AMERIPATH INC
Form 10-Q
May 15, 2001

UNITED STATES
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 MARCH 31, 2001

or

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

Commission File Number: 000-22313

AMERIPATH, INC.

(Exact name of registrant as specified in its charter)

Delaware	65-0642485
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7289 Garden Road, Suite 200, Riviera Beach, Florida	33404
(Address of principal executive offices)	(Zip Code)

(561) 845-1850

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and formal fiscal year, if changed since last report)

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

The registrant had 25,163,605 shares of common stock, $.01 par value, outstanding as of May 11, 2001.

AMERIPATH, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMERIPATH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

ASSETS	March 31, 2001 (Unaudited)	December 31, 2000
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,147	$ 2,418
Accounts receivable, net	77,060	70,939
Inventories	1,507	1,406
Other current assets	11,272	11,446
Total current assets	93,986	86,209
PROPERTY AND EQUIPMENT, NET	23,840	23,580

OTHER ASSETS:		
Goodwill, net	189,709	177,263
Identifiable intangibles, net	266,008	268,627
Other	6,440	6,487
Total other assets	462,157	452,377
TOTAL ASSETS	$ 579,983	$ 562,166
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 41,018	$ 35,712
Current portion of long-term debt	1,076	1,055
Other current liabilities	10,389	8,627
Total current liabilities	52,483	45,394
LONG-TERM LIABILITIES:		
Revolving loan	201,999	197,216
Long-term debt	3,349	3,476
Other liabilities	8,743	2,369
Deferred tax liability	62,746	64,046
Total liabilities	329,320	312,501
STOCKHOLDERS' EQUITY:		
Common stock	249	247
Additional paid-in capital	189,979	188,050
Accumulate other comprehensive loss	(4,174)	--
Retained earnings	64,609	61,368
Total stockholders' equity	250,663	249,665
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 579,983	$ 562,166

The accompanying notes are an integral part of these unaudited financial statements.

AMERIPATH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31,	
	2001	2000
NET REVENUES:		
Net patient service revenue	$ 91,724	$ 68,888
Net management service revenue	7,021	6,155
Total net revenues	98,745	75,043
OPERATING COSTS AND EXPENSES:		
Cost of services	48,432	36,950

Selling, general and administrative expenses	17,218	13,141
Provision for doubtful accounts	10,658	7,103
Amortization expense	4,526	3,837
Merger-related charges	7,103	--
Total operating costs and expenses	87,937	61,031
INCOME FROM OPERATIONS	10,808	14,012
OTHER INCOME (EXPENSE):		
Interest expense	(4,742)	(3,418)
Other, net	24	63
Total other expense	(4,718)	(3,355)
INCOME BEFORE INCOME TAXES	6,090	10,657
PROVISION FOR INCOME TAXES	2,849	4,559
NET INCOME	3,241	6,098
Accretion of redeemable preferred stock	--	(34)
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 3,241	$ 6,064
BASIC EARNINGS PER COMMON SHARE:		
Basic earnings per common share	$ 0.13	$ 0.27
Basic weighted average shares outstanding	24,809	22,275
DILUTED EARNINGS PER COMMON SHARE:		
Diluted earnings per common share	$ 0.12	$ 0.27
Diluted weighted average shares outstanding	25,983	22,825

The accompanying notes are an integral part of these unaudited financial statements.

AMERIPATH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months March 3
	2001
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 3,241
Adjustments to reconcile net income to net cash flows provided by operating activities:	
Depreciation and amortization	6,128

Loss on disposal of assets	(12)
Deferred income taxes	(1,300)
Provision for doubtful accounts	10,658
Merger-related charges	7,103
Changes in assets and liabilities (net of effects of acquisitions):	
Increase in accounts receivable	(16,780)
(Increase) / decrease in inventories	(101)
Decrease in other current assets	62
(Increase) / decrease in other assets	(76)
Increase in accounts payable and accrued expenses	4,271
Pooling merger-related charges paid	(1,528)
Net cash provided by operating activities	11,666
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition of property and equipment	(2,069)
Merger-related charges paid	(97)
Cash paid for acquisitions and acquisition costs, net of cash acquired	(236)
Payments of contingent notes	(13,401)
Net cash used in investing activities	(15,803)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from exercise of stock options and warrants	1,109
Debt issuance costs	--
Principal payments on long-term debt	(26)
Net borrowings under revolving loan	4,783
Net cash provided by financing activities	5,866
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,729
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,418
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 4,147
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid during the period for:	
Interest	$ 4,508
Income taxes	$ 401
Contingent stock issued	$ 822

The accompanying notes are an integral part of these unaudited financial statements.

