownership of Certain Beneficial Owners and Management**

Pediatrix is not aware that any person beneficially owns more than 5% of the outstanding shares of its common stock. The following table sets forth information concerning the beneficial ownership of common stock of Pediatrix as of March 25, 2008 for the following:

Each of our Directors;

Our Chief Executive Officer and the other executive officers of Pediatrix who were serving as executive officers at the end of the last completed fiscal year; and

All of our Directors and executive officers as a group.

Name of Beneficial Owner(1)	Common Stock	
	Beneficially Owned(2) Shares	Percent
Roger J. Medel, M.D. (3)	825,480	1.8%
Cesar L. Alvarez (4)	73,556	*
Waldemar A. Carlo, M.D. (5)	43,556	*
Michael B. Fernandez (6)	78,356	*
Roger K. Freeman, M.D. (7)	28,356	*
Paul G. Gabos (8)	47,556	*
Pascal J. Goldschmidt, M.D. (9)	13,333	*
Manuel Kadre (10)	4,445	*
Enrique J. Sosa, Ph.D. (11)	31,556	*
Joseph M. Calabro (12)	59,591	*
Thomas W. Hawkins (13)	51,208	*
Karl B. Wagner (14)	46,524	*
All Directors and executive officers as a group (12 persons) (15)	1,303,517	2.8%

\* Less than one percent

- (1) Unless otherwise indicated, the address of each of the beneficial owners identified is c/o Pediatrix Medical Group, Inc., 1301 Concord Terrace, Sunrise, Florida 33323. Each holder is a beneficial owner of common stock of Pediatrix.
- (2) Based on 47,114,673 shares of common stock issued and outstanding as of March 25, 2008. The number and percentage of shares beneficially owned is determined in accordance with Rule 13d-3 of the Exchange Act and the information is not necessarily indicative of



beneficial ownership for any other purpose. Under

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- that rule, beneficial ownership includes any shares as to which the individual or entity has voting power or investment power and any shares that the individual has the right to acquire within 60 days of March 25, 2008, through the exercise of any stock option or other right. Unless otherwise indicated in the footnotes or table, each person or entity has sole voting and investment power, or shares such powers with his or her spouse, with respect to the shares shown as beneficially owned.
- (3) Includes (i) 51,389 shares of common stock directly owned; (ii) 480 shares owned by Dr. Medel's children, as to which Dr. Medel disclaims beneficial ownership; (iii) 720,834 shares of common stock subject to options exercisable within 60 days of March 25, 2008; and (iv) 52,777 shares of unvested restricted stock which Dr. Medel presently has the power to vote.
  - (4) Includes (i) 10,000 shares of common stock directly owned; and (ii) 63,556 shares of common stock subject to options exercisable within 60 days of March 25, 2008. Mr. Alvarez's address is 1221 Brickell Avenue, 22nd Floor, Miami, Florida 33131.
  - (5) All 43,556 shares of common stock are subject to options exercisable within 60 days of March 25, 2008.
  - (6) Includes (i) 76,578 shares of common stock directly owned; and (ii) 1,778 shares of common stock subject to options exercisable within 60 days of March 25, 2008.
  - (7) Includes (i) 800 shares of common stock directly owned; and (ii) 27,556 shares of common stock subject to options exercisable within 60 days of March 25, 2008.
  - (8) All 47,556 shares of common stock are subject to options exercisable within 60 days of March 25, 2008.
  - (9) All 13,333 shares of common stock are subject to options exercisable within 60 days of March 25, 2008.
  - (10) All 4,445 shares of common stock are subject to options exercisable within 60 days of March 25, 2008.
  - (11) All 31,556 shares of common stock are subject to options exercisable within 60 days of March 25, 2008.
  - (12) Includes (i) 20,000 shares of common stock directly owned; (ii) 2 shares which were acquired by Mr. Calabro through Pediatrix's employee stock purchase plans; (iii) 4 shares directly owned by his wife which were acquired through Pediatrix's employee stock purchase plans and as to which Mr. Calabro disclaims beneficial ownership; (iv) 2 shares subject to options exercisable within 60 days of March 25, 2008 held by his wife and as to which Mr. Calabro disclaims beneficial ownership; and (v) 39,583 shares of unvested restricted stock which Mr. Calabro presently has the power to vote.
  - (13) Includes (i) 14,403 shares of common stock directly owned; (ii) 10,417 shares of common stock subject to options exercisable within 60 days of March 25, 2008; and (iii) 26,388 shares of unvested restricted stock which Mr. Hawkins presently has the power to vote.
  - (14) Includes (i) 13,907 shares of common stock beneficially owned by RMMR Properties L.P., a Delaware limited partnership controlled by Mr. Wagner (RMMR); (ii) 696 shares accumulated through Pediatrix's 401(k) thrift and profit sharing plans; (iii) 2,234 shares directly owned by RMMR that were acquired through Pediatrix's employee stock purchase plans; and (iv) 29,687 shares of unvested restricted stock which Mr. Wagner presently has the power to vote.
  - (15) Includes (i) 148,435 shares of unvested restricted stock which certain Directors and executive officers presently have the power to vote; and (ii) 964,589 shares of common stock subject to options exercisable within 60 days of March 25, 2008.

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**INDEPENDENT AUDITORS**

**Appointment of Independent Auditors for 2007**

Pediatrix's independent auditors for the year ended December 31, 2007, was the firm of PricewaterhouseCoopers LLP ( PwC ). The Audit Committee has reappointed PwC as the independent registered certified public accounting firm to perform audit services for Pediatrix in 2008. Pediatrix expects that representatives of PwC will attend the annual meeting. They will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

**Fees Paid to Independent Auditors**

The aggregate fees billed by PwC for the indicated services rendered during fiscal years 2007 and 2006 were as follows:

**Audit Fees**

PwC has billed Pediatrix \$1,136,000, in the aggregate, for professional services for the audit of Pediatrix's consolidated financial statements and internal control over financial reporting for the year ended December 31, 2007 and reviews of Pediatrix's interim consolidated financial statements which are included in each of Pediatrix's Quarterly Reports on Form 10-Q for the year ended December 31, 2007 and statutory audits of Pediatrix's wholly-owned captive insurance subsidiary. During 2006, audit fees totaled \$1,072,000 and included professional services for the audit of Pediatrix's consolidated financial statements and internal controls over financial reporting for the year ended December 31, 2006, reviews of Pediatrix's interim consolidated financial statements which are included in each of Pediatrix's Quarterly Reports on Form 10-Q for the year ended December 31, 2006 and statutory audits of Pediatrix's wholly-owned captive insurance subsidiary.

**Audit Related Fees**

During 2007, PwC billed Pediatrix \$1,750,000 for audit related professional services. These services included the audit of Pediatrix's benefit plans, review of Pediatrix's historical stock option granting practices, and consultations concerning financial accounting and reporting standards. During 2006, audit related fees totaled \$369,000 and included professional services related to Pediatrix's benefit plans, review of Pediatrix's historical stock option granting practices, and consultations concerning financial accounting and reporting standards.

**Tax Fees**

During 2007 and 2006, PwC did not bill Pediatrix for tax consultation services.

**All Other Fees**

There were no other fees billed by PwC for 2007 or 2006.

**Pre-Approval Policies and Procedures**

The Audit Committee is required to review and approve the proposed retention of independent auditors to perform any proposed auditing and non-auditing services as outlined in its charter. The Audit Committee has not established policies and procedures separate from its charter concerning the pre-approval of auditing and non-auditing related services. As required by Section 10A of the Exchange Act, our Audit Committee has authorized all auditing and non-auditing services provided by PwC during 2007 and the fees paid for such services.

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**PROPOSAL 2: APPROVAL OF THE PEDIATRIX 2008 INCENTIVE COMPENSATION PLAN**

**Background and Purpose**

On March 24, 2008, Pediatrix's Board of Directors adopted the Pediatrix 2008 Incentive Compensation Plan, which we refer to as the 2008 Plan, and recommended that it be submitted to Pediatrix's shareholders for their approval at the 2008 annual meeting.

The terms of the 2008 Plan provide for grants of stock options, stock appreciation rights, restricted stock, deferred stock, other stock-related awards and performance awards that may be settled in cash, stock or other property.

The purpose of the 2008 Plan is to provide a means for Pediatrix and its related entities, including subsidiaries, other designated affiliates and its affiliated professional associations, corporations and partnerships, to attract key personnel to provide services to Pediatrix and its related entities, as well as to provide a means whereby those key persons can acquire and maintain stock ownership, thereby strengthening their commitment to the welfare of Pediatrix and its related entities and promoting the mutuality of interests between participants and Pediatrix's shareholders. A further purpose of the 2008 Plan is to provide participants with additional incentive and reward opportunities designed to enhance the profitable growth of Pediatrix and its related entities, and provide participants with annual and long term performance incentives to expend their maximum efforts in the creation of shareholder value.

The effective date of the 2008 Plan is the date on which the 2008 Plan is approved by our shareholders ( Effective Date ). As of the date of this proxy statement, no awards have been granted under the 2008 Plan.

Shareholder approval of the 2008 Plan is required (i) to comply with certain exclusions from the limitations of Section 162(m) of the Internal Revenue Code, as described below, (ii) for the 2008 Plan to be eligible under the plan lender exemption from the margin requirements of Regulation U promulgated under the Exchange Act, (iii) to comply with the incentive stock option rules under Section 422 of the Internal Revenue Code, and (iv) to comply with the shareholder approval requirements of the New York Stock Exchange.

**The following is a summary of certain principal features of the 2008 Plan. This summary is qualified in its entirety by reference to the complete text of the 2008 Plan. Shareholders are urged to read the actual text of the 2008 Plan in its entirety which is set forth as Exhibit A to this proxy statement.**

**Shares Available for Awards; Annual Per-Person Limitations**

Under the 2008 Plan, the total number of shares of Pediatrix common stock that may be subject to the granting of awards shall be equal to 6 million shares, inclusive of the number of shares remaining available for grant under Pediatrix's 2004 Incentive Compensation Plan (the Prior Plan ) on the Effective Date. Any shares subject to awards of options or stock appreciation rights will be counted against this limit as one share for every one share granted whereas shares subject to any other awards will be counted as 2.2 shares for every one share granted. No further awards will be made under the Prior Plan after the Effective Date except that new awards will be permitted under the Prior Plan with respect to shares as to which related awards under the Prior Plan are forfeited, expire or terminate.

As of March 25, 2008, there were 1,196,272 shares remaining available for grant under the Prior Plan. If the 2008 Plan is approved, these shares will no longer be available for grant under the Prior Plan. Except for the Prior Plan, Pediatrix has no other equity compensation plan pursuant to which options to purchase shares of its common stock are available for future grant.

As of March 25, 2008, there were options granted and outstanding covering 2,735,034 shares of common stock. The weighted average exercise price for these outstanding options was \$34.85 per share and their weighted average term to expiration was 6.7 years. Also, as of March 25, 2008, there were 462,468 non-vested shares of restricted common stock outstanding with a weighted average fair value of \$46.12 per share.

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The number of shares with respect to awards previously granted under the 2008 Plan that are forfeited, expire or otherwise terminate without being exercised will again be available for delivery by adding back one share if such share was subject to an option or stock appreciation right and 2.2 shares if such share was subject to any other award. Notwithstanding the foregoing, the maximum aggregate number of shares that may be delivered as a result of incentive stock options, as defined in Section 422 of the Internal Revenue Code ( ISOs ), will be 6 million shares. Awards granted or shares issued in substitution for rewards or related obligations by a company acquired by us after the Effective Date do not reduce the total number of available shares under the plan.

In addition, the 2008 Plan imposes individual limitations on the amount of certain awards in part to comply with Internal Revenue Code Section 162(m). Under these limitations, during any fiscal year the number of options or stock appreciation rights granted to any one participant may not exceed 1 million shares and the number of restricted stock, deferred stock, performance shares and other stock-based awards may not exceed 750,000 shares, subject to adjustment in certain circumstances. The maximum dollar amount that may be paid to any one participant in respect of a Performance Award that is payable other than in stock with respect to a 12-month performance period is \$10 million and with respect to any performance period that is more than 12 months, \$10 million multiplied by the number of full 12 months in such performance period.

The Compensation Committee of our Board of Directors will administer the 2008 Plan. The Compensation Committee is authorized to adjust the limitations described in the two preceding paragraphs and is authorized to adjust outstanding awards (including adjustments to exercise prices of options and other affected terms of awards) in the event that an extraordinary dividend or other distribution (whether in cash, shares of Pediatrix common stock or other property), recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange or other similar corporate transaction or event affects the Pediatrix common stock so that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of participants. The Compensation Committee is also authorized to adjust performance conditions and other terms of awards in response to these kinds of events, upon the occurrence of a change in control, or in response to changes in applicable laws, regulations or accounting principles.

