FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2001-02-02** | Period of Report: **2000-12-31**
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FILER

PEDIATRIC SERVICES OF AMERICA INC

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SIC: **8082** Home health care services

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2000

OR

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

For the transition period from ______ to ______

Commission file number 0-23946

PEDIATRIC SERVICES OF AMERICA, INC.
(Exact name of Registrant as specified in its charter)

Delaware	58-1873345
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

310 Technology Parkway, Norcross GA 30092-2929
(Address of principal executive offices, including zip code)

(770) 441-1580
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [_]

As of February 1, 2001, the Registrant had 6,658,680 shares of Common Stock, $0.01 Par Value, outstanding.

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PEDIATRIC SERVICES OF AMERICA, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

PEDIATRIC SERVICES OF AMERICA, INC
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

<TABLE>
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	December 31, 2000 (Unaudited)	September 30, 2000
Assets		
Current assets:		
Cash and cash equivalents	$ 13,694	$ 14,912
Accounts receivable, less allowances for doubtful accounts of $8,055 and $7,628, respectively	34,262	35,389
Prepaid expenses	834	656
Deferred income taxes	1,069	3,792
Other current assets	3,421	3,057
Total current assets	53,280	57,806
Property and equipment:		
Home care equipment held for rental	27,667	27,831
Furniture and fixtures	10,327	10,226
Vehicles	729	751
Leasehold improvements	1,045	1,039
	39,768	39,847
Accumulated depreciation and amortization	(28,958)	(27,999)
	10,810	11,848
Other assets:		
Goodwill, less accumulated amortization of $7,943 and $7,386, respectively	33,376	33,933
Certificates of need, less accumulated amortization of $430 and $404, respectively	243	269
Deferred financing fees, less accumulated amortization of $628 and $549, respectively	1,340	1,419
Non-compete agreements, less accumulated amortization of $1,091 and $1,084, respectively	69	76
Deferred income taxes	1,747	-
Other	225	242
	37,000	35,939
Total assets	$101,090	$105,593

</TABLE>

See accompanying notes.

PEDIATRIC SERVICES OF AMERICA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS--(Continued)
(In thousands)

<TABLE>
<CAPTION>

	December 31, 2000 (Unaudited)	September 30, 2000
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 4,746	$ 5,477
Accrued compensation	3,884	5,513
Income taxes	434	610
Accrued insurance	5,093	5,002
Other accrued liabilities	5,144	6,179
Deferred revenue	568	618
Current maturities of long-term obligations to related parties	25	50
Current maturities of long-term obligations	17	18
Total current liabilities	19,911	23,467
Long-term obligations to related parties, net of current maturities	25	50
Long-term obligations, net of current maturities	45,436	45,439
Deferred income taxes	-	1,106
Stockholders' equity:		
Preferred stock, $.01 par value, 2,000 shares authorized, no shares issued and outstanding	-	-
Common stock, $.01 par value, 80,000 shares authorized, 6,659 and 6,658 shares issued and outstanding at December 31, 2000 and September 30, 2000, respectively	67	67
Additional paid-in capital	48,363	48,362
Retained deficit	(12,712)	(12,898)
Total stockholders' equity	35,718	35,531
Total liabilities and stockholders' equity	$101,090	$105,593

</TABLE>

See accompanying notes.

PEDIATRIC SERVICES OF AMERICA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

<TABLE>
<CAPTION>

	Three Months Ended December 31, 2000	1999
	(Unaudited)	
Net revenue	$45,561	$48,104
Costs and expenses:		
Operating salaries, wages and employee benefits	20,650	22,658
Other operating costs	16,414	17,651
Corporate, general and administrative	4,453	4,752
Provision for doubtful accounts	958	2,344
Depreciation and amortization	1,899	2,064

Total costs and expenses	44,374	49,469
Operating income (loss)	1,187	(1,365)
Interest income	(220)	-
Interest expense	1,221	2,967
Income (loss) from continuing operations	186	(4,332)
Discontinued operations		
Gain on disposal of discontinued operations	-	24,314
Net income	$ 186	$19,982
Basic net income per share data:		
Income (loss) from continuing operations	$ 0.03	$ (0.65)
Gain on disposal of discontinued operations	-	3.65
Net income	$ 0.03	$ 3.00
Diluted net income per share data:		
Income (loss) from continuing operations	$ 0.03	$ (0.65)
Gain on disposal of discontinued operations	-	3.65
Net income	$ 0.03	$ 3.00
Weighted average shares outstanding:		
Basic	6,659	6,652
Diluted	6,892	6,652

</TABLE>

See accompanying notes.