AMERIPATH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements, which include the accounts of AmeriPath, Inc. and its Subsidiaries (collectively, "AmeriPath" or the "Company"), have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial reporting and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, such interim financial statements contain all adjustments (consisting of normal recurring items) considered necessary for a fair

presentation of the Company's financial position, results of operations and cash flows for the interim periods presented. The results of operations and cash flows for any interim periods are not necessarily indicative of results which may be reported for the full year. On November 30, 2000, the Company acquired Pathology Consultants of America, Inc., d/b/a Inform DX ("Inform DX"). In connection with the acquisition, the Company issued approximately 2.6 million shares of common stock in exchange for all the outstanding common stock of Inform DX. In addition, the Company assumed certain obligations to issue shares of common stock pursuant to outstanding Inform DX stock options and warrants. This transaction was accounted for as a pooling of interests. All prior year information has been restated to reflect the acquisition of Inform DX.

The accompanying unaudited interim financial statements should be read in conjunction with the audited consolidated financial statements, and the notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Securities and Exchange Commission.

In order to maintain consistency and comparability between periods presented, certain amounts have been reclassified in order to conform with the financial statement presentation of the current period.

Recent Accounting Pronouncements

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"), Revenue Recognition in Financial Statements, which provided the staff's views in applying GAAP to selected revenue recognition issues. In June 2000, SAB 101 was amended by SAB 101B, which delayed the implementation of SAB 101 until no later than the fourth fiscal quarter of fiscal years beginning after December 15, 1999. The Company adopted SAB 101 in the fourth quarter of 2000. The adoption of the provisions of SAB 101 did not have a material impact on the Company's financial position or results of operations.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS 133") and in June 1999, the FASB issued Statement of Financial Accounting Standards No. 137 "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133," which delayed the effective date the Company is required to adopt SFAS 133 until its fiscal year 2001. In June 2000, the FASB issued Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an Amendment to FASB Statement No. 133." This statement amended certain provisions of SFAS 133. SFAS 133 requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company does not enter into derivative financial instruments for trading purposes. The adoption of SFAS 133 did not result in a cumulative effect adjustment being recorded to net income for the change in accounting. However, the Company recorded a transition adjustment of approximately $3.0 million (net of tax of $2.0 million) in accumulated other comprehensive loss on January 1, 2001. See Notes 9 and 10 to the unaudited condensed consolidated financial statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

In September 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" ("SFAS 140"). SFAS 140 is a replacement of Statement of Financial Accounting Standards No. 125. SFAS 140 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishment of liabilities occurring after March 31, 2001. The Company has evaluated this standard and has concluded that the provisions of SFAS 140 will not have a significant effect on the financial conditions or results of operations of the Company.

NOTE 2 - ACQUISITIONS

There were no acquisitions made in the first quarter of 2001.

The accompanying financial statements include the results of operations of the Company's 2000 acquisitions from the date acquired through March 31, 2000. The allocation of the purchase price of some of the 2000 acquisitions are preliminary, while the Company continues to obtain the information necessary to determine the fair value of the assets acquired and liabilities assumed. When the Company obtains such final information, management believes that adjustments, if any, will not be material in relation to the consolidated financial statements.

The following unaudited pro forma information presents the consolidated results of the Company's operations and the results of operations of the acquisitions for the three months ended March 31, 2000, after giving effect to amortization of goodwill and identifiable intangible assets, interest expense on debt incurred in connection with these acquisitions, and the reduced level of certain specific operating expenses (primarily compensation and related expenses attributable to former owners) as if the acquisitions had been consummated on January 1, 2000. Such unaudited pro forma information is based on historical financial information with respect to the acquisitions and does not include operational or other changes which might have been effected by the Company.

The unaudited pro forma information for the three months ended March 31, 2000 presented below is for illustrative information purposes only and is not indicative of results which would have been achieved or results which may be achieved in the future. There is no pro forma information presented for the three months ended March 31, 2001, since there were no acquisitions made during the first three months of 2001. These amounts are in thousands, except per share amounts.

	Pro Forma (Unaudited) Three Months Ended March 31, 2000
Net revenues	$ 81,147
Net income attributable to common stockholders	$ 7,406
Diluted earnings per common share	$ 0.28

(Continued)

NOTE 3 - INTANGIBLE ASSETS

Intangible assets and the related accumulated amortization and amortization periods are set forth below (dollars in thousands):

	March 31, 2001	December 31, 2000	March 31, 20 Amortization Pe (Years) Range	We Av
Hospital contracts	$ 211,738	$ 211,738	25-40	
Physician client lists	71,447	71,447	10-30	
Laboratory contracts	4,543	4,543	10	
Management service agreement	11,379	11,214	25	
	299,107	298,942		
Accumulated amortization	(33,099)	(30,315)		
Identifiable intangibles, net	$ 266,008	$ 268,627		
Goodwill	$ 207,419	$ 193,231	10-35	
Accumulated amortization	(17,710)	(15,968)		
Goodwill, net	$ 189,709	$ 177,263		

The weighted average amortization period for identifiable intangible assets and goodwill is 29.6 years.