### **Eligibility**

The persons eligible to receive awards under the 2008 Plan are the officers, Directors, employees and independent contractors of Pediatrix and its related entities. An employee on leave of absence may be considered as still in the employ of Pediatrix or a related entity for purposes of eligibility for participation in the 2008 Plan.

### **Administration**

The Compensation Committee of Pediatrix's Board of Directors will administer the 2008 Plan. The 2008 Plan must be administered by members of our Board of Directors who are non-employee directors as defined by Rule 16b-3 of the Exchange Act, outside directors for purposes of Section 162(m) of the Internal Revenue Code, and independent as defined by the New York Stock Exchange (or any other national securities exchange on which any securities of Pediatrix may be listed for trading in the future). However, to the extent that our Board of Directors elects and is permitted to administer the 2008 Plan under its terms, only the independent members of the Board may exercise any power or authority granted to administer the 2008 Plan. Subject to the terms of the 2008 Plan, the Compensation Committee is authorized to select eligible persons to receive awards, determine the type and number of awards to be granted and the number of shares of Pediatrix common stock to which awards will relate, specify times at which awards will be exercisable or settleable (including performance conditions that may be required as a condition thereof), set other terms and conditions of awards, prescribe forms of award agreements, interpret and specify rules and regulations relating to the 2008 Plan and make all other determinations that may be necessary or advisable for the administration of the 2008 Plan.

### **Stock Options and Stock Appreciation Rights**

The Compensation Committee is authorized to grant stock options, including non-qualified stock options and ISOs, which can result in potentially favorable tax treatment to the participant, and stock appreciation rights.

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Stock appreciation rights may be granted without regard to any option ( Stand-Alone Stock Appreciation Rights ) or in conjunction with all or part of any option granted under the 2008 Plan ( Tandem Stock Appreciation Rights ). Stock appreciation rights entitle the participant to receive the amount by which the fair market value of a share of Pediatrix common stock on the date of exercise exceeds the grant price of the stock appreciation right, as determined by the Compensation Committee.

The exercise price per share of an option and the grant price of a stock appreciation right must not be less than 100% of the fair market value of a share of Pediatrix common stock on the date of grant or, in the case of a Tandem Stock Appreciation Right, less than the associated option exercise price. For purposes of the 2008 Plan, the term fair market value means the fair market value of Pediatrix common stock, awards or other property as determined by the Compensation Committee or under procedures established by the Compensation Committee. Unless otherwise determined by the Compensation Committee or Pediatrix's Board of Directors, the fair market value of Pediatrix common stock as of any given date shall be the closing sales price per share of Pediatrix common stock as reported on the principal stock exchange or market on which Pediatrix common stock is traded on the date as of which such value is being determined (or as of such later measurement date as determined by the Compensation Committee on the date the award is granted) or, if there is no sale on that date, the last previous day on which a sale was reported. The maximum term of each option or stock appreciation right, the times at which each option or stock appreciation right will be exercisable, and provisions requiring forfeiture of unexercised options or stock appreciation rights at or following termination of employment or service generally are fixed by the Compensation Committee except that no option or stock appreciation right may have a term exceeding 10 years. Options may be exercised by payment of the exercise price in cash, shares, outstanding awards or other property, as the Compensation Committee may determine from time to time. Methods of exercise and settlement and other terms of the stock appreciation rights are determined by the Compensation Committee. A Tandem Stock Appreciation Right may be granted at the same time as the related option is granted or, for options that are not ISOs, at any time thereafter before exercise or expiration of such option. A Tandem Stock Appreciation Right may only be exercised when the related option would be exercisable and the fair market value of the shares subject to the related option exceeds the option's exercise price. Any option related to a Tandem Stock Appreciation Right will no longer be exercisable to the extent the Tandem Stock Appreciation Right has been exercised and any Tandem Stock Appreciation Right will no longer be exercisable to the extent the related option has been exercised.

## **Restricted and Deferred Stock**

The Compensation Committee is authorized to grant restricted stock and deferred stock. Restricted stock is a grant of shares of Pediatrix common stock which may not be sold or disposed of for a specified period, and with a risk of forfeiture and other restrictions specified by the Compensation Committee. Risks of forfeiture may include continuous service requirements and performance requirements, among others. A participant granted restricted stock generally has all of the rights of a shareholder of Pediatrix, unless otherwise determined by the Compensation Committee. An award of deferred stock confers upon a participant the right to receive shares of Pediatrix common stock at the end of a specified deferral period, and may be subject to possible risks of forfeiture of the award as the Compensation Committee may determine. Prior to settlement, an award of deferred stock carries no voting or dividend rights or other rights associated with share ownership, although dividend equivalents may be granted, as discussed below.

## **Dividend Equivalents**

The Compensation Committee is authorized to grant dividend equivalents conferring on participants the right to receive, currently or on a deferred basis, cash, shares of Pediatrix common stock, other awards or other property equal in value to dividends paid on a specific number of shares of Pediatrix common stock or other periodic payments. Dividend equivalents may be granted alone or in connection with another award, may be paid currently or on a deferred basis and, if deferred, may be deemed to have been reinvested in additional shares of Pediatrix common stock, awards or otherwise as specified by the Compensation Committee.

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### **Bonus Stock and Awards in Lieu of Cash Obligations**

The Compensation Committee is authorized to grant shares of Pediatrix common stock as a bonus free of restrictions, or to grant shares of Pediatrix common stock or other awards in lieu of Pediatrix obligations to pay cash under the 2008 Plan or other plans or compensatory arrangements, subject to such terms as the Compensation Committee may specify.

### **Other Stock-Based Awards**

The Compensation Committee is authorized to grant awards under the 2008 Plan that are denominated or payable in, valued by reference to, or otherwise based on or related to shares of Pediatrix common stock. The Compensation Committee determines the terms and conditions of such awards. Except for certain limited situations, other stock-based awards subject solely to future service requirements shall be subject to restrictions for a period of not less than three years from the date of the grant, but may vest on a pro-rata basis over such three-year period.

### **Performance Awards**

The right of a participant to exercise or receive a grant or settlement of any award, and the timing thereof, may be subject to such performance conditions (including subjective individual goals) as may be specified by the Compensation Committee. In addition, the 2008 Plan authorizes the Compensation Committee to grant specific performance awards, which represent a conditional right to receive cash, shares of Pediatrix common stock or other awards upon achievement of certain performance goals during a relevant performance period. The performance criteria and the length of the performance period will be determined by the Compensation Committee upon the grant of each performance award. Performance awards may be paid in a lump sum or in installments following the close of the performance period or, in accordance with procedures established by the Compensation Committee, on a deferred basis.

Performance awards granted to persons whom the Compensation Committee expects will, for the year in which a deduction arises, be covered employees (as defined below) will, if and to the extent intended by the Compensation Committee, be subject to provisions that are intended to qualify such awards as performance-based compensation not subject to the limitation on tax deductibility by Pediatrix under Internal Revenue Code Section 162(m). For purposes of Section 162(m), the term covered employee means Pediatrix's chief executive officer and each other person whose compensation is required to be disclosed in Pediatrix's filings with the Securities and Exchange Commission by reason of that person being among the three highest compensated officers of Pediatrix as of the end of a taxable year. If and to the extent required under Section 162(m) of the Internal Revenue Code, any power or authority relating to a performance award intended to qualify under Section 162(m) of the Internal Revenue Code is to be exercised by the Compensation Committee, not Pediatrix's Board of Directors.

Subject to the requirements of the 2008 Plan, the Compensation Committee will determine performance award terms, including the required levels of performance with respect to specified objective business criteria, the corresponding amounts payable upon achievement of such levels of performance, termination and forfeiture provisions and the form of settlement. One or more of the following business criteria for Pediatrix, on a consolidated basis, and/or for related entities, or for business or geographical units of Pediatrix and/or a related entity (except with respect to the total shareholder return and earnings per share criteria), will be used by the Compensation Committee in establishing performance goals for performance awards to covered employees that are intended to qualify under Section 162(m): (1) earnings per share; (2) revenues or margins; (3) cash flow; (4) operating margin; (5) return on net assets, investment, capital, or equity; (6) economic value added; (7) direct contribution; (8) net income; pretax earnings; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; earnings after interest expense and before extraordinary or special items; operating income or income from operations; income before interest income or expense, unusual items and income taxes, local, state or federal and excluding budgeted and actual bonuses which might be paid under any

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ongoing bonus plans of the Company; (9) working capital; (10) management of fixed costs or variable costs; (11) identification or consummation of investment opportunities or completion of specified projects in accordance with corporate business plans, including strategic mergers, acquisitions or divestitures; (12) total shareholder return; (13) debt reduction; (14) market share; (15) entry into new markets, either geographically or by business unit; (16) customer retention and satisfaction; (17) strategic plan development and implementation, including turnaround plans; and/or (18) the Fair Market Value of a share of our common stock. Any of the above goals may be determined on an absolute or relative basis in comparison to prior periods or as compared to the performance of a published or special index deemed applicable by the Compensation Committee including, but not limited to, the Standard & Poor's 500 Stock Index or a group of comparable companies. Performance goals must be established not later than 90 days after the beginning of the performance period applicable to the performance awards or at such other date as may be required for performance-based compensation treatment under Section 162(m).

After the end of each performance period, the Compensation Committee will determine and certify whether the performance goals have been achieved. The Compensation Committee will exclude the impact of an event or occurrence, or otherwise make adjustments to the performance goals, which the Compensation Committee determines should appropriately be excluded or made to avoid unanticipated results or to otherwise ensure that the results are determined in a manner consistent with the intention of the Compensation Committee at the time it established the goals, including, without limitation, exclusions or adjustments for (i) restructurings, discontinued operations, extraordinary items, and other unusual or non-recurring charges, (ii) an event either not directly related to the operations of Pediatrix or not within the reasonable control of Pediatrix's management, or (iii) a change in accounting standards required by generally accepted accounting principles. The Compensation Committee may, in its discretion, determine that the amount payable as a performance award will be increased (except in the case of a covered employee) or reduced from the amount of any potential award.

## **Other Terms of Awards**

Generally, restricted stock awards, deferred stock awards, performance awards valued by reference to Pediatrix common stock and other stock-based awards that are not subject to performance-based vesting requirements must vest over a period of not less than three years from date of grant (but permitting pro-rata vesting over such time) and that are subject to performance-based vesting requirements must vest over a period of not less than one year.

Awards may be settled in the form of cash, shares of Pediatrix common stock, other awards or other property, in the discretion of the Compensation Committee. The Compensation Committee may require or permit participants to defer the settlement of all or part of an award in accordance with such terms and conditions as the Compensation Committee may establish, provided that such deferral will satisfy the requirements of Section 409A of the Internal Revenue Code. The Compensation Committee is authorized to place cash, shares of Pediatrix common stock or other property in trusts or make other arrangements to provide for payment of Pediatrix's obligations under the 2008 Plan. Pediatrix is authorized to provide that a portion of any shares of Pediatrix common stock or other property to be distributed will be withheld (or previously acquired shares of Pediatrix common stock or other property be surrendered by the participant) to satisfy withholding and other tax obligations. Awards granted under the 2008 Plan generally may not be pledged or otherwise encumbered and are not transferable except by will or by the laws of descent and distribution, or to a designated beneficiary upon the participant's death, except that the Compensation Committee may, in its discretion, permit transfers for estate planning or other purposes subject to any applicable restrictions under Rule 16b-3 of the Exchange Act.

If any award constitutes a nonqualified deferred compensation plan under Section 409A of the Internal Revenue Code, then the award will be subject to additional restrictions on payment and other requirements if and to the extent required to comply with Section 409A.

Awards under the 2008 Plan are generally granted without a requirement that the participant pay consideration in the form of cash or property for the grant (as distinguished from the exercise), except to the



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extent required by law. The Compensation Committee may, however, grant awards in exchange for other awards under the 2008 Plan awards or under other Company plans, or other rights to payment from Pediatrix, and may grant awards in addition to and in tandem with such other awards, rights or other awards.

### **Acceleration of Vesting; Change in Control**

Subject to certain limitations, the Compensation Committee may, in its discretion, accelerate the exercisability, the lapsing of restrictions or the expiration of deferral or vesting periods of any award. In the event of a change in control of Pediatrix, as defined in the 2008 Plan, and only to the extent provided in any employment or other agreement between the participant and Pediatrix or any related entity, or in any award agreement, or to the extent otherwise determined by the Compensation Committee in its sole discretion in each particular case, (i) any option or stock appreciation right that was not previously vested and exercisable at the time of the change in control will become immediately vested and exercisable; (ii) any restrictions, deferral of settlement and forfeiture conditions applicable to a restricted stock award, deferred stock award or an other stock-based award subject only to future service requirements will lapse and such awards will be deemed fully vested; and (iii) performance goals and conditions applicable to any outstanding award will be deemed met as of the date of the change in control.