PEDIATRIC SERVICES OF AMERICA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

<TABLE>
<CAPTION>

	Three Months Ended December 31, 2000	1999
	(Unaudited)	
<S>	<C>	<C>
Operating activities		
Income (loss) from continuing operations	$ 186	$ (4,332)
Adjustments to reconcile income (loss) from continuing operations to net cash used in operating activities:		
Depreciation and amortization	1,899	2,064
Provision for doubtful accounts	958	2,344
Amortization of deferred financing fees	79	412
Deferred income taxes	(130)	-
Changes in operating assets and liabilities:		
Accounts receivable	169	3,230
Prepaid expenses	(178)	(31)
Other assets	(369)	(1,626)
Accounts payable	(731)	(1,906)
Income taxes	(176)	(5)
Accrued liabilities	(2,623)	(4,582)
Net cash used in operating activities of continuing operations	(916)	(4,432)
Net cash used in operating activities of discontinued operations	-	(1,087)
Net cash used in operating activities	(916)	(5,519)
Investing activities		
Purchases of property and equipment	(249)	(255)
Proceeds from sale of division	-	77,869
Other, net	-	64

Net cash (used in) provided by investing activities of continuing operations...	(249)	77,678
Net cash used in investing activities of discontinued operations......	-	(24)
Net cash (used in) provided by investing activities..................	(249)	77,654
Financing activities		
Principal payments on long-term debt.................................	(54)	(63,247)
Deferred financing fees..	-	(205)
Proceeds from exercise of stock options..............................	1	-
Net cash used in financing activities................................	(53)	(63,452)
(Decrease) increase in cash and cash equivalents.....................	(1,218)	8,683
Cash and cash equivalents at beginning of period.....................	14,912	8,361
Cash and cash equivalents at end of period...........................	$13,694	$ 17,044
Supplemental disclosure of cash flow information		
Cash paid for interest...	$ 2,350	$ 4,446
Cash paid for taxes..	$ 358	$ 12

</TABLE>

See accompanying notes.

PEDIATRIC SERVICES OF AMERICA, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Unaudited

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Pediatric Services of America, Inc. (the "Company") and its majority-owned subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Results of operations for the three months ended December 31, 2000 are not necessarily indicative of the results to be expected for the entire fiscal year ending September 30, 2001. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended September 30, 2000 included in the Company's Annual Report on Form 10-K for such year filed with the Securities and Exchange Commission. Principal accounting policies are set forth in the Company's 2000 Annual Report.

2. Description of Business

The Company provides a broad range of pediatric health care services and equipment including nursing, respiratory therapy, rental and sale of durable medical equipment, pharmaceutical services and infusion therapy services. In addition, the Company provides pediatric rehabilitation services, day treatment centers for medically fragile children, pediatric well care services and special needs educational services for pediatric patients. The Company also provides case management services in order to assist the family and patient by coordinating the provision of services between the insurer or other payor, the physician, the hospital and other health care providers. The Company's services are designed to provide a high quality, lower cost alternative to prolonged hospitalization for medically fragile children. As a complement to its pediatric respiratory and infusion therapy services, the Company also provides respiratory and infusion therapy and related services for adults.

3. Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of net revenue and expenses during the reporting period. Actual results could differ from those estimates and the differences could be material. Due to the nature of the industry and the reimbursement environment in which the Company operates, certain estimates are required in recording net revenue and determining the provision for doubtful accounts. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available to management.

4. Accounts Receivable

Accounts receivable include approximately $7.8 million and $7.7 million for which services have been rendered but the amounts were unbilled as of December 31, 2000 and September 30, 2000, respectively. Such unbilled amounts are primarily a result of the time required to obtain and reconcile information from field locations in order to process bills for services rendered.

5. Concentration of Credit Risk

The Company's principal financial instruments subject to potential concentration of credit risk are cash and cash equivalents and accounts receivable. Cash and cash equivalents are held primarily in one financial institution. The Company performs periodic evaluations of the relative credit standing of this financial institution. The concentration of credit risk with respect to accounts receivable, which are primarily health care industry related, represent a risk to the Company given the current health care environment. The risk is somewhat limited due to the large number of payors including Medicare and Medicaid, insurance companies, and individuals and the diversity of geographic locations in which the Company operates.

6. Reclassifications

Certain amounts for prior periods have been reclassified to conform to the current year presentation.

7. Discontinued Operations

The paramedical testing operations are reflected as a discontinued operation and the condensed consolidated financial statements of the Company for all periods presented have been restated to reflect the discontinued operations.

Certain liabilities were not assumed by Hooper Holmes, Inc. in the sale of the paramedical testing division. These liabilities include accounts payable, additional accrued compensation and other accrued liabilities which totaled approximately $1.0 million at December 31, 2000.

8. Income Taxes

The Company has recorded a partial valuation allowance against the net deferred tax assets as of December 31, 2000 and September 30, 2000. In recording the valuation allowance, management considered whether it is more likely than not that some or all of the deferred tax assets will be realized. This analysis includes considering scheduled reversal of deferred tax liabilities, projected future taxable income, carryback potential and tax planning strategies.

In the three months ended December 31, 2000, the Company had a current income tax expense of $0.2 million which was offset by the reduction of the valuation allowance related to the net deferred tax asset resulting in zero income tax expense.

9. Long-Term Borrowing Arrangements

Subject to the terms and conditions of the Amended and Restated Loan Security Agreement, the Lender made available a total credit facility of up to $30.0 million. At December 31, 2000, the calculated availability was $24.0 million. The total credit facility is comprised of a revolving line of credit up to the available limit, consisting of Loans and Letters of Credit. As of December 31, 2000, the Company had no outstanding borrowings under the Amended and Restated Loan Security Agreement.

10. Basic and Diluted Net Income Per Share

Basic net income per share is computed using the weighted average number of shares of common stock outstanding during the period. Diluted net income per share is computed using the weighted average number of shares of common stock outstanding and the dilutive effect of common equivalent shares (calculated using the treasury stock method). The dilutive effect of the weighted average options included in the diluted earnings per share is 232,872 for the three months ended December 31, 2000. For the three months ended December 31, 1999, weighted average shares outstanding for continuing operations for basic and diluted computations are the same since the impact of common equivalent shares on earnings per share is anti-dilutive.