NOTE 4 - MERGER-RELATED CHARGES

In connection with the Inform DX merger and other previous acquisitions, the Company has recorded reserves for transaction costs, employee-related costs (including severance agreement payouts) and various exit costs associated with the consolidation of certain operations, including the elimination of duplicate facilities and certain exit and restructuring costs. During the first quarter of 2001, the Company recorded merger-related costs totaling $7.1 million related to the Inform DX merger. As part of the Inform DX acquisition, the Company is closing or consolidating certain facilities.

A reconciliation of the activity for the quarter ended March 31, 2001 with respect to the merger-related reserves is as follows:

	Balance December 31, 2000	Statement of Operations Charges	Payments	B Ma
Transaction costs	$1,726	$2,863	$(1,189)	$
Employee termination costs	1,417	4,240	(400)	
Lease commitments	2,128	--	(36)	

Other exit costs	263	--	--
Total	5,534	$7,103	$(1,625)
Less: portion included in current liabilities	(3,165)		
Total included in other liabilities	$2,369		

AMERIPATH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

NOTE 5 - MARKETABLE SECURITIES

The Company accounts for investments in certain debt and equity securities under the provisions of Statement of Financial Accounting Standards No. 115 ("SFAS No. 115"), "Accounting for Certain Debt and Equity Securities". Under SFAS No. 115, the Company must classify its debt and marketable equity securities in one of three categories: trading, available-for-sale, or held-to-maturity.

In September 2000, the Company made a $1 million investment in Genomics Collaborative, Inc ("GCI") for which it received 333,333 shares of Series D Preferred Stock, par value $0.01. The shares of GCI Series D Preferred Stock are convertible into shares of GCI common stock on a one-for-one basis and are redeemable after 2005 at $3.00 per share at the option of the holder. GCI is a privately held, start-up, company which has a history of operating losses. As of March 31, 2001, it appears that GCI has sufficient cash to fund operations for the next twelve months. In the event that they are unable to become profitable and/or raise additional funding, it could result in an impairment of our investment. This available for sale security is recorded at its estimated fair value, which approximates cost, and is classified as other assets on the Company's balance sheet. At March 31, 2001, there were no unrealized gains or losses associated with this investment.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Liability Insurance -- The Company is insured with respect to general liability on an occurrence basis and medical malpractice risks on a claims made basis. The Company records an estimate of its liabilities for claims incurred but not reported. Such liabilities are not discounted. Effective July 1, 2000, the Company changed its medical malpractice carrier and the Company is currently in a dispute with its former insurance carrier on an issue related to the applicability of surplus insurance coverage. The Company believes that an unfavorable resolution, if any, of such dispute would not have a material adverse effect on the Company's financial position or results of operations.

Healthcare Regulatory Environment and Reliance on Government Programs -- The healthcare industry in general, and the services that the Company provides, are subject to extensive federal and state laws and regulations. Additionally, a significant portion of the Company's net revenue is from payments by government-sponsored health care programs, principally Medicare and Medicaid, and is subject to audit and adjustments by applicable regulatory agencies. Failure to comply with any of these laws or regulations, the results of increased regulatory audits and adjustments, or changes in the interpretation of the coding of services or the amounts payable for the Company's services under

these programs could have a material adverse effect on the Company's financial position and results of operations. The Company's operations are continuously subject to review and inspection by regulatory authorities.

Internal Revenue Service Examination -- The Internal Revenue Service ("IRS") conducted an examination of the Company's federal income tax returns for the tax years ended December 31, 1996 and 1997 and concluded that no changes to the tax reported needed to be made. Although the Company believes it is in compliance with all applicable IRS rules and regulations, if the IRS should determine the Company is not in compliance in any other years, it could have a material adverse effect on the Company's financial position and results of operations.

Employment Agreements - The Company has entered into employment agreements with certain of its management employees, which include, among other terms, noncompetition provisions and salary continuation benefits.

NOTE 7 - EARNINGS PER SHARE

Earnings per share is computed and presented in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share." Basic earnings per share, which excludes the effects of any dilutive

common equivalent shares that may be outstanding, such as shares issuable upon the exercise of stock options and warrants, is computed by dividing income attributable to common stockholders by the weighted average number of common shares outstanding for the respective periods. Diluted earnings per share gives effect to the potential dilution that could occur upon the exercise of certain stock options and warrants that were outstanding at various times during the respective periods presented. The dilutive effects of stock options and warrants are calculated using the treasury stock method.