### **Adjustments, Amendment and Termination**

Subject to certain limitations, the Compensation Committee is authorized to make adjustments and alterations to awards (including, in some cases, in a manner adverse to a participant) in connection with a change in control, stock dividends or distributions, recapitalizations, mergers and other corporate events, as well as in recognition of other unusual or nonrecurring events affecting Pediatrix or its related entities and changes in financial reporting, laws, regulations, taxes, business strategy and other matters. Pediatrix's Board of Directors may amend, alter, suspend, discontinue or terminate the 2008 Plan or the Compensation Committee's authority to grant awards without further shareholder approval (and the Compensation Committee may alter, amend or terminate any award including, in any case, in a manner adverse to the rights of a participant under an outstanding award), except shareholder approval must be obtained for any amendment or alteration if such approval is required by law or regulation or under the rules of the New York Stock Exchange or any stock exchange or quotation system on which shares of Pediatrix common stock are then listed or quoted, including any change in the exercise price of an option if such change would constitute a repricing under such rules. Thus, shareholder approval may not necessarily be required for every amendment to the 2008 Plan which might increase the cost of the 2008 Plan or alter the eligibility of persons to receive awards. Shareholder approval will not be deemed to be required under laws or regulations, such as those relating to ISOs, that condition favorable treatment of participants on such approval, although Pediatrix's Board of Directors may, in its discretion, seek shareholder approval in any circumstance in which it deems such approval advisable. The 2008 Plan will terminate at the earliest of (i) such time as no shares remain available for issuance under the 2008 Plan, (ii) termination of the 2008 Plan by Pediatrix's Board of Directors or (iii) the tenth anniversary of the Effective Date. Awards outstanding upon expiration of the 2008 Plan shall remain in effect until they have been exercised or terminated, or have expired.

### **Federal Income Tax Consequences of Awards**

The 2008 Plan is not qualified under the provisions of section 401(a) of the Internal Revenue Code and is not subject to any of the provisions of the Employee Retirement Income Security Act of 1974.

### **Nonqualified Stock Options**

On exercise of a nonqualified stock option granted under the 2008 Plan, an optionee will recognize ordinary income equal to the excess, if any, of the fair market value on the date of exercise of the shares of stock acquired on exercise of the option over the exercise price. If the optionee is an employee of Pediatrix or a related entity,

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that income will be subject to the withholding of Federal income tax. The optionee's tax basis in those shares will be equal to their fair market value on the date of exercise of the option, and the holding period for those shares will begin on that date.

If an optionee pays for shares of stock on exercise of an option by delivering shares of Pediatrix's stock, the optionee will not recognize gain or loss on the shares delivered, even if their fair market value at the time of exercise differs from the optionee's tax basis in them. The optionee, however, will be taxed on the exercise of the option in the manner described above as if he had paid the exercise price in cash. If a separate identifiable stock certificate is issued for that number of shares equal to the number of shares delivered on exercise of the option, the optionee's tax basis in the shares represented by that certificate will be equal to his or her tax basis in the shares delivered, and the holding period for those shares will include the holding period for the shares delivered. The optionee's tax basis and holding period for the additional shares received on exercise of the option will be the same as if the optionee had exercised the option solely in exchange for cash.

Pediatrix will be entitled to a deduction for Federal income tax purposes equal to the amount of ordinary income taxable to the optionee, provided that amount constitutes an ordinary and necessary business expense for Pediatrix and is reasonable in amount, and either the employee includes that amount in income or Pediatrix timely satisfies its reporting requirements with respect to that amount.

## **Incentive Stock Options**

The 2008 Plan provides for the grant of stock options that qualify as ISOs, as defined in section 422 of the Internal Revenue Code. Under the Internal Revenue Code, an optionee generally is not subject to tax upon the grant or exercise of an ISO. In addition, if the optionee holds a share received on exercise of an ISO for at least two years from the date the option was granted and at least one year from the date the option was exercised (the Required Holding Period), the difference, if any, between the amount realized on a sale or other taxable disposition of that share and the holder's tax basis in that share will be long-term capital gain or loss.

If, however, an optionee disposes of a share acquired on exercise of an ISO before the end of the Required Holding Period (a Disqualifying Disposition), the optionee generally will recognize ordinary income in the year of the Disqualifying Disposition equal to the excess, if any, of the fair market value of the share on the date the ISO was exercised over the exercise price. If, however, the Disqualifying Disposition is a sale or exchange on which a loss, if realized, would be recognized for Federal income tax purposes, and if the sales proceeds are less than the fair market value of the share on the date of exercise of the option, the amount of ordinary income recognized by the optionee will not exceed the gain, if any, realized on the sale. If the amount realized on a Disqualifying Disposition exceeds the fair market value of the share on the date of exercise of the option, that excess will be short-term or long-term capital gain, depending on whether the holding period for the share exceeds one year.

An optionee who exercises an ISO by delivering shares of stock acquired previously pursuant to the exercise of an ISO before the expiration of the Required Holding Period for those shares is treated as making a Disqualifying Disposition of those shares. This rule prevents pyramiding on the exercise of an ISO (that is, exercising an ISO for one share and using that share, and others so acquired, to exercise successive ISOs) without the imposition of current income tax.

For purposes of the alternative minimum tax, the amount by which the fair market value of a share of stock acquired on exercise of an ISO exceeds the exercise price of that option generally will be an adjustment included in the optionee's alternative minimum taxable income for the year in which the option is exercised. If, however, there is a Disqualifying Disposition of the share in the year in which the option is exercised, there will be no adjustment with respect to that share. If there is a Disqualifying Disposition in a later year, no income with respect to the Disqualifying Disposition is included in the optionee's alternative minimum taxable income for that year. In computing alternative minimum taxable income, the tax basis of a share acquired on exercise of an

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ISO is increased by the amount of the adjustment taken into account with respect to that share for alternative minimum tax purposes in the year the option is exercised.

Pediatrix is not allowed an income tax deduction with respect to the grant or exercise of an ISO or the disposition of a share acquired on exercise of an ISO after the Required Holding Period. However, if there is a Disqualifying Disposition of a share, Pediatrix is allowed a deduction in an amount equal to the ordinary income includible in income by the optionee, provided that amount constitutes an ordinary and necessary business expense for Pediatrix and is reasonable in amount, and either the employee includes that amount in income or Pediatrix timely satisfies its reporting requirements with respect to that amount.

## **Stock Awards**

Generally, the recipient of a stock award will recognize ordinary compensation income at the time the stock is received equal to the excess, if any, of the fair market value of the stock received over any amount paid by the recipient in exchange for the stock. If, however, the stock is non-vested when it is received under the 2008 Plan (for example, if the recipient is required to work for a period of time in order to have the right to sell the stock), the recipient generally will not recognize income until the stock becomes vested, at which time the recipient will recognize ordinary compensation income equal to the excess, if any, of the fair market value of the stock on the date it becomes vested over any amount paid by the recipient in exchange for the stock. A recipient may, however, file an election with the Internal Revenue Service, within 30 days of his or her receipt of the stock award, to recognize ordinary compensation income, as of the date the recipient receives the award, equal to the excess, if any, of the fair market value of the stock on the date the award is granted over any amount paid by the recipient in exchange for the stock.

The recipient's basis for the determination of gain or loss upon the subsequent disposition of shares acquired as stock awards will be the amount paid for such shares plus any ordinary income recognized either when the stock is received or when the stock becomes vested. Upon the disposition of any stock received as a stock award under the 2008 Plan, the difference between the sale price and the recipient's basis in the shares will be treated as a capital gain or loss and generally will be characterized as long-term capital gain or loss if the shares have been held for more than one year from the date as of which he or she would be required to recognize any compensation income.

## **Stock Appreciation Rights**

Pediatrix may grant Stand-Alone Stock Appreciation Rights or Tandem Stock Appreciation Rights, under the 2008 Plan. Generally, the recipient of a Stand-Alone Stock Appreciation Right will not recognize any taxable income at the time the Stand-Alone Stock Appreciation Right is granted.

With respect to Stand-Alone Stock Appreciation Rights, if the recipient receives the appreciation inherent in the stock appreciation rights in cash, the cash will be taxable as ordinary compensation income to the recipient at the time that the cash is received. If the recipient receives the appreciation inherent in the stock appreciation rights in shares of stock, the recipient will recognize ordinary compensation income equal to the excess of the fair market value of the stock on the day it is received over any amounts paid by the recipient for the stock.

With respect to Tandem Stock Appreciation Rights, if the recipient elects to surrender the underlying option in exchange for cash or shares of stock equal to the appreciation inherent in the underlying option, the tax consequences to the recipient will be the same as discussed above relating to the Stand-Alone Stock Appreciation Rights. If the recipient elects to exercise the underlying option, the holder will be taxed at the time of exercise as if he or she had exercised a nonqualified stock option (discussed above), i.e., the recipient will recognize ordinary income for Federal tax purposes measured by the excess of the then fair market value of the shares of stock over the exercise price.

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In general, there will be no Federal income tax deduction allowed to Pediatrix upon the grant or termination of Stand-Alone Stock Appreciation Rights or Tandem Stock Appreciation Rights. Upon the exercise of either a Stand-Alone Stock Appreciation Right or a Tandem Stock Appreciation Right, however, Pediatrix will be entitled to a deduction for Federal income tax purposes equal to the amount of ordinary income that the employee is required to recognize as a result of the exercise, provided that the deduction is not otherwise disallowed under the Internal Revenue Code.

### **Dividend Equivalents**

Generally, the recipient of a dividend equivalent award will recognize ordinary compensation income at the time the dividend equivalent award is received equal to the fair market value of the award received. Pediatrix generally will be entitled to a deduction for Federal income tax purposes equal to the amount of ordinary income that the employee is required to recognize as a result of the dividend equivalent award, provided that the deduction is not otherwise disallowed under the Internal Revenue Code.

### **Section 409A of the Internal Revenue Code**

The 2008 Plan is intended to comply with Section 409A of the Internal Revenue Code to the extent that such section would apply to any award under the 2008 Plan. Section 409A of the Internal Revenue Code governs the taxation of deferred compensation. Any participant that is granted an award that is deemed to be deferred compensation, such as a grant of deferred stock, and does not comply with Section 409A could be subject to immediate taxation on the award (even if the award is not exercisable) and an additional 20% tax on the award.

### **Section 162 Limitations**

The Omnibus Budget Reconciliation Act of 1993 added Section 162(m) to the Internal Revenue Code, which generally disallows a public company's tax deduction for compensation to covered employees in excess of \$1 million in any tax year, beginning on or after January 1, 1994. Compensation that qualifies as performance-based compensation is excluded from the \$1 million deductibility limitation, and therefore remains fully deductible by the company that pays it. Pediatrix intends that options granted to employees, who the Compensation Committee expects to be covered employees at the time a deduction arises in connection with such options, will qualify as such performance-based compensation, so that such options will not be subject to the Section 162(m) deductibility limitation of \$1 million. Pediatrix also intends that performance awards will be performance-based as described above so that such awards will not be subject to Section 162(m) limitations. Future changes in Section 162(m) or the regulations thereunder may adversely affect the ability of Pediatrix to ensure that options under the 2008 Plan will qualify as performance-based compensation that is fully deductible by Pediatrix under Section 162(m).

### **Importance of Consulting Tax Adviser**

The information set forth above is a summary only and does not purport to be complete. In addition, the information is based upon current Federal income tax rules and therefore is subject to change when those rules change. Moreover, because the tax consequences to any recipient may depend on his particular situation, each recipient should consult his or her tax adviser as to the Federal, state, local and other tax consequences of the grant or exercise of an award or the disposition of stock acquired as a result of an award.

Proxies will be voted FOR approval of the Pediatrix 2008 Incentive Compensation Plan absent contrary instructions.

***Pediatrix's Board of Directors Recommends a Vote For approval of the Pediatrix 2008 Incentive Compensation Plan.***

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**PROPOSAL 3: RATIFICATION OF THE APPOINTMENT OF INDEPENDENT AUDITORS**

The Audit Committee has selected and appointed the firm of PricewaterhouseCoopers LLP to act as our independent registered certified public accounting firm for the 2008 fiscal year. PricewaterhouseCoopers LLP was our independent auditor for the fiscal year ended December 31, 2007. Although ratification is not required by our bylaws or otherwise, the Board of Directors is submitting the appointment of PricewaterhouseCoopers LLP to our shareholders for ratification as a matter of good corporate practice. If the appointment is not ratified, the Audit Committee will re-evaluate its appointment, taking into consideration our shareholders' vote. However, the Audit Committee is solely responsible for the appointment and termination of our auditors and may do so at any time in its discretion.

Proxies will be voted FOR ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered certified public accounting firm for the 2008 fiscal year absent contrary instructions.