11. Subsequent Event

On January 31, 2001, the Company completed a transaction to repurchase a total of $10.0 million of the $45.4 million 10% Senior Subordinated Notes due 2008 for $7.1 million cash plus accrued interest. The pre-tax gain (net of the write-off of the related deferred financing fees) of $2.7 million will be reflected as an extraordinary item in the condensed consolidated statements of operations for the three and six months ending March 31, 2001.

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

Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) relating to future financial performance of Pediatric Services of America, Inc. (the "Company"). When used in this Form 10-Q, the words "may," "could," "should," "would," "believe," "feel," "expects," "anticipate," "estimate," "intend," "plan" and similar expressions may be indicative of forward-looking statements. These statements by their nature involve substantial risks and uncertainties, certain of which are beyond the Company's control. The Company cautions that various factors, including the factors described hereunder and those discussed in the Company's filings with the Securities and Exchange Commission, as well as general economic conditions, industry trends, the Company's ability to collect for equipment sold or rented, assimilate and manage previously acquired field operations, collect accounts receivable, including receivables related to acquired businesses and receivables under appeal, hire and retain qualified personnel and comply with and respond to billing requirements issues, including those related to the Company's billing and collection system could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements of the Company made by or on behalf of the Company. Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of an unanticipated event. New factors emerge from time to time, and it is not possible for management to predict all of such factors. Further, management cannot assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements of the Company included in this quarterly report.

Recent Developments

During the first quarter of fiscal year 2001, the Company continued its Plan of leveraging its opportunities in its core competencies. The pediatric revenue as a percentage of total revenue continues to increase as the Company continues to focus upon its competitive advantages. The Company expects that its ongoing investment in sales and marketing resources will produce the future revenue growth in these core competencies. The Company continues to meet its cash collection targets which has enabled it to repurchase on January 31, 2001, $10 million of its Senior Subordinated Notes for approximately $7.1 million, plus accrued interest. In addition, the Company has been aggressively working with multiple governmental payors in an effort to increase rates for our core products and services.

The Company is also aware that proposed legislative reductions in average wholesale pricing (AWP) in respiratory medications and other pharmaceuticals, if enacted, may have an adverse effect on profitability. In addition, the Health Care Financing Administration's ("HCFA") use of inherent reasonableness to further reduce Medicare pricing for HME and an expansion of HCFA's competitive bidding projects may also have an adverse effect on the Company, to the extent that it provides Medicare services to patients in those areas involved.

The Company continues to be impacted by high levels of unstaffed nursing hours. In response, the Company has hired full time nurse recruiting specialists in an attempt to provide centralized support and direction for local recruiting initiatives. In addition, the Company adopted a modified benefit program for selected full time nursing positions and made selected wage rate increases where appropriate.

Although the Company has delivered positive results to date, there can be no assurance that the Company will be able to achieve the expected future results from the Plan without negatively impacting operations.

On December 21, 2000, the Company executed an Amendment to its Shareholder Rights Agreement, dated September 22, 1998 (the "Amendment"), which enables an institutional investor, the D3 Family Fund, L.P. (the "Fund") to acquire 15% or more, but less than 20% of the Company's Common Stock. In addition, the Fund agreed to a Standstill Agreement that, among other things, requires the Fund not to acquire any additional securities of the Company for a period of 2 years and gives the Company the right of first refusal on shares to be sold or transferred by the Fund. The foregoing is not a complete description of the terms of the Amendment and the Standstill Agreement, and is subject to and qualified in its entirety by reference to the Amendment and the Standstill Agreement, copies of which are filed as Exhibit 2.4 and 10.22, respectively, to this Quarterly Report.

Results of Operations

Due to the nature of the industry and the reimbursement environment in which the Company operates, certain estimates are required in recording net revenue. Inherent in these estimates is the risk that net revenue will have to be revised or updated, with the changes recorded in subsequent periods as additional information becomes available to management.

The following table is derived from the Company's unaudited condensed consolidated statements of operations for the periods indicated and presents results of continuing operations as a percentage of net revenue and the percentage change in the dollar amounts of each item from the comparative prior period:

<TABLE>
<CAPTION>

	Percentage of Net Revenue Three Months Ended December 31,		Period-to-Period Percentage Increase (Decrease) Three Months Ended December 31,
	2000	1999	2000
<S>	<C>	<C>	<C>
Net revenue..	100.0%	100.0%	(5)%

Operating salaries, wages and employee benefits.......	45.3	47.1	(9)
Other operating costs................................	36.0	36.7	(7)
Corporate, general and administrative................	9.8	9.9	(6)
Provision for doubtful accounts......................	2.1	4.9	(59)
Depreciation and amortization........................	4.1	4.3	(8)
	-----	-----	----
Operating income (loss)..............................	2.7	(2.9)	(187)
Interest income......................................	0.5	-	100
Interest expense.....................................	2.7	6.2	(59)
	-----	-----	----
Net income (loss) from continuing operations..........	0.5%	(9.1)%	(99)%
	=====	=====	====

</TABLE>

The following table sets forth for the periods indicated the net revenue breakdown by service: (in thousands)