Basic and diluted earnings per share for the respective periods are set forth in the table below (amounts in thousands, except per share amounts):

	Three Months Ended March 31,	
	2001	2000
Earnings Per Common Share:		
Net income	$ 3,241	$ 6,064
Basic earnings per common share	$ 0.13	$ 0.27
Diluted earnings per common share	$ 0.12	$ 0.27
Basic weighted average shares outstanding	24,809	22,275
Effect of dilutive stock options and warrants	1,174	550
Diluted weighted average shares outstanding	25,983	22,825

Options to purchase 84,629 shares and 764,805 shares of common stock which were outstanding at March 31, 2001 and 2000, respectively, have been excluded from

the calculation of diluted earnings per share for the respective years because their effect would be anti-dilutive. In addition, 395,471 shares of Preferred Stock were excluded from the calculation of diluted earnings per share for the three months ended March 31, 2000 because their effect would be anti-dilutive. Warrants to purchase 38,867 shares for the three months ended March 31, 2000, were excluded from the calculation of diluted earnings per share because their effect would be anti-dilutive.

NOTE 8 - LONG TERM DEBT

On March 29, 2001, the Company and its lenders executed an amendment ("Amendment No. 3") to its Credit Facility, dated December 16, 1999, which excluded an additional $5.4 million, or $28.3 million in total, of charges from its covenant calculations. In addition, Amendment No. 3 (i) increased the Company's borrowing rate by 37.5 basis points; (ii) requires the Company to use a minimum of 30% equity for all acquisitions; (iii) requires the Company to use no more than 20% of consideration for acquisitions in the form of contingent notes and; (iv) requires lender approval of all acquisitions with a purchase price greater than $10 million. The Company will also be required to pay an amendment fee of up to 30 basis points to those lenders which consented to the amendment. The amendment fee will be approximately $600,000. The amendment is not expected to have an adverse effect on the Company's operations or strategies.

NOTE 9 - INTEREST RATE RISK MANAGEMENT

The Company utilizes interest rate swap contracts to effectively convert a portion of its floating-rate obligations to fixed-rate obligations. Under SFAS 133, the Company accounts for its interest rate swap contracts as cash flow hedges whereby the fair value of the related interest rate swap agreement is reflected in other comprehensive loss with the corresponding liability being recorded as a component of other liabilities on the

condensed consolidated balance sheet. The Company has no ineffectiveness with regard to its interest rate swap contracts as each interest rate swap agreement meets the criteria for accounting under the short-cut method as defined in SFAS 133 for cash flow hedges of debt instruments. The Company uses derivative financial instruments to reduce interest rate volatility and associated risks arising from the floating rate structure of its Credit Facility and are not held or issued for trading purposes. The Company is required by the terms of its Credit Facility to keep some form of interest rate protection in place. The effectiveness of the strategies will be monitored, measuring the intended benefit or cost of protection against the actual market conditions.

NOTE 10 - COMPREHENSIVE LOSS

The Company includes changes in the fair value of certain derivative financial instruments which qualify for hedge accounting in comprehensive income. For the three months ended March 31, 2001, comprehensive loss was approximately $900,000. This includes a transition adjustment recorded on January 1, 2001 of $3.0 million (net of tax of $2.0 million). The difference between net income and comprehensive loss for the three months ended March 31, 2001, is as follows (in thousands):

Net income	$ 3,241
Change in fair value of derivative financial instruments,	

net of tax of $2,753	(4,174)
Comprehensive loss	$ 933

NOTE 11 - SEGMENT REPORTING

The Company has two reportable segments, Owned and Managed practices. The segments were determined based on the type of service and customer. Owned practices provide anatomic pathology services to hospitals and referring physicians, while under the management relationships the Company provides management services to the affiliated physician groups. The accounting policies of the segments are the same as those described in the summary of accounting policies. The Company evaluates performance based on revenue and income before amortization of intangibles, merger-related charges, interest expense, other income and expense and income taxes ("Operating Income"). In addition to the business segments above, the Company evaluates certain corporate expenses which are not allocated to the business segments.

The following is a summary of the financial information for the three months ended March 31 for the business segments and corporate.

Owned	2001	2000
Net patient service revenue	$ 91,724	$ 68,888
Operating income	27,326	21,462
Segment assets	275,800	162,885
Managed		
Net management service revenue	$ 7,021	$ 6,155
Operating income	1,129	1,006
Segment assets	20,208	15,053
Corporate		
Operating loss	$ (6,018)	$ (4,619)
Segment assets	313,796	339,940
Elimination of intercompany accounts	(29,821)	(27,571)

NOTE 12 - SUBSEQUENT EVENTS

Subsequent to March 31, 2001, the Company paid approximately $8.1 million on contingent notes issued in connection with previous acquisitions as additional purchase price.