*Pediatric's Board of Directors Recommends a Vote For ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered certified public accounting firm for the 2008 fiscal year.*

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**OTHER BUSINESS**

The Board of Directors knows of no other business to be brought before the annual meeting. If, however, any other business should properly come before the annual meeting, it is the intention of the persons named in the accompanying proxy card to vote the shares they represent in accordance with the recommendation of Pediatrix's Board of Directors.

**AVAILABILITY OF ANNUAL REPORT ON FORM 10-K**

**Copies of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (without exhibits or documents incorporated by reference therein), are available without charge to shareholders upon written request to our Director of Investor Relations, at 1301 Concord Terrace, Sunrise, FL 33323, by calling (954) 384-0175 or via the Internet at [www.pediatrix.com](http://www.pediatrix.com).**

**INFORMATION CONCERNING SHAREHOLDER PROPOSALS**

As more specifically provided in our Articles of Incorporation, no business may be brought before an annual meeting unless it is specified in the notice of the meeting or is otherwise properly brought before the meeting by or at the direction of our Board of Directors or by a shareholder entitled to vote who has delivered proper notice to us, together with the information required by our Articles of Incorporation, not less than 120 days nor more than 180 days prior to the first anniversary of the preceding year's notice of annual meeting. Accordingly, any shareholder proposal to be considered at the 2009 Annual Meeting of Shareholders must be properly submitted to us on or before November 24, 2008 but not earlier than September 25, 2008 or such proposal will be considered untimely. A copy of the provision of Pediatrix's Articles of Incorporation relating to shareholder nominations is available upon request from Pediatrix's Secretary at 1301 Concord Terrace, Sunrise, FL 33323. These requirements are separate from the Securities and Exchange Commission's requirements that a shareholder must meet in order to have a shareholder proposal included in our proxy statement for the 2009 Annual Meeting of Shareholders.

Shareholders interested in submitting a proposal for inclusion in our proxy materials for the 2009 Annual Shareholders Meeting may do so by following the procedures set forth in Rule 14a-8 under the Exchange Act and Pediatrix's Articles of Incorporation. To be eligible for inclusion in such proxy materials, shareholder proposals must be received by our Secretary, at the address noted above, not later than November 24, 2008. No shareholder proposal was properly received for inclusion in this proxy statement.

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**EXHIBIT A**

**PEDIATRIX MEDICAL GROUP, INC  
2008 INCENTIVE COMPENSATION PLAN**

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**PEDIATRIX MEDICAL GROUP, INC.**

**2008 INCENTIVE COMPENSATION PLAN**

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**PEDIATRIX MEDICAL GROUP, INC.**

**2008 INCENTIVE COMPENSATION PLAN**

1. **Purpose.** The purpose of this 2008 INCENTIVE COMPENSATION PLAN (the *Plan*) is to assist **PEDIATRIX MEDICAL GROUP, INC.**, a Florida corporation (the *Company*) and its Related Entities (as hereinafter defined) in attracting, motivating, retaining and rewarding high-quality executives and other employees, officers, directors, consultants and other persons who provide services to the Company or its Related Entities by enabling such persons to acquire or increase a proprietary interest in the Company in order to strengthen the mutuality of interests between such persons and the Company's shareholders, and providing such persons with annual and long term performance incentives to expend their maximum efforts in the creation of shareholder value.

2. **Definitions.** For purposes of the Plan, the following terms shall be defined as set forth below, in addition to such terms defined in Section 1 hereof and elsewhere herein.

(a) **Award** means any Option, Stock Appreciation Right, Restricted Stock Award, Deferred Stock Award, Share granted as a bonus or in lieu of another Award, Dividend Equivalent, Other Stock-Based Award or Performance Award, together with any other right or interest, granted to a Participant under the Plan.

(b) **Award Agreement** means any written agreement, contract or other instrument or document evidencing any Award granted by the Committee hereunder.

(c) **Beneficiary** means the person, persons, trust or trusts that have been designated by a Participant in his or her most recent written beneficiary designation filed with the Committee to receive the benefits specified under the Plan upon such Participant's death or to which Awards or other rights are transferred if and to the extent permitted under Section 10(b) hereof. If, upon a Participant's death, there is no designated Beneficiary or surviving designated Beneficiary, then the term Beneficiary means the person, persons, trust or trusts entitled by will or the laws of descent and distribution to receive such benefits.

(d) **Beneficial Owner and Beneficial Ownership** shall have the meaning ascribed to such term in Rule 13d-3 under the Exchange Act and any successor to such Rule.

(e) **Board** means the Company's Board of Directors.

(f) **Change in Control** means a Change in Control as defined in Section 9(b) of the Plan.

(g) **Code** means the Internal Revenue Code of 1986, as amended from time to time, including regulations thereunder and successor provisions and regulations thereto.

(h) **Committee** means the Compensation Committee of the Board, excluding any member who is not (i) a non-employee director within the meaning of Rule 16b-3 (or any successor rule) under the Exchange Act, unless administration of the Plan by non-employee directors is not then required in order for exemptions under Rule 16b-3 to apply to transactions under the Plan, (ii) an outside director within the meaning of Section 162(m) of the Code, and (iii) Independent.

(i) **Consultant** means any person (other than an Employee or a Director, solely with respect to rendering services in such person's capacity as a director) who is engaged by the Company or any Related Entity to render consulting or advisory services to the Company or such Related Entity.

(j) **Continuous Service** means the uninterrupted provision of services to the Company or any Related Entity in any capacity of Employee, Director, Consultant or other service provider. Continuous Service shall not be considered to be interrupted in the case of (i) any approved leave of absence, (ii) transfers among the Company, any Related Entities, or any successor entities, in any capacity of Employee, Director, Consultant

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or other service provider, or (iii) any change in status as long as the individual remains in the service of the Company or a Related Entity in any capacity of Employee, Director, Consultant or other service provider (except as otherwise provided in the Award Agreement). An approved leave of absence shall include sick leave, military leave, or any other authorized personal leave.

(k) **Covered Employee** means each Person who shall be considered a covered employee for purposes of Section 162(m) of the Code.

(l) **Deferred Stock** means a right to receive Shares, including Restricted Stock, cash measured based upon the value of Shares, or a combination thereof, at the end of a specified deferral period.

(m) **Deferred Stock Award** means an Award of Deferred Stock granted to a Participant under Section 6(e) hereof.

(n) **Director** means a member of the Board.

(o) **Disability** means a permanent and total disability (within the meaning of Section 22(e) of the Code), as determined by a medical doctor satisfactory to the Committee.

(p) **Dividend Equivalent** means a right, granted to a Participant under Section 6(g) hereof, to receive cash, Shares, other Awards or other property equal in value to dividends paid with respect to a specified number of Shares, or other periodic payments.

(q) **Effective Date** means the effective date of the Plan, which shall be the Shareholder Approval Date.

(r) **Eligible Person** means each officer, Director, Employee, Consultant and other person who provides services to the Company or any Related Entity. The foregoing notwithstanding, only employees of the Company, or any parent corporation or subsidiary corporation of the Company (as those terms are defined in Sections 424(e) and (f) of the Code, respectively), shall be Eligible Persons for purposes of receiving any Incentive Stock Options. An Employee on leave of absence may, in the discretion of the Committee, be considered as still in the employ of the Company or a Related Entity for purposes of eligibility for participation in the Plan.

(s) **Employee** means any person, including an officer or Director, who is an employee of the Company or any Related Entity. The payment of a director's fee by the Company or a Related Entity shall not be sufficient to constitute employment by the Company.

(t) **Exchange Act** means the Securities Exchange Act of 1934, as amended from time to time, including rules thereunder and successor provisions and rules thereto.

(u) **Fair Market Value** means the fair market value of Shares, Awards or other property as determined by the Committee, or under procedures established by the Committee. Unless otherwise determined by the Committee, the Fair Market Value of a Share as of any given date shall be the closing sale price per Share reported on a consolidated basis for stock listed on the principal stock exchange or market on which Shares are traded on the date as of which such value is being determined (or as of such later measurement date as determined by the Committee on the date the Award is authorized by the Committee) or, if there is no sale on that date, then on the last previous day on which a sale was reported.

(v) **Incentive Stock Option** means any Option intended to be designated as an incentive stock option within the meaning of Section 422 of the Code or any successor provision thereto.

(w) **Independent**, when referring to either the Board or members of the Committee, shall have the same meaning as used in the rules of the Listing Market.

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- (x) ***Incumbent Board*** means the Incumbent Board as defined in Section 9(b)(ii) hereof.
- (y) ***Listing Market*** means the New York Stock Exchange or any other national securities exchange on which any securities of the Company are listed for trading, and if not listed for trading, by the rules of the Nasdaq Market.
- (z) ***Option*** means a right granted to a Participant under Section 6(b) hereof, to purchase Shares or other Awards at a specified price during specified time periods.
- (aa) ***Optionee*** means a person to whom an Option is granted under this Plan or any person who succeeds to the rights of such person under this Plan.
- (bb) ***Other Stock-Based Awards*** means Awards granted to a Participant under Section 6(i) hereof.
- (cc) ***Participant*** means a person who has been granted an Award under the Plan which remains outstanding, including a person who is no longer an Eligible Person.
- (dd) ***Performance Award*** means any Award of Performance Shares or Performance Units granted pursuant to Section 6(h) hereof.
- (ee) ***Performance Period*** means that period established by the Committee at the time any Performance Award is granted or at any time thereafter during which any performance goals specified by the Committee with respect to such Award are to be measured.
- (ff) ***Performance Share*** means any grant pursuant to Section 6(h) hereof of a unit valued by reference to a designated number of Shares, which value may be paid to the Participant by delivery of such property as the Committee shall determine, including cash, Shares, other property, or any combination thereof, upon achievement of such performance goals during the Performance Period as the Committee shall establish at the time of such grant or thereafter.
- (gg) ***Performance Unit*** means any grant pursuant to Section 6(h) hereof of a unit valued by reference to a designated amount of property (including cash) other than Shares, which value may be paid to the Participant by delivery of such property as the Committee shall determine, including cash, Shares, other property, or any combination thereof, upon achievement of such performance goals during the Performance Period as the Committee shall establish at the time of such grant or thereafter.
- (hh) ***Person*** shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, and shall include a group as defined in Section 13(d) thereof.
- (ii) ***Prior Plan*** means the Pediatrix Medical Group, Inc. 2004 Incentive Compensation Plan.
- (jj) ***Related Entity*** means any Subsidiary, and any business, corporation, partnership, limited liability company or other entity designated by the Board, in which the Company or a Subsidiary holds a substantial ownership interest, directly or indirectly, as well as any professional association, corporation or partnership that is affiliated with the Company.
- (kk) ***Restriction Period*** means the period of time specified by the Committee that Restricted Stock Awards shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose.
- (ll) ***Restricted Stock*** means any Share issued with the restriction that the holder may not sell, transfer, pledge or assign such Share and with such risks of forfeiture and other restrictions as the Committee, in its sole discretion, may impose (including any restriction on the right to vote such Share and the right to receive any dividends), which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate.
- (mm) ***Restricted Stock Award*** means an Award granted to a Participant under Section 6(d) hereof.

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(nn) **Rule 16b-3** means Rule 16b-3, as from time to time in effect and applicable to the Plan and Participants, promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act.

(oo) **Shareholder Approval Date** means the date on which this Plan is approved by shareholders of the Company eligible to vote in the election of directors, by a vote sufficient to meet the requirements Sections 162(m) and 422 of the Code, Rule 16b-3 under the Exchange Act, applicable requirements under the rules of the Listing Market.

(pp) **Shares** means the shares of common stock of the Company, par value \$.01 per share, and such other securities as may be substituted (or resubstituted) for Shares pursuant to Section 10(c) hereof.

(qq) **Stock Appreciation Right** means a right granted to a Participant under Section 6(c) hereof.

(rr) **Subsidiary** means any corporation or other entity in which the Company has a direct or indirect ownership interest of 50% or more of the total combined voting power of the then outstanding securities or interests of such corporation or other entity entitled to vote generally in the election of directors or in which the Company has the right to receive 50% or more of the distribution of profits or 50% or more of the assets on liquidation or dissolution.

(ss) **Substitute Awards** means Awards granted or Shares issued by the Company in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards, by a company (i) acquired by the Company or any Related Entity, (ii) which becomes a Related Entity after the date hereof, or (iii) with which the Company or any Related Entity combines.

**3. Administration.**

(a) **Authority of the Committee.** The Plan shall be administered by the Committee, except to the extent (and subject to the limitations imposed by Section 3(b) hereof) the Board elects to administer the Plan, in which case the Plan shall be administered by only those members of the Board who are Independent members of the Board, in which case references herein to the Committee shall be deemed to include references to the Independent members of the Board. The Committee shall have full and final authority, subject to and consistent with the provisions of the Plan, to select Eligible Persons to become Participants, grant Awards, determine the type, number and other terms and conditions of, and all other matters relating to, Awards, prescribe Award Agreements (which need not be identical for each Participant) and rules and regulations for the administration of the Plan, construe and interpret the Plan and Award Agreements and correct defects, supply omissions or reconcile inconsistencies therein, and to make all other decisions and determinations as the Committee may deem necessary or advisable for the administration of the Plan. In exercising any discretion granted to the Committee under the Plan or pursuant to any Award, the Committee shall not be required to follow past practices, act in a manner consistent with past practices, or treat any Eligible Person or Participant in a manner consistent with the treatment of other Eligible Persons or Participants.