<TABLE>
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	Three Months Ended December 31, 2000	1999
	-------	-------
<S>	<C>	<C>
Pediatric Home Health Care		
Nursing..	$21,204	$20,972
Respiratory Therapy Equipment..	3,711	4,781
Home Medical Equipment...	332	514
Pharmacy and Other...	9,924	8,526
	-------	-------
Total Pediatric Home Health Care......................................	35,171	34,793
	-------	-------
Adult Home Health Care:		
Nursing..	2,820	2,947
Respiratory Therapy Equipment..	3,980	4,865
Home Medical Equipment...	708	1,224
Pharmacy and Other...	2,882	4,275
	-------	-------
Total Adult Home Health Care..	10,390	13,311
	-------	-------
Total Net Revenue...	$45,561	$48,104
	=======	=======

</TABLE>

Three Months Ended December 31, 2000 Compared to Three Months Ended December 31, 1999

Net revenue decreased $2.5 million, or 5%, to $45.6 million in the three months ended December 31, 2000 from $48.1 million in the three months ended December 31, 1999. The reduction in revenue reflects the continued efforts to reduce non-core and/or non-profitable products and services consistent with the Plan. Pediatric health care net revenue increased slightly by $0.4 million. Adult health care net revenue decreased $2.9 million for the three months ended December 31, 2000, primarily as a result of the reduction in non-core services to the pharmacy and respiratory therapy/home medical equipment patients. In the three months ended December 31, 2000, the Company derived approximately 48% of its net revenue from commercial insurers and other private payors, 45% from Medicaid and 7% from Medicare.

Operating salaries, wages and employee benefits consist primarily of branch office employee costs. Operating salaries, wages and employee benefits decreased $2.0 million, or 9%, to $20.7 million in the three months ended December 31, 2000 from $22.7 million in the three months ended December 31, 1999. Labor costs have decreased across all services primarily as a result of headcount reductions. As a percentage of net revenue, operating salaries, wages and employee benefits for the three months ended December 31, 2000 decreased to 45% from 47% for the three months ended December 31, 1999.

Other operating costs include medical supplies, branch office rent, utilities, vehicle expenses, allocated insurance costs and cost of sales. Cost of sales consists primarily of the costs of pharmaceuticals and related services. Other operating costs decreased $1.3 million, or 7%, to $16.4 million in the three months ended December 31, 2000, from $17.7 million in the three months ended December 31, 1999. As a percentage of net revenue, other operating costs for the three months ended December 31, 2000 decreased to 36% from 37% for the three months ended December 31, 1999.

Corporate, general and administrative costs decreased $0.3 million, or 6%, to $4.4 million in the three months ended December 31, 2000, from $4.7 million in the three months ended December 31, 1999. As a percentage of net revenue, corporate, general and administrative costs for the three months ended December 31, 2000, decreased slightly compared to the three months ended December 31, 1999.

Provision for doubtful accounts decreased $1.3 million, or 59%, to $1.0 million in the three months ended December 31, 2000, from $2.3 million in the three months ended December 31, 1999. Cash collections as a percentage of net revenue were 100% and 104% for the three months ended December 31, 2000 and 1999,

respectively. The Company continues to experience strong cash collections and these provision levels were deemed to be appropriate.

Depreciation and amortization decreased $0.2 million, or 8%, to $1.9 million in the three months ended December 31, 2000 from $2.1 million in the three months ended December 31, 1999. As a percentage of the Company's net revenue, depreciation and amortization costs for the three months ended December 31, 2000 decreased slightly compared to the three months ended December 31, 1999.

Interest expense decreased $1.8 million, or 59%, to $1.2 million in the three months ended December 31, 2000, from $3.0 million in the three months ended December 31, 1999. The Company's average debt outstanding decreased $51.9 million as the amount outstanding under the Credit Agreement was paid down to zero on November 1, 1999 and the Company completed a series of transactions to repurchase $29.6 million of the $75.0 million Notes during the three months ended June 30, 2000.

Interest income increased $0.2 million in the three months ended December 31, 2000. The Company invested its excess cash balances in highly liquid investments.

Liquidity and Capital Resources

Subject to the terms and conditions of the Amended and Restated Loan Security Agreement, the Lender shall make available a total credit facility of up to $30.0 million. At December 31, 2000, the calculated availability was $24.0 million. The total credit facility shall be comprised of a revolving line of credit up to the available limit, consisting of Loans and Letters of Credit. As of the date of this Report, the Company has no outstanding borrowings under the Amended and Restated Loan Security Agreement.

At December 31, 2000, total borrowings under the 10% Senior Subordinated Notes due 2008 (the "Notes") were approximately $45.4 million. On January 31, 2001, the Company completed a transaction to repurchase a total of $10.0 million of the Notes for $7.1 million cash plus accrued interest. The pre-tax gain (net of the write-off of the related deferred financing fees) of $2.7 million will be reflected as an extraordinary item in the condensed consolidated statements of operations for the three and six months ended March 31, 2001.

Cash collections as a percentage of net revenue for the three months ended December 31, 2000 and 1999 were 100% and 104%, respectively. The organizational restructuring of the Company's reimbursement process continues and indications of progress to date are positive. While management anticipates that continued implementation of the Plan will achieve the desired results, there can be no assurance that this will result in the Company realizing operating improvements and improved cash flow.