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

OVERVIEW

The Company is a leading national provider of cancer diagnostics, genomic, and related information services. Since the first quarter of 1996, the Company has completed the acquisition of 49 physician practices (the "Practices") located in 21 states. These practices are either directly owned by the Company or managed by the Company through one of its subsidiaries. This includes the acquisition of Pathology Consultants of America, Inc., d/b/a Inform DX ("Inform DX"). The Inform DX transaction was accounted for as a pooling of interests and therefore all prior year information has been restated to reflect the acquisition of

Inform DX. As a result of the Inform DX acquisition, the Company now manages several practices through which it derives management fees. The Company's 419 pathologists provide medical diagnostic services in outpatient laboratories owned, operated and managed by the Company, hospitals, and outpatient ambulatory surgery centers. Of these pathologists, 413 are board certified in anatomic and clinical pathology, and 190 are also board certified in a subspecialty of anatomic pathology, including dermatopathology (study of diseases of the skin), hematopathology (study of diseases of the blood) and cytopathology (study of abnormalities of the cells).

Under the management or equity model, the Company acquires certain assets of and operates pathology practices under long-term service agreements with affiliated physician groups (the "Managed Practices"). The Company provides facilities and equipment as well as administrative and technical support for the affiliated physician groups under service agreements. Through its ownership or employment model, the Company acquires a controlling equity interest in the pathology practice (the "Owned Practices").

As of March 31, 2001, the Company and the Managed Practices had contracts with a total of 237 hospitals to manage their clinical pathology and other laboratories and provide professional pathology services. The majority of these hospital contracts are exclusive provider relationships of the Company and the Managed Practices. The Company and the Managed Practices also have 42 licensed outpatient laboratories.

The Company manages and controls all of the non-medical functions of the practices, including: (i) recruiting, training, employing and managing the technical and support staff of the practices; (ii) developing, equipping and staffing laboratory facilities; (iii) establishing and maintaining courier services to transport specimens; (iv) negotiating and maintaining contracts with hospitals, national clinical laboratories and managed care organizations and other payors; (v) providing financial reporting and administration, clerical, purchasing, payroll, billing and collection, information systems, sales and marketing, risk management, employee benefits, legal, tax and accounting services; and (vi) with respect to the Company's ownership and operation of anatomic pathology laboratories, providing slide preparation and other technical services. The Company is not licensed to practice medicine.

The Company has commenced its transition to becoming a fully integrated healthcare diagnostic information provider, which includes the Company's development of new ways to generate additional revenues through leveraging the Company's personnel, technology and resources. Two examples of such endeavors (one with Genomics Collaborative, Inc. and one with Ampersand Medical of Chicago) are described below. Although the Company believes that such new endeavors are promising, there can be no assurance that they will be profitable.

During the second quarter of 2000, the Company formed an alliance with Genomics Collaborative, Inc. ("GCI") to provide fresh frozen samples from normal, diseased, and cancerous tissue to GCI for subsequent sale to researchers in industry and academic laboratories who are working to discover genes associated with more common disease categories, such as heart disease, hypertension, diabetes, osteoporosis, depression, dementia, asthma, and cancer, with a special focus on breast, colon, and prostate tumors. This alliance utilizes the Company's national network of hospitals, physicians, and pathologists and GCI's capabilities in large scale DNA tissue analysis and handling, tied together by proprietary information systems and bioinformatics. The financial results of the alliance with GCI were not material to the Company's operations during 2000. The Company is working with GCI to develop procedures to comply with informed consent requirements and other regulations regarding the taking and processing of specimens from donors and related records. Failure to comply with such regulations could result in adverse consequences including

potential liability of the Company. On September 15, 2000, the Company made a $1.0 million investment in GCI in exchange for 333,333 shares of Series D Preferred Stock, par value $0.01.

On March 27, 2001, the Company announced an agreement with Ampersand Medical of Chicago ("Ampersand") which illustrates another example of leveraging the Company's existing resources. In this alliance, AmeriPath will be performing clinical trial work for Ampersand's cytology platform that utilizes proteomic biomarkers to help pathologists and cytologists identify abnormal and cancerous cells in pap smears and other body fluids, such as sputum and urine. The Company will be paid on a fee-for-service basis for each clinical trial we conduct. The agreement also calls for the Company to assist Ampersand with the development of associated products and tests. The Company would receive equity in Ampersand for the developmental work and would be entitled to royalty payments based on future sales of these products and tests. AmeriPath is particularly excited about the prospects for a new test for human papilloma virus or HPV, which causes over 99% of all cervical dysplasia and cancer. This new test involves the application of genomic and proteomic markers directed against the specific oncogenes and oncoproteins of HPV that are directly responsible for the virus' ability to cause cancer. Preliminary studies indicate superior performance of these markers compared to currently available tests.

Net Revenues

AmeriPath derives its net revenue primarily from the operations of the Owned and Managed Practices. Net revenue was comprised of net patient service revenue from our Owned Practices and net management service revenue from our Managed Practices.