(b) **Manner of Exercise of Committee Authority.** The Committee, and not the Board, shall exercise sole and exclusive discretion (i) on any matter relating to a Participant then subject to Section 16 of the Exchange Act with respect to the Company to the extent necessary in order that transactions by such Participant shall be exempt under Rule 16b-3 under the Exchange Act, (ii) with respect to any Award that is intended to qualify as performance-based compensation under Section 162(m), to the extent necessary in order for such Award to so qualify; and (iii) with respect to any Award to an Independent Director. Any action of the Committee shall be final, conclusive and binding on all persons, including the Company, its Related Entities, Eligible Persons, Participants, Beneficiaries, transferees under Section 10(b) hereof or other persons claiming rights from or through a Participant, and shareholders. The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. The Committee may delegate to officers or managers of

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the Company or any Related Entity, or committees thereof, the authority, subject to such terms and limitations as the Committee shall determine, to perform such functions, including administrative functions as the Committee may determine to the extent that such delegation will not result in the loss of an exemption under Rule 16b-3(d)(1) for Awards granted to Participants subject to Section 16 of the Exchange Act in respect of the Company and will not cause Awards intended to qualify as performance-based compensation under Code Section 162(m) to fail to so qualify. The Committee may appoint agents to assist it in administering the Plan. Any such delegations shall be set forth in a written instrument that specifies the persons authorized to act thereunder and the terms and limitations of such authority, which writing shall be delivered to the Company's Chief Financial Officer, Principal Accounting Officer and General Counsel before any authority may be exercised.

(c) **Limitation of Liability.** The Committee and the Board, and each member thereof, shall be entitled to, in good faith, rely or act upon any report or other information furnished to it, him or her by any officer or Employee, the Company's independent auditors, Consultants or any other agents assisting in the administration of the Plan. Members of the Committee and the Board, and any officer or Employee acting at the direction or on behalf of the Committee or the Board, shall not be personally liable for any action or determination taken or made in good faith with respect to the Plan, and shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action or determination.

**4. Shares Subject to Plan.**

(a) **Limitation on Overall Number of Shares Available for Delivery Under Plan.** Subject to adjustment as provided in Section 10(c) hereof, the total number of Shares reserved and available for delivery under the Plan shall be 6,000,000, inclusive of any Shares remaining available for grant under the Prior Plan on the Effective Date of the Plan. Any Shares that are subject to Awards of Options or Stock Appreciation Rights shall be counted against this limit as one (1) Share for every one (1) Share granted. Any Shares that are subject to Awards other than Options or Stock Appreciation Rights shall be counted against this limit as 2.2 Shares for every one (1) Share granted. Any Shares delivered under the Plan may consist, in whole or in part, of authorized and unissued shares or treasury shares.

(b) **Application of Limitation to Grants of Awards.** No Award may be granted if the number of Shares to be delivered in connection with such an Award or, in the case of an Award relating to Shares but settled only in cash (such as cash-only Stock Appreciation Rights), the number of Shares to which such Award relates, exceeds the number of Shares remaining available for delivery under the Plan, minus the number of Shares deliverable in settlement of or relating to then outstanding Awards. The Committee may adopt reasonable counting procedures to ensure appropriate counting, avoid double counting (as, for example, in the case of tandem or substitute awards) and make adjustments if the number of Shares actually delivered differs from the number of Shares previously counted in connection with an Award.

(c) **Availability of Shares Not Delivered under Awards and Adjustments to Limits.**

(i) If any Awards are forfeited, expire or otherwise terminate without issuance of such Shares, or any Award is settled for cash or otherwise does not result in the issuance of all or a portion of the Shares subject to such Award, the Shares to which those Awards were subject, shall, to the extent of such forfeiture, expiration, termination, cash settlement or non-issuance, again be available for delivery with respect to Awards under the Plan, subject to Section 4(c)(iv) below.

(ii) Substitute Awards shall not reduce the Shares authorized for delivery under the Plan or authorized for delivery to a Participant in any period. Additionally, in the event that a company acquired by the Company or any Related Entity or with which the Company or any Related Entity combines, has shares available under a pre-existing plan approved by its shareholders, the shares available for delivery pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of

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the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the Shares authorized for delivery under the Plan if and to the extent that the use of such Shares would not require approval of the Company's shareholders under the rules of the Listing Market.

(iii) Any Share that again becomes available for delivery pursuant to this Section 4(c) shall be added back as one (1) Share if such Share was subject to an Option or Stock Appreciation Right granted under the Plan or an option or stock appreciation right granted under the Prior Plan, and as 2.2 Shares if such Share was subject to an Award other than an Option or Stock Appreciation Right granted under the Plan or an option or stock appreciation right granted under the Prior Plan.

(iv) Notwithstanding anything in this Section 4(c) to the contrary but subject to adjustment as provided in Section 10(c) hereof, the maximum aggregate number of Shares that may be delivered under the Plan as a result of the exercise of the Incentive Stock Options shall be 6,000,000 shares.

(d) **No Further Awards Under Prior Plan.** In light of the adoption of this Plan, no further awards shall be made under the Prior Plan after the Effective Date, except to the extent that the number of Shares subject to such further awards do not exceed the number of Shares subject to awards under the Prior Plan that are forfeited, expire or otherwise terminate without issuance of Shares after the Effective Date.

**5. Eligibility; Per-Person Award Limitations.** Awards may be granted under the Plan only to Eligible Persons. Subject to adjustment as provided in Section 10(c), in any fiscal year of the Company during any part of which the Plan is in effect, no Participant may be granted (i) Options or Stock Appreciation Rights with respect to more than 1,000,000 Shares or (ii) Restricted Stock, Deferred Stock, Performance Shares and/or Other Stock-Based Awards with respect to more than 750,000 Shares. In addition, the maximum dollar value payable to any one Participant with respect to Performance Units is (x) \$10,000,000 with respect to any 12 month Performance Period (pro-rated for any Performance Period that is less than 12 months based upon the ratio of the number of days in the Performance Period as compared to 365), and (y) with respect to any Performance Period that is more than 12 months, \$10,000,000 multiplied by the number of full 12 months periods that are in the Performance Period.

## **6. Specific Terms of Awards.**

(a) **General.** Awards may be granted on the terms and conditions set forth in this Section 6. In addition, the Committee may impose on any Award or the exercise thereof, at the date of grant or thereafter (subject to Section 10(e)), such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine, including terms requiring forfeiture of Awards in the event of termination of the Participant's Continuous Service and terms permitting a Participant to make elections relating to his or her Award. Except as otherwise expressly provided herein, the Committee shall retain full power and discretion to accelerate, waive or modify, at any time, any term or condition of an Award that is not mandatory under the Plan. Except in cases in which the Committee is authorized to require other forms of consideration under the Plan, or to the extent other forms of consideration must be paid to satisfy the requirements of Florida law, no consideration other than services may be required for the grant (as opposed to the exercise) of any Award.

(b) **Options.** The Committee is authorized to grant Options to any Eligible Person on the following terms and conditions:

(i) **Exercise Price.** Other than in connection with Substitute Awards, the exercise price per Share purchasable under an Option shall be determined by the Committee, provided that such exercise price shall not be less than 100% of the Fair Market Value of a Share on the date of grant of the Option and shall not, in any event, be less than the par value of a Share on the date of grant of the Option. If an Employee owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company (or

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any parent corporation or subsidiary corporation of the Company, as those terms are defined in Sections 424(e) and (f) of the Code, respectively) and an Incentive Stock Option is granted to such Employee, the exercise price of such Incentive Stock Option (to the extent required by the Code at the time of grant) shall be no less than 110% of the Fair Market Value of a Share on the date such Incentive Stock Option is granted. Other than pursuant to Section 10(c)(i) and (ii), the Committee shall not be permitted to (A) lower the exercise price per Share of an Option after it is granted, (B) cancel an Option when the exercise price per Share exceeds the Fair Market Value of the underlying Shares in exchange for another Award (other than in connection with Substitute Awards), or (C) take any other action with respect to an Option that may be treated as a repricing pursuant to the applicable rules of the Listing Market, without approval of the Company's shareholders.

(ii) ***Time and Method of Exercise.*** The Committee shall determine the time or times at which or the circumstances under which an Option may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the time or times at which Options shall cease to be or become exercisable following termination of Continuous Service or upon other conditions, the methods by which the exercise price may be paid or deemed to be paid (including in the discretion of the Committee a cashless exercise procedure), the form of such payment, including, without limitation, cash, Shares (including without limitation the withholding of Shares otherwise deliverable pursuant to the Award), other Awards or awards granted under other plans of the Company or a Related Entity, or other property (including notes or other contractual obligations of Participants to make payment on a deferred basis provided that such deferred payments are not in violation of Section 13(k) of the Exchange Act, or any rule or regulation adopted thereunder or any other applicable law), and the methods by or forms in which Shares will be delivered or deemed to be delivered to Participants.

(iii) ***Incentive Stock Options.*** The terms of any Incentive Stock Option granted under the Plan shall comply in all respects with the provisions of Section 422 of the Code. Anything in the Plan to the contrary notwithstanding, no term of the Plan relating to Incentive Stock Options (including any Stock Appreciation Right issued in tandem therewith) shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be exercised, so as to disqualify either the Plan or any Incentive Stock Option under Section 422 of the Code, unless the Participant has first requested, or consents to, the change that will result in such disqualification. Thus, if and to the extent required to comply with Section 422 of the Code, Options granted as Incentive Stock Options shall be subject to the following special terms and conditions:

(A) The Option shall not be exercisable for more than ten years after the date such Incentive Stock Option is granted; provided, however, that if a Participant owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company (or any parent corporation or subsidiary corporation of the Company, as those terms are defined in Sections 424(e) and (f) of the Code, respectively) and the Incentive Stock Option is granted to such Participant, the term of the Incentive Stock Option shall be (to the extent required by the Code at the time of the grant) for no more than five years from the date of grant; and

(B) The aggregate Fair Market Value (determined as of the date the Incentive Stock Option is granted) of the Shares with respect to which Incentive Stock Options granted under the Plan and all other option plans of the Company (and any parent corporation or subsidiary corporation of the Company, as those terms are defined in Sections 424(e) and (f) of the Code, respectively) that become exercisable for the first time by the Participant during any calendar year shall not (to the extent required by the Code at the time of the grant) exceed \$100,000.

(c) ***Stock Appreciation Rights.*** The Committee may grant Stock Appreciation Rights to any Eligible Person in conjunction with all or part of any Option granted under the Plan or at any subsequent time during the term of such Option (a Tandem Stock Appreciation Right), or without regard to any Option (a

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Freestanding Stock Appreciation Right ), in each case upon such terms and conditions as the Committee may establish in its sole discretion, not inconsistent with the provisions of the Plan, including the following:

(i) **Right to Payment.** A Stock Appreciation Right shall confer on the Participant to whom it is granted a right to receive, upon exercise thereof, the excess of (A) the Fair Market Value of one Share on the date of exercise over (B) the grant price of the Stock Appreciation Right as determined by the Committee. The grant price of a Stock Appreciation Right shall not be less than 100% of the Fair Market Value of a Share on the date of grant, in the case of a Freestanding Stock Appreciation Right, or less than the associated Option exercise price, in the case of a Tandem Stock Appreciation Right. Other than pursuant to Section 10(c)(i) and (ii), the Committee shall not be permitted to (A) lower the grant price per Share of a Stock Appreciation Right after it is granted, (B) cancel a Stock Appreciation Right when the grant price per Share exceeds the Fair Market Value of the underlying Shares in exchange for another Award (other than in connection with Substitute Awards), or (C) take any other action with respect to a Stock Appreciation Right that may be treated as a repricing pursuant to the applicable rules of the Listing Market, without shareholder approval.

(ii) **Other Terms.** The Committee shall determine at the date of grant or thereafter, the time or times at which and the circumstances under which a Stock Appreciation Right may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the time or times at which Stock Appreciation Rights shall cease to be or become exercisable following termination of Continuous Service or upon other conditions, the method of exercise, method of settlement, form of consideration payable in settlement, method by or forms in which Shares will be delivered or deemed to be delivered to Participants, whether or not a Stock Appreciation Right shall be in tandem or in combination with any other Award, and any other terms and conditions of any Stock Appreciation Right.