The Company's investments in property and equipment are attributable largely to purchases of medical equipment rented to patients and computer equipment. Capital expenditures for computer equipment and software development, have been substantially completed.

Management currently believes that its liquidity position will be more than adequate to satisfy the Company's working capital requirements for the foreseeable future.

Quarterly Operating Results and Seasonality

The Company's quarterly results may vary significantly depending primarily on factors such as rehospitalizations of patients, the timing of new branch office openings and pricing pressures due to legislative and regulatory initiatives to contain health care costs. The Company's operating results for any particular quarter may not be indicative of the results for the full fiscal year.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's principal financial instruments subject to potential concentration of credit risk are cash and cash equivalents and accounts receivable. Cash and cash equivalents are held primarily in one financial institution. The Company performs periodic evaluations of the relative credit standing of this financial institution. The concentration of credit risk with respect to accounts receivable, which are primarily health care industry related, represent a risk to the Company given the current health care environment. The risk is somewhat limited due to the large number of payors including Medicare and Medicaid, insurance companies, and individuals and the diversity of geographic locations in which the Company operates.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings.

On March 11, 1999, a putative class action complaint was filed against the Company in the United States District Court for the Northern District of Georgia. The Company and certain of its then current officers and directors were named as defendants. To the Company's knowledge, no other putative class action complaints were filed within the 60-day time period provided for in the Private Securities Litigation Reform Act. The plaintiffs and their counsel were appointed lead plaintiffs and lead counsel, and an amended complaint was filed on or about July 22, 1999. In general, the plaintiffs allege that prior to the decline in the price of the Company's Common Stock on July 28, 1998, there were violations of the Federal Securities Laws arising from misstatements of material information in and/or omissions of material information from certain of the Company's securities filings and other public disclosures principally related to its reporting of accounts receivable and the allowance for doubtful accounts. The amended complaint purports to expand the class to include all persons who purchased the Company's Common Stock during the period from July 29, 1997 through and including July 29, 1998. On October 8, 1999, the Company and the individuals named as defendants moved to dismiss the amended complaint on both substantive and procedural grounds. On March 30, 2000, the Court denied the Company's motion to dismiss. On May 15, 2000, the Company and the individuals named as defendants filed their answer, denying liability.

On October 15, 2000, the Company and the individuals named as Defendants filed a Brief in Opposition to Plaintiffs' Motion for Class Certification, which was filed in June, 2000. The Court has not yet ruled on that Motion. Discovery in the case is proceeding. The Company and the individuals named as defendants deny that they have violated any of the requirements or obligations of the Federal Securities Laws.

On July 28, 1999, a civil action was filed against the Company and certain of its current and former officers and directors in the United States District Court for the Middle District of Tennessee. The action was filed by Phyllis T. Craighead and Healthmark Partners, LLC, as well as a liquidating trust apparently established to wind up the business affairs of their corporation, Kids & Nurses, Inc. In the original complaint, in general, the plaintiffs alleged that the defendants violated Federal and Tennessee Securities Laws and committed common law fraud in connection with the Company's purchase of Kids and Nurses, Inc. in November, 1997. The plaintiffs seek actual damages in an amount between $2.5 million and $3.5 million, plus punitive damages and the costs of litigation, including reasonable attorneys' fees. On September 24, 1999, the defendants filed a motion to dismiss the complaint on both substantive and procedural grounds. On December 20, 1999, the plaintiffs filed an amended complaint in which they withdrew their claims under the Federal securities laws, and added claims under Georgia's securities laws. The plaintiffs also filed a brief in response to the Company's motion to dismiss. On February 1, 2000, the defendants filed an amended motion to dismiss addressing the allegations of the amended complaint. The motion to dismiss is currently pending before the Court. The Company and the individuals named as defendants deny that they have violated any of the requirements or obligations of any applicable Federal or State securities laws, or any other applicable law.

In the opinion of the Company's management, the ultimate disposition of these two lawsuits should not have a material adverse effect on the Company's financial condition or results of operations, however, there can be no assurance that the Company will not sustain material liability as a result of or related to these lawsuits.

ITEM 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

The following exhibits are filed as part of this Report.

2.4 First Amendment to Rights Agreement, dated December 21, 2000, by and between Mellon Investor Services, LLC and the Company, filed herewith.

10.22 Standstill Agreement dated December 21, 2000, by and among Pediatric Services of America, Inc., the D3 Family Fund, L.P., Haredale, Ltd., and David Nierenberg, filed herewith.

27 Financial Data Schedule

99.1 Press Release, dated December 21, 2000, announcing the Board of Directors' approval of the Waiver to the Rights Agreement, filed herewith.

99.2 Press Release, dated January 31, 2001, announcing the repurchase by the Company of an additional $10 million of its 10% Senior Subordinated Notes due 2008.