Net patient revenues. The majority of services furnished by the Company's pathologists are anatomic pathology diagnostic services. Medicare reimbursement for these services represented approximately 22% of the Company's cash collections at March 31, 2001 and 2000. The Company typically bills government programs (principally Medicare and Medicaid), indemnity insurance companies, managed care organizations, national clinical laboratories, physicians and patients. Net patient revenue differs from amounts billed for services due to:

- Medicare and Medicaid reimbursements at annually established rates;
- payments from managed care organizations at discounted fee-for-service rates;
- negotiated reimbursement rates with national clinical laboratories and other third party payors; and
- other discounts and allowances.

In recent years, there has been a shift away from traditional indemnity insurance plans to managed care as employers and other payors move their participants into lower cost plans. The Company benefits more from patients covered by Medicare and traditional indemnity insurance than managed care organizations and national clinical laboratories, which contract directly under capitated agreements with managed care organizations to provide clinical as well as anatomic pathology services. The Company also contracts with national clinical laboratories and is attempting to increase the number of such contracts to increase test volume. Since the majority of the Company's operating costs -- principally the compensation of physicians and non-physician technical personnel -- are relatively fixed, increases in volume, whether from indemnity or non-indemnity plans, enhance the Company's profitability. Historically, net patient service revenue from capitated contracts has represented an insignificant amount of total net patient service revenue.

Virtually all of the Company's net patient service revenue is derived from the Practices' charging for services on a fee-for-service basis. Accordingly, the Company assumes the financial risk related to collection, including potential uncollectability of accounts, long collection cycles for accounts receivable and delays in reimbursement by third party payors, such as governmental programs, private insurance plans and managed care organizations. Increases in write-offs of doubtful accounts, delays in receiving payments or potential retroactive adjustments and penalties resulting from audits by payors may require AmeriPath to borrow funds to meet its current obligations or may otherwise have a material adverse effect on AmeriPath's financial condition and results of operations. In addition to services billed on a fee-for-service basis, the hospital-based pathologists have supervision and oversight responsibility for their roles as Medical Directors of the hospitals' clinical, microbiology and blood banking operations. For this role, AmeriPath bills non-Medicare patients according to a fee schedule for what is referred to as clinical

professional component charges. For Medicare patients, the pathologist is typically paid a director's fee or a "Part A" fee by the hospital. Hospitals and third party payors are continuing to increase pressure to reduce the payment of these clinical professional component billing charges and "Part A" fees, and in the future the Company may sustain substantial decreases in these payments.

Medicare calculates and reimburses fees for all physician services ("Part B" fees), including anatomic pathology services, based on a methodology known as the resource-based relative value system ("RBRVS"), which Medicare began phasing in since 1992 and had fully implemented by 1997. Overall, anatomic pathology reimbursement rates declined during the fee schedule phase-in period, despite an increase in payment rates for certain pathology services performed by AmeriPath.

The Medicare Part B fee schedule payment for each service is determined by multiplying the total relative value units ("RVUs") established for the service by a Geographic Practice Cost Index ("GPCI"). The sum of this value is multiplied by a statutory conversion factor. The number of RVUs assigned to each service is in turn calculated by adding three separate components: work RVU (intensity of work), practice expense RVU (expense related to performing the service) and malpractice RVU (malpractice costs associated with the service).

The Balanced Budget Act of 1997 ("BBA") added coverage for an annual screening pap smear for Medicare beneficiaries who are at high risk of developing cervical or vaginal cancer and for beneficiaries of childbearing age effective January 1, 1998, as well as coverage for annual prostate cancer screening, including a prostate-specific antigen blood test, for beneficiaries over age 50, effective January 1, 2000. Although most women of childbearing age and men under age 65 are not Medicare beneficiaries, the addition of Medicare coverage for these tests could provide additional revenues for the Company. With the BBA, Congress merged the three existing conversion factors into one for all types of services provided resulting in a single conversion factor.

In July 1999, HCFA announced several proposed rule changes, and issued a final rule on November 2, 1999 that impacts payment for pathology services. The changes include: (a) the implementation of resource-based malpractice relative value units ("RVUs"), which should not significantly change reimbursement; and (b) the 1997 regulations required HCFA to develop a methodology for resource-based practice expense RVUs for each physician service beginning in 1998. The BBA provided for a four-year transition period. HCFA has established, and is proposing, a new methodology for computing resource-based practice expense that uses available practice expense data. In the November 2, 1999 final rule, an interim solution was developed which created a separate practice expense pool for all services with zero work RVUs. As published in the final

rule, certain reimbursement codes were removed from the zero work RVU pool. The impact of these procedures from the zero work pool varies by procedure and geographic region. The impact of the changes for pathology revenue were estimated by HCFA to be 8%, however, the magnitude of the impact that Medicare has on AmeriPath depends upon the mix of Medicare and non-Medicare services. For those outpatient facilities that AmeriPath bills globally, the average percentage increase is 16.6% for a common CPT code 88305. On August 10, 2000, the Final Update to the 2000 Medicare Physician Fee Schedule Database was published by HFCA. The changes included increases to various codes including CPT code 88305. Increases vary by region and averaged 5.7%.