(iii) **Tandem Stock Appreciation Rights.** Any Tandem Stock Appreciation Right may be granted at the same time as the related Option is granted or, for Options that are not Incentive Stock Options, at any time thereafter before exercise or expiration of such Option. Any Tandem Stock Appreciation Right related to an Option may be exercised only when the related Option would be exercisable and the Fair Market Value of the Shares subject to the related Option exceeds the exercise price at which Shares can be acquired pursuant to the Option. In addition, if a Tandem Stock Appreciation Right exists with respect to less than the full number of Shares covered by a related Option, then an exercise or termination of such Option shall not reduce the number of Shares to which the Tandem Stock Appreciation Right applies until the number of Shares then exercisable under such Option equals the number of Shares to which the Tandem Stock Appreciation Right applies. Any Option related to a Tandem Stock Appreciation Right shall no longer be exercisable to the extent the Tandem Stock Appreciation Right has been exercised, and any Tandem Stock Appreciation Right shall no longer be exercisable to the extent the related Option has been exercised.

(d) **Restricted Stock Awards.** The Committee is authorized to grant Restricted Stock Awards to any Eligible Person on the following terms and conditions:

(i) **Grant and Restrictions.** Restricted Stock Awards shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose, or as otherwise provided in this Plan during the Restriction Period. The terms of any Restricted Stock Award granted under the Plan shall be set forth in a written Award Agreement which shall contain provisions determined by the Committee and not inconsistent with the Plan. The restrictions may lapse separately or in combination at such times, under such circumstances (including based on achievement of performance goals and/or future service requirements), in such installments or otherwise, as the Committee may determine at the date of grant or thereafter. Except to the extent restricted under the terms of the Plan and any Award Agreement relating to a Restricted Stock Award, a Participant granted Restricted Stock shall have all of the rights of a shareholder, including the right to vote the Restricted



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Stock and the right to receive dividends thereon (subject to any mandatory reinvestment or other requirement imposed by the Committee). During the period that the Restricted Stock Award is subject to a risk of forfeiture, subject to Section 10(b) below and except as otherwise provided in the Award Agreement, the Restricted Stock may not be sold, transferred, pledged, hypothecated, margined or otherwise encumbered by the Participant.

(ii) **Forfeiture.** Except as otherwise determined by the Committee, upon termination of a Participant's Continuous Service during the applicable Restriction Period, the Participant's Restricted Stock that is at that time subject to a risk of forfeiture that has not lapsed or otherwise been satisfied shall be forfeited and reacquired by the Company; provided that, subject to the limitations set forth in Section 6(j)(ii) hereof, the Committee may provide, by rule or regulation or in any Award Agreement, or may determine in any individual case, that forfeiture conditions relating to Restricted Stock Awards shall be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of Restricted Stock.

(iii) **Certificates for Stock.** Restricted Stock granted under the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Stock are registered in the name of the Participant, the Committee may require that such certificates bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Restricted Stock, that the Company retain physical possession of the certificates, and that the Participant deliver a stock power to the Company, endorsed in blank, relating to the Restricted Stock.

(iv) **Dividends and Splits.** As a condition to the grant of a Restricted Stock Award, the Committee may require or permit a Participant to elect that any cash dividends paid on a Share of Restricted Stock be automatically reinvested in additional Shares of Restricted Stock or applied to the purchase of additional Awards under the Plan. Unless otherwise determined by the Committee, Shares distributed in connection with a stock split or stock dividend, and other property distributed as a dividend, shall be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Stock with respect to which such Shares or other property have been distributed.

(e) **Deferred Stock Award.** The Committee is authorized to grant Deferred Stock Awards to any Eligible Person on the following terms and conditions:

(i) **Award and Restrictions.** Satisfaction of a Deferred Stock Award shall occur upon expiration of the deferral period specified for such Deferred Stock Award by the Committee (or, if permitted by the Committee, as elected by the Participant). In addition, a Deferred Stock Award shall be subject to such restrictions (which may include a risk of forfeiture) as the Committee may impose, if any, which restrictions may lapse at the expiration of the deferral period or at earlier specified times (including based on achievement of performance goals and/or future service requirements), separately or in combination, in installments or otherwise, as the Committee may determine. A Deferred Stock Award may be satisfied by delivery of Shares, cash equal to the Fair Market Value of the specified number of Shares covered by the Deferred Stock, or a combination thereof, as determined by the Committee at the date of grant or thereafter. Prior to satisfaction of a Deferred Stock Award, a Deferred Stock Award carries no voting or dividend or other rights associated with Share ownership.

(ii) **Forfeiture.** Except as otherwise determined by the Committee, upon termination of a Participant's Continuous Service during the applicable deferral period or portion thereof to which forfeiture conditions apply (as provided in the Award Agreement evidencing the Deferred Stock Award), the Participant's Deferred Stock Award that is at that time subject to a risk of forfeiture that has not lapsed or otherwise been satisfied shall be forfeited; provided that, subject to the limitations set forth in Section 6(j)(ii) hereof, the Committee may provide, by rule or regulation or in any Award Agreement, or may determine in any individual case, that forfeiture conditions relating to a Deferred Stock Award shall be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of any Deferred Stock Award.

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(iii) ***Dividend Equivalents.*** Unless otherwise determined by the Committee at the date of grant, any Dividend Equivalents that are granted with respect to any Deferred Stock Award shall be either (A) paid with respect to such Deferred Stock Award at the dividend payment date in cash or in Shares of unrestricted stock having a Fair Market Value equal to the amount of such dividends, or (B) deferred with respect to such Deferred Stock Award and the amount or value thereof automatically deemed reinvested in additional Deferred Stock, other Awards or other investment vehicles, as the Committee shall determine or permit the Participant to elect.

(f) ***Bonus Stock and Awards in Lieu of Obligations.*** The Committee is authorized to grant Shares to any Eligible Persons as a bonus, or to grant Shares or other Awards in lieu of obligations to pay cash or deliver other property under the Plan or under other plans or compensatory arrangements, provided that, in the case of Eligible Persons subject to Section 16 of the Exchange Act, the amount of such grants remains within the discretion of the Committee to the extent necessary to ensure that acquisitions of Shares or other Awards are exempt from liability under Section 16(b) of the Exchange Act. Shares or Awards granted hereunder shall be subject to such other terms as shall be determined by the Committee.

(g) ***Dividend Equivalents.*** The Committee is authorized to grant Dividend Equivalents to any Eligible Person entitling the Eligible Person to receive cash, Shares, other Awards, or other property equal in value to the dividends paid with respect to a specified number of Shares, or other periodic payments. Dividend Equivalents may be awarded on a free-standing basis or in connection with another Award. The Committee may provide that Dividend Equivalents shall be paid or distributed when accrued or shall be deemed to have been reinvested in additional Shares, Awards, or other investment vehicles, and subject to such restrictions on transferability and risks of forfeiture, as the Committee may specify.

(h) ***Performance Awards.*** The Committee is authorized to grant Performance Awards to any Eligible Person payable in cash, Shares, or other Awards, on terms and conditions established by the Committee, subject to the provisions of Section 8 if and to the extent that the Committee shall, in its sole discretion, determine that an Award shall be subject to those provisions. The performance criteria to be achieved during any Performance Period and the length of the Performance Period shall be determined by the Committee upon the grant of each Performance Award. Except as provided in Section 9 or as may be provided in an Award Agreement, Performance Awards will be distributed only after the end of the relevant Performance Period. The performance goals to be achieved for each Performance Period shall be conclusively determined by the Committee and may be based upon the criteria set forth in Section 8(b), or in the case of an Award that the Committee determines shall not be subject to Section 8 hereof, any other criteria that the Committee, in its sole discretion, shall determine should be used for that purpose. The amount of the Award to be distributed shall be conclusively determined by the Committee. Performance Awards may be paid in a lump sum or in installments following the close of the Performance Period or, in accordance with procedures established by the Committee, on a deferred basis.

(i) ***Other Stock-Based Awards.*** The Committee is authorized, subject to limitations under applicable law, to grant to any Eligible Person such other Awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Shares, as deemed by the Committee to be consistent with the purposes of the Plan. Other Stock-Based Awards may be granted to Participants either alone or in addition to other Awards granted under the Plan, and such Other Stock-Based Awards shall also be available as a form of payment in the settlement of other Awards granted under the Plan. The Committee shall determine the terms and conditions of such Awards. Shares delivered pursuant to an Award in the nature of a purchase right granted under this Section 6(i) shall be purchased for such consideration, (including without limitation loans from the Company or a Related Entity provided that such loans are not in violation of Section 13(k) of the Exchange Act, or any rule or regulation adopted thereunder or any other applicable law) paid for at such times, by such methods, and in such forms, including, without limitation, cash, Shares, other Awards or other property, as the Committee shall determine.

(j) ***Certain Vesting Requirements and Limitations on Waiver of Forfeiture Restrictions.*** Except for certain limited situations (including death, disability, retirement, a Change in Control referred to in

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Section 9, grants to new hires to replace forfeited compensation, grants representing payment of earned Performance Awards or other incentive compensation, Substitute Awards or grants to Directors):

(i) Restricted Stock Awards, Deferred Stock Awards, Performance Share Awards and Other Stock-Based Awards (A) that are not subject to performance-based vesting requirements shall vest over a period of not less than three years from date of grant (but permitting pro-rata vesting over such time); (B) that are subject to performance-based vesting requirements shall vest over a period of not less than one year; and

(ii) The Committee shall not waive the vesting requirements set forth in the foregoing clause (i).

The limitations set forth in this Section 6(j) shall not apply with respect to up to 300,000 Shares (subject to adjustment as provided in Section 10(c) hereof) with respect to which Awards have been made by Independent Directors.

**7. *Certain Provisions Applicable to Awards.***

(a) ***Stand-Alone, Additional, Tandem, and Substitute Awards.*** Awards granted under the Plan may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution or exchange for, any other Award or any award granted under another plan of the Company, any Related Entity, or any business entity to be acquired by the Company or a Related Entity, or any other right of a Participant to receive payment from the Company or any Related Entity. Such additional, tandem, and substitute or exchange Awards may be granted at any time. If an Award is granted in substitution or exchange for another Award or award, the Committee shall require the surrender of such other Award or award in consideration for the grant of the new Award. In addition, Awards may be granted in lieu of cash compensation, including in lieu of cash amounts payable under other plans of the Company or any Related Entity, in which the value of Shares subject to the Award is equivalent in value to the cash compensation (for example, Deferred Stock or Restricted Stock), or in which the exercise price, grant price or purchase price of the Award in the nature of a right that may be exercised is equal to the Fair Market Value of the underlying Shares minus the value of the cash compensation surrendered (for example, Options or Stock Appreciation Right granted with an exercise price or grant price discounted by the amount of the cash compensation surrendered).

(b) ***Term of Awards.*** The term of each Award shall be for such period as may be determined by the Committee; provided that in no event shall the term of any Option or Stock Appreciation Right exceed a period of ten years (or in the case of an Incentive Stock Option such shorter term as may be required under Section 422 of the Code).

(c) ***Form and Timing of Payment Under Awards; Deferrals.*** Subject to the terms of the Plan and any applicable Award Agreement, payments to be made by the Company or a Related Entity upon the exercise of an Option or other Award or settlement of an Award may be made in such forms as the Committee shall determine, including, without limitation, cash, Shares, other Awards or other property, and may be made in a single payment or transfer, in installments, or on a deferred basis. Any installment or deferral provided for in the preceding sentence shall, however, be subject to the Company's compliance with the provisions of the Sarbanes-Oxley Act of 2002, the rules and regulations adopted by the Securities and Exchange Commission thereunder, and all applicable rules of the Listing Market, and in a manner intended to be exempt from or otherwise satisfy the requirements of Section 409A of the Code. The settlement of any Award may, be accelerated, and cash paid in lieu of Shares in connection with such settlement in the sole discretion of the Committee or upon occurrence of one or more specified events (in addition to a Change in Control). Any such settlement shall be at a value determined by the Committee in its sole discretion, which, without limitation, may in the case of an Option or Stock Appreciation Right be limited to the amount if any by which the Fair Market Value of a Share on the settlement date exceeds the exercise or grant price. Installment or deferred payments may be required by the Committee (subject to Section 10(e) of the Plan, including the consent provisions thereof in the case of any deferral of an outstanding Award not provided

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for in the original Award Agreement) or permitted at the election of the Participant on terms and conditions established by the Committee. The Committee may, without limitation, make provision for the payment or crediting of a reasonable interest rate on installment or deferred payments or the grant or crediting of Dividend Equivalents or other amounts in respect of installment or deferred payments denominated in Shares.