(b) Reports on Form 8-K

The Company did not file a Current Report on Form 8-K during the quarter ended December 31, 2000.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PEDIATRIC SERVICES OF AMERICA, INC.
(Registrant)

Date: February 2, 2001 By: /s/ James M. McNeill

James M. McNeill
Senior Vice President,
Chief Financial Officer,
Treasurer and Secretary
(Duly authorized officer and
Principal Financial Officer)

INDEX OF EXHIBITS

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Exhibit 2.4

FIRST AMENDMENT
TO THE RIGHTS AGREEMENT
DATED AS OF SEPTEMBER 22, 1998
BETWEEN PEDIATRIC SERVICES OF AMERICA, INC.
AND MELLON INVESTOR SERVICES LLC (FORMERLY CHASEMELLON SHAREHOLDER SERVICES, LLC), RIGHTS AGENT

THIS FIRST AMENDMENT (the "First Amendment") to the Rights Agreement (the "Rights Agreement") dated as of September 22, 1998 between Pediatric Services of America, Inc. and Mellon Investor Services LLC (formerly ChaseMellon Shareholder Services, LLC), as Rights Agent (the "Rights Agent") is made on the 21/st/ day of December, 2000 by Pediatric Services of America, Inc. (the "Company") and the Rights Agent.

W I T N E S S E T H

WHEREAS, the Company has established the Rights Agreement;

WHEREAS, Section 27 of the Rights Agreement permits the Company to supplement or amend any provision of the Rights Agreement, subject to certain conditions, without the approval of the holders of the Rights, in any manner which the Company may deem necessary or desirable and which shall not adversely affect the interests of the holders of Rights Certificates;

WHEREAS, the Company deems it necessary and desirable to amend the Rights Agreement in order to revise the definition of "Acquiring Person;"

NOW, THEREFORE, the Company hereby amends the Rights Agreement as follows:

1. Section 1(a) of the Rights Agreement shall be amended by adding a new third paragraph to read in its entirety as follows:

"Notwithstanding the foregoing, if, prior to becoming an "Acquiring Person," as defined pursuant to the foregoing provisions of this Section 1(a), a Person advises the Board of Directors of the Company that such Person desires to become through one or more transactions the Beneficial Owner of 15% or more, but less than 20%, of the shares of Common Stock then outstanding, then the Board of Directors may permit such Person to become the Beneficial Owner of 15% or more, but less than 20%, of the shares of Common Stock then outstanding without being deemed an Acquiring Person and who shall thereafter be deemed a "Special Acquiring Person," so long as a majority of the Continuing Directors or, if
----
there are no Continuing Directors, a majority of the Board of Directors of the Company determines in good faith that such Special Acquiring Person will not Beneficially Own such shares of Common Stock for the purpose of or with the effect of changing or influencing the control of the Company, or in connection

with or as a participant in any transaction having that purpose or effect, or in connection with any plan or proposal described in Item 4(b)-(j), inclusive, of Schedule 13D under the Exchange Act unless such plan or proposal is otherwise acceptable to a majority of the Continuing Directors or, if there are no Continuing Directors, a majority of the Board of Directors of the Company; provided, however, that if such Special Acquiring Person shall become the Beneficial Owner of 20% or more of the shares of Common Stock of the Company by reason of share purchases or a recapitalization by the Company and shall, after such share purchases or recapitalization by the Company, become the Beneficial Owner of any additional shares of Common Stock of the Company (other than as a result of a subsequent occurrence of a Triggering Event, a stock dividend or a subdivision of the Company's Common Stock into a larger number of shares or a similar transaction), then such Special Acquiring Person shall thereafter be deemed to be an Acquiring Person. If a majority of the Continuing Directors or, if there are no Continuing Directors, a majority of the Board of Directors of the Company, subsequently determines in good faith that a Special Acquiring Person Beneficially Owns such shares of Common Stock for the purpose of or with the effect of changing or influencing the control of the Company, or in connection with or as a participant in any transaction having that purpose or effect, or in connection with any plan or proposal described in Item 4(b)-(j), inclusive, of Schedule 13D under the Exchange Act which plan or proposal is not otherwise acceptable to a majority of the Continuing Directors or, if there are no Continuing Directors, a majority of the Board of Directors of the Company, then such directors of the Company may deem the Special Acquiring Person an Acquiring Person."

2. The first sentence of Section 2 of the Rights Agreement is hereby amended to delete the following words:

"and the holders of the Rights (who, in accordance with Section 3 hereof, shall prior to the Distribution Date also be the holders of the Common Shares)."

3. Section 20(c) of the Rights Agreement is hereby amended by adding the following words to the end of such section:

"Anything to the contrary notwithstanding, in no event shall the Rights Agent be liable for special, punitive, indirect, consequential or incidental loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Rights Agent has been advised of the likelihood of such loss or damage."

4. Except as expressly set forth herein, all other terms and provisions of the Rights Agreement shall remain in full force and effect.

5. This First Amendment shall be deemed to be a contract made under the laws of the State of Delaware and for all purposes shall be governed by and construed in accordance with the laws of such State.

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to the Rights Agreement to be duly executed as of the date and year first above written.

Attest:

/s/ Susan E. Dignan

Susan E. Dignan
Vice President and
Corporate Counsel

PEDIATRIC SERVICES OF
AMERICA, INC.

/s/ Joseph D. Sansone

Joseph D. Sansone
Chairman of the Board, President and
Chief Executive Officer

Attest:

By: /s/ Rita A. Swartz
Name: Rita A. Swartz
Title: Vice President

MELLON INVESTOR
SERVICES LLC

By: /s/ Linda Fuhrer
Name: Linda Fuhrer
Title: Assistant Vice President

Exhibit 10.22

STANDSTILL AGREEMENT

THIS STANDSTILL AGREEMENT (this "Agreement") is entered into this 21st day of December, 2000, by and among Pediatric Services of America, Inc., a Delaware corporation (the "Company"), The D3 Family Fund, L.P., a Washington limited partnership (the "D3 Fund"), David Nierenberg, and Haredale, Ltd., a Bahamas corporation (collectively, with the D3 Fund, and David Nierenberg, "Purchasers").