In addition, HCFA announced that it will cease the direct payment by Medicare for the technical component of inpatient physician pathology services to an outside independent laboratory on the basis that it believes that the cost of the technical component for inpatient services is already included in the payment to hospitals under the hospital inpatient prospective payment system. Implementation of this change was scheduled to commence January 1, 2001. Congress, however, recently "grandfathered" certain existing hospital-lab arrangements. HCFA has increased the physician fee schedule conversion factor from $36.61 to $38.26 in 2001.

Due to the implementation of the hospital outpatient prospective payment system ("PPS"), effective as of January 1, 2001, independent pathology laboratories providing services to hospital outpatients generally will no longer be able to bill Medicare for the technical component ("TC") of those services. Rather, they will need to bill the hospital for the TC. The hospital will be reimbursed as part of the new Ambulatory Payment Classification ("APC") payment system. This change will require new billing arrangements to be

made with the hospitals which may result in an increase in the amount of time necessary for collections and reduction in the amounts paid. The actual change in revenue has not been determined due to current negotiations in progress with the hospitals. There can be no assurance that these changes will not have an adverse effect on the Company.

As indicated above, a significant portion of AmeriPath's net patient service revenue is from payments by government-sponsored health care programs, principally Medicare and Medicaid, and is subject to audit and adjustments by applicable regulatory agencies. Failure to comply with any of these laws or regulations, the results of increased regulatory audits and adjustments, or changes in the interpretation of the coding of services or the amounts payable for services under these programs could have a material adverse effect on AmeriPath's financial position and results of operations.

The impact of legislative changes on AmeriPath's results of operations will depend upon several factors, including the mix of inpatient and outpatient pathology services, the amount of Medicare business, and changes in conversion factors (budget neutrality adjustments) which are published in November of each year. Management continuously monitors changes in legislation impacting reimbursement.

In prior years, AmeriPath has been able to mitigate the impact of reductions in Medicare reimbursement rates for anatomic pathology services through the achievement of economies of scale and the introduction of alternative technologies that are not dependent upon reimbursement through the RBRVS system. Despite any offsets, the recent substantial modifications to the physician fee schedule, along with additional adjustments by Medicare, could have an effect on the average unit reimbursement in the future. In addition, other third-party payors could adjust their reimbursement based on changes to the Medicare fee

schedule. Any reductions made by other payors could have a negative impact on the average unit reimbursement.

Net management service revenue. Net management service revenue is based on a predetermined percentage of net operating income of the practices managed by the Company plus reimbursement of certain practice expenses as defined in each management service agreement. Management fees are recognized at the time the physician group revenue is recorded by the physician group.

The underlying calculation of net management service revenue is net physician group revenue less amounts retained by the physician groups (" Physician Group Retainage"). Net physician group revenue is equal to billed charges reduced by provisions for bad debt and contractual adjustments. Contractual adjustments represent the difference between amounts billed and amounts reimbursable by commercial insurers and other third party payors pursuant to their respective contracts with the physician group. The provision for bad debt represents management's estimate of potential credit issues associated with amounts due from patients, commercial insurers, and other third party payors. Physician Group Retainage is the net physician group revenue less practice expenses and management fee charged by the Company in accordance with the terms of the service agreement.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000

Changes in the results of operations between the three month periods ended March 31, 2001 and 2000 are due primarily to the various acquisitions which were consummated by the Company subsequent to March 31, 2000. References to "same store" means practices at which the Company provided services for the entire period for which the amount is calculated and the entire prior comparable period, including acquired hospital contracts and expanded ancillary testing services added to existing practices. During the first three months of 2001, the Company completed no acquisitions.

PERCENTAGE OF NET REVENUE

The following table sets forth, for the periods indicated, certain consolidated financial data as a percentage of net revenue (billings net of contractual and other allowances):

	Three Months Ended March 31,	
	2001	2000
NET REVENUES	100.0%	100.0%
OPERATING COSTS AND EXPENSES:		
Cost of services	49.0%	49.2%
Selling, general and administrative expenses	17.4%	17.5%
Provision for doubtful accounts	10.8%	9.5%
Amortization expense	4.6%	5.1%
Merger-related charges	7.2%	--
Total operating costs and expenses	89.0%	81.3%
INCOME FROM OPERATIONS	11.0%	18.7%
Interest expense and other, net	4.8%	4.5%

INCOME BEFORE INCOME TAXES	6.2%	14.2%
PROVISION FOR INCOME TAXES	2.9%	6.1%
NET INCOME	3.3%	8.1%

Net Revenues

Net revenues increased by $23.7 million, or 31.6%, from $75.0 million for the three months ended March 31, 2000, to $98.7 million for the three months ended March 31, 2001. Same store net revenue increased $11.3 million or 15% from $75.0 million for the three months ended March 31, 2000 to $86.3 million for the three months ended March 31, 2001, including approximately $1.2 million related to the increase in Medicare reimbursement. Same store outpatient revenue increased $6.6 million, or 23%, same store hospital revenue increased $3.7 million, or 9%, and same store management service revenue increased $900,000, or 14%, compared to the same period of the prior year. The remaining increase in revenue of $12.4 million resulted from the operations of laboratories acquired during the year 2000.