(d) **Exemptions from Section 16(b) Liability.** It is the intent of the Company that the grant of any Awards to or other transaction by a Participant who is subject to Section 16 of the Exchange Act shall be exempt from Section 16 pursuant to an applicable exemption (except for transactions acknowledged in writing to be non-exempt by such Participant). Accordingly, if any provision of this Plan or any Award Agreement does not comply with the requirements of Rule 16b-3 then applicable to any such transaction, such provision shall be construed or deemed amended to the extent necessary to conform to the applicable requirements of Rule 16b-3 so that such Participant shall avoid liability under Section 16(b).

(e) **Code Section 409A**

(i) If any Award constitutes a nonqualified deferred compensation plan under Section 409A of the Code (a Section 409A Plan ), then the Award shall be subject to the following additional requirements, if and to the extent required to comply with Section 409A of the Code:

(A) Payments under the Section 409A Plan may not be made earlier than (u) the Participant's separation from service, (v) the date the Participant becomes disabled, (w) the Participant's death, (x) a specified time (or pursuant to a fixed schedule) specified in the Award Agreement at the date of the deferral of such compensation, (y) a change in the ownership or effective control of the corporation, or in the ownership of a substantial portion of the assets of the corporation of the Company, or (z) the occurrence of an unforeseeable emergency;

(B) The time or schedule for any payment of the deferred compensation may not be accelerated, except to the extent provided in applicable Treasury Regulations or other applicable guidance issued by the Internal Revenue Service;

(C) Any elections with respect to the deferral of such compensation or the time and form of distribution of such deferred compensation shall comply with the requirements of Section 409A(a)(4) of the Code; and

(D) In the case of any Participant who is a specified employee, a distribution on account of a separation from service may not be made before the date which is six months after the date of the Participant's separation from service (or, if earlier, the date of the Participant's death).

For purposes of the foregoing, the terms in quotations shall have the same meanings as those terms have for purposes of Section 409A of the Code, and the limitations set forth herein shall be applied in such manner (and only to the extent) as shall be necessary to comply with any requirements of Section 409A of the Code that are applicable to the Award. The Company does not make any representation to the Participant that any Awards awarded under this Plan will be exempt from, or satisfy, the requirements of Section 409A, and the Company shall have no liability or other obligation to indemnify or hold harmless any Participant or Beneficiary for any tax, additional tax, interest or penalties that any Participant or Beneficiary may incur in the event that any provision of this Plan, or any amendment or modification thereof, or any other action taken with respect thereto, that the Company reasonably believes should not result in a violation of Section 409A is deemed to violate any of the requirements of Section 409A.

(ii) The Award Agreement for any Award that the Committee reasonably determines to constitute a Section 409A Plan, and the provisions of the Plan applicable to that Award, shall be construed in a manner consistent with the applicable requirements of Section 409A, and the Committee, in its sole discretion and without the consent of any Participant, may amend any Award Agreement (and the

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provisions of the Plan applicable thereto) if and to the extent that the Committee determines that such amendment is necessary or appropriate to comply with the requirements of Section 409A of the Code. No Section 409A Plan shall be adjusted, modified or substituted for, pursuant to any provision of this Plan, without the consent of the Participant if any such adjustment, modification or substitution would cause the Section 409A Plan to violate the requirements of Section 409A of the Code.

**8. Code Section 162(m) Provisions.**

(a) **Covered Employees.** The Committee, in its discretion, may determine at the time an Award is granted to an Eligible Person who is, or is likely to be, as of the end of the tax year in which the Company would claim a tax deduction in connection with such Award, a Covered Employee, that the provisions of this Section 8 shall be applicable to such Award.

(b) **Performance Criteria.** If an Award is subject to this Section 8, then the payment or distribution thereof or the lapsing of restrictions thereon and the distribution of cash, Shares or other property pursuant thereto, as applicable, shall be contingent upon achievement of one or more objective performance goals. Performance goals shall be objective and shall otherwise meet the requirements of Section 162(m) of the Code and regulations thereunder including the requirement that the level or levels of performance targeted by the Committee result in the achievement of performance goals being substantially uncertain. One or more of the following business criteria for the Company, on a consolidated basis, and/or for Related Entities, or for business or geographical units of the Company and/or a Related Entity (except with respect to the total shareholder return and earnings per share criteria), shall be used by the Committee in establishing performance goals for such Awards: (1) earnings per share; (2) revenues or margins; (3) cash flow; (4) operating margin; (5) return on net assets, investment, capital, or equity; (6) economic value added; (7) direct contribution; (8) net income; pretax earnings; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; earnings after interest expense and before extraordinary or special items; operating income or income from operations; income before interest income or expense, unusual items and income taxes, local, state or federal and excluding budgeted and actual bonuses which might be paid under any ongoing bonus plans of the Company; (9) working capital; (10) management of fixed costs or variable costs; (11) identification or consummation of investment opportunities or completion of specified projects in accordance with corporate business plans, including strategic mergers, acquisitions or divestitures; (12) total shareholder return; (13) debt reduction; (14) market share; (15) entry into new markets, either geographically or by business unit; (16) customer retention and satisfaction; (17) strategic plan development and implementation, including turnaround plans; and/or (18) the Fair Market Value of a Share. Any of the above goals may be determined on an absolute or relative basis or as compared to the performance of a published or special index deemed applicable by the Committee including, but not limited to, the Standard & Poor's 500 Stock Index or a group of companies that are comparable to the Company. The Committee shall exclude the impact of an event or occurrence, or otherwise make adjustments to the performance goals, which the Committee determines should appropriately be excluded or made to avoid unanticipated results or to otherwise insure that the results are determined in a manner consistent with the intention of the Committee at the time it established the goals, including, without limitation, exclusions or adjustments for (i) restructurings, discontinued operations, extraordinary items, and other unusual or non-recurring charges, (ii) an event either not directly related to the operations of the Company or not within the reasonable control of the Company's management, or (iii) a change in accounting standards required by generally accepted accounting principles.

(c) **Performance Period; Timing For Establishing Performance Goals.** Achievement of performance goals in respect of Performance Awards shall be measured over a Performance Period specified by the Committee. Performance goals shall be established not later than 90 days after the beginning of any Performance Period applicable to such Performance Awards, or at such other date as may be required or permitted for performance-based compensation under Code Section 162(m).

(d) **Adjustments.** The Committee may, in its discretion, reduce the amount of a settlement otherwise to be made in connection with Awards subject to this Section 8, but may not exercise discretion to increase any

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such amount payable to a Covered Employee in respect of an Award subject to this Section 8. The Committee shall specify the circumstances in which such Awards shall be paid or forfeited in the event of termination of Continuous Service by the Participant prior to the end of a Performance Period or settlement of Awards.

(e) **Committee Certification.** No Participant shall receive any payment under the Plan that is subject to this Section 8 unless the Committee has certified, by resolution or other appropriate action in writing, that the performance criteria and any other material terms previously established by the Committee or set forth in the Plan, have been satisfied to the extent necessary to qualify as performance based compensation under Code Section 162(m).

**9. Change in Control.**

(a) **Effect of Change in Control.** If and only to the extent provided in any employment or other agreement between the Participant and the Company or any Related Entity, or in any Award Agreement, or to the extent otherwise determined by the Committee in its sole discretion and without any requirement that each Participant be treated consistently, upon the occurrence of a Change in Control, as defined in Section 9(b):

(i) Any Option or Stock Appreciation Right that was not previously vested and exercisable as of the time of the Change in Control, shall become immediately vested and exercisable, subject to applicable restrictions set forth in Section 10(a) hereof.

(ii) Any restrictions, deferral of settlement, and forfeiture conditions applicable to a Restricted Stock Award, Deferred Stock Award or an Other Stock-Based Award subject only to future service requirements granted under the Plan shall lapse and such Awards shall be deemed fully vested as of the time of the Change in Control, except to the extent of any waiver by the Participant and subject to applicable restrictions set forth in Section 10(a) hereof.

(iii) With respect to any outstanding Award subject to achievement of performance goals and conditions under the Plan, the Committee may, in its discretion, deem such performance goals and conditions as having been met as of the date of the Change in Control.

(b) **Definition of Change in Control.** Unless otherwise specified in any employment agreement between the Participant and the Company or any Related Entity, or in an Award Agreement, a Change in Control shall mean the occurrence of any of the following:

(i) The acquisition by any Person of Beneficial Ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than fifty percent (50%) of either (A) the value of then outstanding equity securities of the Company (the Outstanding Company Stock) or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the Outstanding Company Voting Securities) (the foregoing Beneficial Ownership hereinafter being referred to as a Controlling Interest); provided, however, that for purposes of this Section 9(b), the following acquisitions shall not constitute or result in a Change in Control: (v) any acquisition directly from the Company; (w) any acquisition by the Company; (x) any acquisition by any Person that as of the Effective Date owns Beneficial Ownership of a Controlling Interest; (y) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Related Entity; or (z) any acquisition by any entity pursuant to a transaction which complies with clauses (A), (B) and (C) of subsection (iii) below; or

(ii) During any period of two (2) consecutive years (not including any period prior to the Effective Date) individuals who constitute the Board on the Effective Date (the Incumbent Board) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising

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the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar transaction involving the Company or any of its Related Entities, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or equity of another entity by the Company or any of its Related Entities (each a Business Combination), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the Beneficial Owners, respectively, of the Outstanding Company Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than fifty percent (50%) of the value of the then outstanding equity securities and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of members of the board of directors (or comparable governing body of an entity that does not have such a board), as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Stock and Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any employee benefit plan (or related trust) of the Company or such entity resulting from such Business Combination or any Person that as of the Effective Date owns Beneficial Ownership of a Controlling Interest) beneficially owns, directly or indirectly, fifty percent (50%) or more of the value of the then outstanding equity securities of the entity resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such entity except to the extent that such ownership existed prior to the Business Combination and (C) at least a majority of the members of the Board of Directors or other governing body of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

### 10. *General Provisions.*

(a) ***Compliance With Legal and Other Requirements.*** The Company may, to the extent deemed necessary or advisable by the Committee, postpone the issuance or delivery of Shares or payment of other benefits under any Award until completion of such registration or qualification of such Shares or other required action under any federal or state law, rule or regulation, listing or other required action with respect to the Listing Market, or compliance with any other obligation of the Company, as the Committee may consider appropriate, and may require any Participant to make such representations, furnish such information and comply with or be subject to such other conditions as it may consider appropriate in connection with the issuance or delivery of Shares or payment of other benefits in compliance with applicable laws, rules, and regulations, listing requirements, or other obligations.

(b) ***Limits on Transferability; Beneficiaries.*** No Award or other right or interest granted under the Plan shall be pledged, hypothecated or otherwise encumbered or subject to any lien, obligation or liability of such Participant to any party, or assigned or transferred by such Participant otherwise than by will or the laws of descent and distribution or to a Beneficiary upon the death of a Participant, and such Awards or rights that may be exercisable shall be exercised during the lifetime of the Participant only by the Participant or his or her guardian or legal representative, except that Awards and other rights (other than Incentive

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Stock Options and Stock Appreciation Rights in tandem therewith) may be transferred to one or more Beneficiaries or other transferees during the lifetime of the Participant, and may be exercised by such transferees in accordance with the terms of such Award, but only if and to the extent such transfers are permitted by the Committee pursuant to the express terms of an Award Agreement (subject to any terms and conditions which the Committee may impose thereon). A Beneficiary, transferee, or other person claiming any rights under the Plan from or through any Participant shall be subject to all terms and conditions of the Plan and any Award Agreement applicable to such Participant, except as otherwise determined by the Committee, and to any additional terms and conditions deemed necessary or appropriate by the Committee.

(c) ***Adjustments.***

(i) ***Adjustments to Awards.*** In the event that any extraordinary dividend or other distribution (whether in the form of cash, Shares, or other property), recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, liquidation, dissolution or other similar corporate transaction or event affects the Shares and/or such other securities of the Company or any other issuer such that a substitution, exchange, or adjustment is determined by the Committee to be appropriate, then the Committee shall, in such manner as it may deem equitable, substitute, exchange or adjust any or all of (A) the number and kind of Shares which may be delivered in connection with Awards granted thereafter, (B) the number and kind of Shares by which annual per-person Award limitations are measured under Section 5 hereof, (C) the number and kind of Shares subject to or deliverable in respect of outstanding Awards, (D) the exercise price, grant price or purchase price relating to any Award and/or make provision for payment of cash or other property in respect of any outstanding Award, and (E) any other aspect of any Award that the Committee determines to be appropriate.