WHEREAS, Purchasers are the beneficial owners of 14.9% of the outstanding common stock of the Company as of December 20, 2000;

WHEREAS, Purchasers have expressed an interest in acquiring in excess of 15% of the outstanding common stock of the Company;

WHEREAS, under the Rights Agreement dated as of September 22, 1998 between the Company and Chasemellon Shareholder Services, L.P., n/k/a Mellon Investor Services LLC [sic], (the "Rights Plan"), as amended December 21, 2000 (the "First Amendment"), such ownership would cause Purchasers to be deemed an Acquiring Person as defined in the Rights Plan; and

WHEREAS, the Company and Purchasers agreed to enter into this Agreement as a condition to the Board of Directors of the Company deeming Purchasers a Special Acquiring Person, as defined in the First Amendment, in the event that Purchasers, together with their Affiliates and Associates, as hereinafter defined, acquire 15% or more, but less than 20%, of the outstanding Common Stock of the Company in one or more transactions;

NOW, THEREFORE, for and in consideration of the premises, the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Standstill Agreement. For a period of two (2) years from the date of this Agreement, the Purchasers, together with their Affiliates and Associates shall not, directly or indirectly, alone or in concert with others:

(a) acquire, offer to acquire or agree to acquire, or announce an intention to acquire or offer to acquire, whether by purchase, tender or exchange offer, through the acquisition of control of another person, by joining a partnership, limited partnership, syndicate or other "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended and in effect on the date of this Agreement (the "Exchange Act"), and Rule 13d-5 promulgated thereunder or otherwise, or obtain a right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, rights, warrants or options, or obtain the right to vote or dispose of or have "Beneficial Ownership" of (as determined pursuant to Section 1(e) of the Rights Plan), including pursuant to any agreement, arrangement or understanding, whether or not in writing, or otherwise, any securities of the Company or any rights to acquire any securities of the Company or any subsidiary thereof in an amount equal to or greater than 20%;

(b) except with the approval of the Board of Directors of the Company, seek election to, seek to place a representative on, or seek the removal of any member of, the Board of the Directors of the Company;

(c) except for a request made solely to the Board of Directors of the Company, request, or announce its intention to request, the Company (or its officers, employees or agents) to amend or waive any provision of this Agreement.

In addition to the foregoing prohibitions, Purchasers acknowledge that they are bound by the terms of the Rights Plan and the First Amendment. Purchasers shall not, however, be prohibited from consulting with the Board of Directors of the Company with respect to business matters normally discussed between shareholders and the management or board of directors of a publicly-traded company.

2. Company's Right of First Refusal.

(a) For a period of two (2) years from the date of this Agreement, if Purchasers desire to offer, sell, assign, pledge, transfer or dispose of ("Transfer") any more than 10,000 of their shares of capital stock of the Company in any single trading day (the "Offered Shares"), Purchaser shall notify the Company in writing of the proposed transfer (the "Notice"). The Company shall have the right to purchase any or all of the Offered Shares at a price equal to the average closing price of the last five (5) trading days as quoted on the OTC Bulletin Board (or other regulated quotation service, trading market or national securities exchange upon which the Company's securities are listed) on the date of the Notice.

(b) In lieu of or in addition to exercising its right to purchase any or all of the Offered Shares, the Company shall have the right to direct the opportunity to purchase any or all of the Offered Shares to one or more purchasers of the Company's choosing (the "Additional Purchasers") at the price set forth in Section 2(a) above.

(c) If the Company and/or the Additional Purchasers, or any one or more thereof, elects to purchase any or all of the Offered Shares, the Company and/or the Additional Purchasers, as appropriate, shall give notice of acceptance to the Purchaser within five (5) working days of the Notice, designating who will purchase the Offered Shares, the number of Offered Shares to be purchased by each, and a place, date and time for the closing of the sale and purchase of the Offered Shares, which closing shall occur not more than five (5) working days after the date the notice of acceptance from the Company and/or the Additional Purchasers is duly given.

(d) In the event the Company and/or the Additional Purchasers elect not to exercise their right of first refusal to purchase any or all of the Offered Shares, Purchasers shall have the right to sell the Offered Shares pursuant to this Section 2(d). Subject to compliance with all applicable legal restrictions on such sales, Purchasers may sell in any one day up to an amount of shares equal to twice the average daily reported volume of trading in the Company's securities as reported through the automated quotation system of a registered securities association during the two calendar weeks preceding the date of sale; provided, however, under this subsection, Purchasers may, in the context of a negotiated block sale to an arm's length buyer, dispose of the Offered Shares in a block sale or sales at a price within 10% of the price determined in accordance with Section 2(a) of this Agreement.

3. Definitions. The following terms will have the following meanings for purposes of this Agreement:

(a) "Affiliate" shall have the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations under the Exchange Act.