(ii) ***Adjustments in Case of Certain Transactions.*** In the event of any merger, consolidation or other reorganization in which the Company does not survive, or in the event of any Change in Control, any outstanding Awards may be dealt with in accordance with any of the following approaches, without the requirement of obtaining any consent or agreement of a Participant as such, as determined by the agreement effectuating the transaction or, if and to the extent not so determined, as determined by the Committee in its sole discretion, and without any requirement that Participants be treated consistently: (a) the continuation of the outstanding Awards by the Company, if the Company is a surviving entity, (b) the assumption or substitution for the outstanding Awards by the surviving entity or its parent or subsidiary, (c) full exercisability or vesting and accelerated expiration of the outstanding Awards, or (d) settlement of the value of the outstanding Awards in cash or cash equivalents or other property followed by cancellation of such Awards (which value, in the case of Options or Stock Appreciation Rights, shall be measured by the amount, if any, by which the Fair Market Value of a Share exceeds the exercise or grant price of the Option or Stock Appreciation Right as of the effective date of the transaction). For the purposes of this Section 10(c)(ii), an Option, Stock Appreciation Right, Restricted Stock Award, Deferred Stock Award or Other Stock-Based Award shall be considered assumed or substituted for if following the Change in Control the Award confers the right to purchase or receive, for each Share subject to the Option, Stock Appreciation Right, Restricted Stock Award, Deferred Stock Award or Other Stock-Based Award immediately prior to the Change in Control, the consideration (whether stock, cash or other securities or property) received in the transaction constituting a Change in Control by holders of Shares for each Share held on the effective date of such transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares); provided, however, that if such consideration received in the transaction constituting a Change in Control is not solely common stock of the successor company or its parent or subsidiary, the Committee may, with the consent of the successor company or its parent or subsidiary, provide that the consideration to be received upon the exercise or vesting of an Option, Stock Appreciation Right, Restricted Stock Award, Deferred Stock Award or Other Stock-Based Award, for each Share subject thereto, will be solely common stock of the successor company or its parent or subsidiary substantially equal in fair market value to the per



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share consideration received by holders of Shares in the transaction constituting a Change in Control. The determination of such substantial equality of value of consideration shall be made by the Committee in its sole discretion and its determination shall be conclusive and binding. The Committee shall give written notice of any proposed transaction referred to in this Section 10(c)(ii) a reasonable period of time prior to the closing date for such transaction (which notice may be given either before or after the approval of such transaction), in order that Participants may have a reasonable period of time prior to the closing date of such transaction within which to exercise any Awards that are then exercisable (including any Awards that may become exercisable upon the closing date of such transaction). A Participant may condition his exercise of any Awards upon the consummation of the transaction.

(iii) **Other Adjustments.** The Committee (and the Board if and only to the extent such authority is not required to be exercised by the Committee to comply with Section 162(m) of the Code) is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards (including Performance Awards, or performance goals and conditions relating thereto) in recognition of unusual or nonrecurring events (including, without limitation, acquisitions and dispositions of businesses and assets) affecting the Company, any Related Entity or any business unit, or the financial statements of the Company or any Related Entity, or in response to changes in applicable laws, regulations, accounting principles, tax rates and regulations or business conditions or in view of the Committee's assessment of the business strategy of the Company, any Related Entity or business unit thereof, performance of comparable organizations, economic and business conditions, personal performance of a Participant, and any other circumstances deemed relevant; provided that no such adjustment shall be authorized or made if and to the extent that such authority or the making of such adjustment would cause Options, Stock Appreciation Rights, or Performance Awards granted pursuant to Section 8(b) hereof, to Participants designated by the Committee as Covered Employees and intended to qualify as performance-based compensation under Code Section 162(m) and the regulations thereunder to otherwise fail to qualify as performance-based compensation under Code Section 162(m) and regulations thereunder. Adjustments permitted hereby may include, without limitation, increasing the exercise price of Options and Stock Appreciation Rights, increasing performance goals, or other adjustments that may be adverse to the Participant.

(d) **Taxes.** The Company and any Related Entity are authorized to withhold from any Award granted, any payment relating to an Award under the Plan, including from a distribution of Shares, or any payroll or other payment to a Participant, amounts of withholding and other taxes due or potentially payable in connection with any transaction involving an Award, and to take such other action as the Committee may deem advisable to enable the Company or any Related Entity and Participants to satisfy obligations for the payment of withholding taxes and other tax obligations relating to any Award. This authority shall include authority to withhold or receive Shares or other property and to make cash payments in respect thereof in satisfaction of a Participant's tax obligations, either on a mandatory or elective basis in the discretion of the Committee.

(e) **Changes to the Plan and Awards.** The Board may amend, alter, suspend, discontinue or terminate the Plan, or the Committee's authority to grant Awards under the Plan, without the consent of shareholders or Participants (including in a manner adverse to the rights of a Participant under an outstanding Award), except that any amendment or alteration to the Plan shall be subject to the approval of the Company's shareholders not later than the annual meeting next following such Board action if such shareholder approval is required by any federal or state law or regulation (including, without limitation, Rule 16b-3 or Code Section 162(m)) or the rules of the Listing Market, and the Board may otherwise, in its discretion, determine to submit other such changes to the Plan to shareholders for approval. The Committee may waive any conditions or rights under, or amend, alter, suspend, discontinue or terminate any Award theretofore granted and any Award Agreement relating thereto, without the consent of the Participant (including in a manner adverse to the rights of a Participant under an outstanding Award), except as otherwise provided in the Plan (including without limitation Section 6(j)(ii) hereof).

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(f) **Limitation on Rights Conferred Under Plan.** Neither the Plan nor any action taken hereunder or under any Award shall be construed as (i) giving any Eligible Person or Participant the right to continue as an Eligible Person or Participant or in the employ or service of the Company or a Related Entity; (ii) interfering in any way with the right of the Company or a Related Entity to terminate any Eligible Person's or Participant's Continuous Service at any time, (iii) giving an Eligible Person or Participant any claim to be granted any Award under the Plan or to be treated uniformly with other Participants and Employees, or (iv) conferring on a Participant any of the rights of a shareholder of the Company including, without limitation, any right to receive dividends or distributions, any right to vote or act by written consent, any right to attend meetings of shareholders or any right to receive any information concerning the Company's business, financial condition, results of operation or prospects, unless and until such time as the Participant is duly issued Shares on the stock books of the Company in accordance with the terms of an Award. None of the Company, its officers or its directors shall have any fiduciary obligation to the Participant with respect to any Awards unless and until the Participant is duly issued Shares pursuant to the Award on the stock books of the Company in accordance with the terms of an Award. Neither the Company nor any of the Company's officers, directors, representatives or agents are granting any rights under the Plan to the Participant whatsoever, oral or written, express or implied, other than those rights expressly set forth in this Plan or the Award Agreement.

(g) **Unfunded Status of Awards; Creation of Trusts.** The Plan is intended to constitute an unfunded plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant or obligation to deliver Shares pursuant to an Award, nothing contained in the Plan or any Award shall give any such Participant any rights that are greater than those of a general creditor of the Company; provided that the Committee may authorize the creation of trusts and deposit therein cash, Shares, other Awards or other property, or make other arrangements to meet the Company's obligations under the Plan. Such trusts or other arrangements shall be consistent with the unfunded status of the Plan unless the Committee otherwise determines with the consent of each affected Participant. The trustee of such trusts may be authorized to dispose of trust assets and reinvest the proceeds in alternative investments, subject to such terms and conditions as the Committee may specify and in accordance with applicable law.

(h) **Nonexclusivity of the Plan.** Neither the adoption of the Plan by the Board nor its submission to the shareholders of the Company for approval shall be construed as creating any limitations on the power of the Board or a committee thereof to adopt such other incentive arrangements as it may deem desirable including incentive arrangements and awards which do not qualify under Section 162(m) of the Code.

(i) **Payments in the Event of Forfeitures; Fractional Shares.** Unless otherwise determined by the Committee, in the event of a forfeiture of an Award with respect to which a Participant paid cash or other consideration, the Participant shall be repaid the amount of such cash or other consideration. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

(j) **Governing Law.** The validity, construction and effect of the Plan, any rules and regulations under the Plan, and any Award Agreement shall be determined in accordance with the laws of the State of Florida without giving effect to principles of conflict of laws, and applicable federal law.

(k) **Non-U.S. Laws.** The Committee shall have the authority to adopt such modifications, procedures, and subplans as may be necessary or desirable to comply with provisions of the laws of foreign countries in which the Company or its Related Entities may operate to assure the viability of the benefits from Awards granted to Participants performing services in such countries and to meet the objectives of the Plan.

(l) **Plan Effective Date and Shareholder Approval; Termination of Plan.** The Plan shall become effective on the Effective Date. The Plan shall terminate at the earliest of (a) such time as no Shares remain available for issuance under the Plan, (b) termination of this Plan by the Board, or (c) the tenth anniversary of the Effective Date. Awards outstanding upon expiration of the Plan shall remain in effect until they have been exercised or terminated, or have expired.

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**1301 Concord Terrace  
Sunrise, Florida 33323-2825**

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**Important Notice Regarding Internet Availability of Proxy Materials for the Annual Meeting:**

The Notice and Proxy Statement and Annual Report are available at [www.proxyvote.com](http://www.proxyvote.com).

**PEDIATRIX MEDICAL GROUP, INC.**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

**ANNUAL MEETING OF SHAREHOLDERS**

**MAY 23, 2008**

The shareholder(s) hereby appoint(s) Roger J. Medel, M.D., Thomas W. Hawkins and Karl B. Wagner, or any of them, as proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated on the reverse side of this ballot, all of the shares of Common Stock of Pediatrix Medical Group, Inc. that the shareholder(s) is/are entitled to vote at the Annual Meeting of Shareholders to be held at 10:00 a.m., Eastern Time, on Friday, May 23, 2008, at the Crowne Plaza Sawgrass Mills, 13400 W. Sunrise Boulevard, Sunrise, Florida 33323, and any adjournment or postponement thereof.

**THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS DIRECTED BY THE SHAREHOLDER(S). IF NO SUCH DIRECTIONS ARE MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE NOMINEES LISTED ON THE REVERSE SIDE FOR THE BOARD OF DIRECTORS, FOR THE APPROVAL OF THE PEDIATRIX 2008 INCENTIVE COMPENSATION PLAN AND FOR THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM FOR 2008.**

**PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED REPLY ENVELOPE**

Address  
Changes/Comments:

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(If you noted any Address Changes/Comments above, please mark corresponding box on the reverse side.)

**CONTINUED AND TO BE SIGNED ON REVERSE SIDE**

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**PEDIATRIX MEDICAL GROUP, INC.**  
**1301 CONCORD TERRACE**  
**SUNRISE, FL 33323-2825**

**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time on May 22, 2008. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**ELECTRONIC DELIVERY OF FUTURE SHAREHOLDER COMMUNICATIONS**

If you would like to reduce the costs incurred by Pediatrix Medical Group, Inc. in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access shareholder communications electronically in future years.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time on May 22, 2008. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Pediatrix Medical Group, Inc., c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

PDXMG1 KEEP THIS PORTION FOR YOUR RECORDS  
 DETACH AND RETURN THIS PORTION  
 ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

**PEDIATRIX MEDICAL GROUP, INC.**

**For All** **Withhold All** **For All Except**

To withhold authority to vote for any individual nominee(s), mark **For All Except** and write the number(s) of the nominee(s) on the line below.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ITEMS 1, 2 AND 3.**

**Vote on Directors**

1. ELECTION OF DIRECTORS

**Nominees:**

- |                             |                                 |
|-----------------------------|---------------------------------|
| 01) Cesar L. Alvarez        | 06) Pascal J. Goldschmidt, M.D. |
| 02) Waldemar A. Carlo, M.D. | 07) Roger J. Medel, M.D.        |

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- 03) Michael B. Fernandez      08) Manuel Kadre
- 04) Roger K. Freeman,  
M.D.                              09) Enrique J. Sosa, Ph.D.
- 05) Paul G. Gabos

**Vote on Proposals**

	For	Against	Abstain
2. Proposal to approve the Pediatrix 2008 Incentive Compensation Plan.	..	..	..
3. Proposal to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered certified public accounting firm for 2008.	..	..	..
4. In their discretion, upon such other matters that may properly come before the meeting or any adjournment or adjournments thereof.			

The shares represented by this proxy, when properly executed, will be voted in the manner directed herein by the undersigned Shareholder(s). **If no direction is made, this proxy will be voted FOR items 1, 2 and 3.** If any other matters properly come before the meeting, or if cumulative voting is required, the person named in this proxy will vote in their discretion.

For address changes and/or comments, please check this box and write them on the back where indicated.      ..

**Yes No**

**MATERIALS ELECTION**

As of July 1, 2007, SEC rules permit companies to send you a Notice that proxy information is available on the Internet, instead of mailing you a complete set of materials. Check the box to the right if you want to receive a complete set of future proxy materials by mail, at no cost to you. If you do not take action you may receive only a Notice.      ..

Please indicate if you plan to attend this meeting.      .. ..

Please sign your name exactly as it appears hereon. When signing as attorney, executor, administrator, trustee or guardian, please add your title as such. When signing as joint tenants, all parties in the joint tenancy must sign. If a signer is a corporation, please sign in full corporate name by duly authorized officer.

Signature [PLEASE SIGN WITHIN BOX]

Date

Signature (Joint Owners)

Date