(b) "Associate" shall mean:

(i) any corporation or organization, or parent or subsidiary of such corporation or organization, of which a Person is an officer, director or partner or is, directly or indirectly, the Beneficial Owner of 10 percent or more of any class of equity securities;

(ii) any trust or other estate in which a Person has a beneficial interest of 10 percent or more or as to which such Person serves as trustee or in a similar fiduciary capacity; and

(iii) any parent, brother or sister (whether by whole of half blood), ancestor, lineal descendant or spouse of David Nierenberg, or any such relative of such spouse, who receive common shares of the Company through the estate of David Nierenberg or through the distribution by any Purchaser of common shares of the Company whose ownership is attributable to David Nierenberg.

(c) All capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in the Exchange Act.

4. Notice. Any notices, requests, instructions or other documents required to be given hereunder shall be in writing, effective when delivered personally or by overnight delivery through a nationally

recognized overnight delivery service, or by facsimile (with a confirmatory copy sent by overnight courier), to each of the parties at the addresses below or at such other address as the parties may designate in writing.

5. Governing Law; Submission to Jurisdiction. This Agreement shall be governed by, and interpreted, in accordance with the laws of the State of Delaware, U.S.A., without giving effect to any conflicts-of-law principles.

6. Entire Agreement; Amendment. This Agreement represents the sole understanding of the parties with respect to the subject matter contained herein, superseding all previous written or oral communications, representations, understandings, arrangements or agreements. No amendment or modification of this Agreement or waiver of the terms and conditions herein shall be binding unless approved in writing by the Company.

7. Counterparts. This Agreement may be executed in counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party.

IN WITNESS WHEREOF, the parties have signed this Agreement as of the date first above written.

WITNESS:	Pediatric Services of America, Inc.
By: /s/ Charlotte J. Mitchell	By: /s/ Joseph D. Sansone
Name: Charlotte J. Mitchell	Joseph D. Sansone Chairman of the Board, President and Chief Executive Officer Pediatric Services of America, Inc. 310 Technology Parkway Norcross, Georgia 30092-2929
WITNESS:	The D3 Family Fund, L.P.
By: /s/ Patricia Nierenberg	By: /s/ David Nierenberg
Name: Patricia Nierenberg	David Nierenberg, President Nierenberg Investment Management Company, Inc. General Partner of the D3 Family Fund, L.P. 19605 NE 8/th/ Street Camas, Washington 98607

WITNESS:

By:/s/ Patricia Nierenberg

Name: Patricia Nierenberg

Haredale, Ltd.

By: /s/ David Nierenberg

David Nierenberg
Portfolio Manager
Haredale, Ltd.
P.O. Box N-4465
Nassau, New Providence
The Bahamas

WITNESS:

By: /s/ Patricia Nierenberg

Name: Patricia Nierenberg

David Nierenberg

By: /s/ David Nierenberg

David Nierenberg, Individually

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Exhibit 99.1

PEDIATRIC SERVICES OF AMERICA, INC. BOARD
APPROVES NIERENBERG REQUEST TO WAIVE POISON PILL

Norcross, Georgia - December 21, 2000 - Pediatric Services of America, Inc. (OTCBB:PSAI) announced that its Board of Directors has approved an Amendment to its Rights Agreement which allows the D3 Family Fund, LP, David Nierenberg and Affiliates (collectively referred to herein as "The Group"), to purchase up to 20% of the Company. In consideration, The Group has signed a Standstill Agreement wherein they agree not to seek additional ownership of the Company either directly or indirectly for a two year period and to abide by certain criteria for orderly disposition of acquired stock of PSAI.

PSAI provides a broad range of pediatric health care services and equipment through a network of 100 branch offices in 22 states.

NOTE: Forward looking statements made in this release involve a number of risks and uncertainties, including, but not limited to changes in government regulation and health care reforms, ability to execute on the Company's strategic programs, changing economic and market conditions and other risk factors detailed in the Company's Securities and Exchange Commission filings.

Contact: Pediatric Services of America, Inc.
Joseph D. Sansone President/CEO
or
James M. McNeill, Sr. Vice President/CFO
(770) 441-1580

Exhibit 99.2

PEDIATRIC SERVICES OF AMERICA, INC. ANNOUNCES REPURCHASE
OF AN ADDITIONAL $10 MILLION OF
ITS 10% SENIOR SUBORDINATED NOTES DUE 2008

Norcross, GA . . . . January 31, 2001 . . . . Pediatric Services of America, Inc. (OTCBB: PSAI) announced today that it has repurchased an additional $10,000,000 of its10% Senior Subordinated Notes due 2008 (the "Notes"). The Notes were purchased in a private transaction for $7,075,000 cash, plus accrued interest. As a result, the Company anticipates that it will recognize a pre-tax extraordinary gain of approximately $2,654,000, net of the write-off of the related deferred financing fees, in the quarter ending March 31, 2001. The aggregate principal amount of the Notes outstanding has been reduced from $45,425,000 to $35,425,000.

PSAI provides comprehensive pediatric home health care services through a network of 100 branch offices in 22 states.

NOTE: This release includes statements that constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements made in this release involve a number of risks and uncertainties, including, but not limited to changes in government regulation and health care reforms, ability to execute the Company's strategic programs, ability to improve accounts receivable collections, changing economic and market conditions and other risk factors detailed in the Company's Securities and Exchange Commission filings.

FOR FURTHER INFORMATION CONTACT:
Pediatric Services of America, Inc.
Joseph D. Sansone, President/CEO or James M. McNeill, Chief Financial Officer
770-441-1580