During the three months ended March 31, 2001, approximately $7.2 million, or 7%, of the Company's net revenue was attributable to contracts with national labs including Quest Diagnostics ("Quest") and Laboratory Corporation of America Holdings ("LabCorp"). Effective December 31, 2000, Quest terminated AmeriPath's pathology contract in South Florida. In 2000, this contract accounted for approximately $1.5 million of net patient service revenue. This contract termination resulted in a $3.3 million asset impairment charge in the fourth quarter of 2000. In addition, during the fourth quarter AmeriPath discontinued its Quest work in San Antonio. These decisions by Quest and/or LabCorp to discontinue or redirect pathology services, at any or all of its practices, or the Company's decision to discontinue processing work from the national labs, could have a material adverse effect on AmeriPath's financial position and results of operations.

In addition, approximately $12.9 million, or 13%, of the Company's net revenue is derived from 27 hospitals operated by HCA-The Healthcare Company ("HCA"), formerly known as Columbia/HCA Healthcare Corporation. Generally, these contracts and other hospital contracts have remaining terms of less than five years and contain renewal provisions. Some of the contracts also contain clauses that allow for termination by either party with relatively short notice. HCA has been under government investigation for some time and is evaluating its operating strategies; including the sale, spin-off or closure of certain

hospitals. Closures and/or sales of HCA hospitals and/or terminations of one or more of these contracts could have a material adverse effect on the Company's financial position and results of operations.

Cost of Services

Cost of services consists principally of the compensation and fringe benefits of pathologists, licensed technicians and support personnel, laboratory supplies, shipping and distribution costs and facility costs. Cost of services increased by $11.5 million, or 31.1%, from $36.9 million for the three months ended March 31, 2000 to $48.4 million for the same period in 2001. Cost of services, as a percentage of net revenues, decreased slightly from 49.2% for the three months ended March 31, 2000 to 49.0% in the comparable period of 2001. Gross margin increased from 50.8% in the three months ended March 31, 2000 to 51.0% in 2001.

Selling, General and Administrative Expenses

The cost of corporate support, sales and marketing, and billing and collections comprise the majority of what is classified as selling, general and administrative expenses. As a percentage of consolidated net revenues, selling, general and administrative expenses decreased from 17.5% for the three months ended March 31, 2000 to 17.4% for the same period of 2001, as the Company continues to implement measures to better control these costs and continued to spread these costs over a larger revenue base. One of the Company's objectives is to decrease these costs as a percentage of net revenues, however, these costs, as a percentage of net revenue, may increase as the Company continues to invest in marketing, information systems and billing operations.

Selling, general and administrative expenses increased by $4.1 million, or 31.0%, from $13.1 million for the three months ended March 31, 2000 to $17.2 million for the comparable period of 2001. Of this increase, approximately $1 million was attributable to the increase in billing and collection costs and approximately $600,000 attributable to the acquisitions the Company completed after March 31, 2000. The remaining increase was due primarily to increased staffing levels in marketing, human resources, accounting and salary increases effected during the fourth quarter of 2000, and costs incurred to expand the Company's administrative support infrastructure and to enhance the Company's information systems support services. The increase in marketing costs includes the cost of additional marketing personnel to cover new markets for dermatopathology, marketing literature, and products to expand the Company's penetration in the urology, gastroenterology and oncology markets. The Company's objective is to achieve annual same practice net revenue growth in excess of 10%, however, there can be no assurance that the Company will achieve this objective.

Provision for Doubtful Accounts

The provision for doubtful accounts increased by $3.6 million, or 50.0%, from $7.1 million for the three months ended March 31, 2000, to $10.7 million for the same period in 2001. The provision for doubtful accounts as a percentage of net revenues was 9.5% and 10.8% for the three month periods ended March 31, 2000 and 2001, respectively. This increase was principally driven by price increases implemented earlier in the year.

Provision for estimated third-party payor settlements and adjustments are estimated in the period the related services are rendered and adjusted in future periods as final settlements are determined. The provision and the related allowance are adjusted periodically, based upon an evaluation of historical collection experience with specific payors for particular services, anticipated collection levels with specific payors for new services, industry reimbursement trends, and other relevant factors.

Amortization Expense

Amortization expense increased by $689,000, or 17.9%, from $3.8 million for the three months ended March 31, 2000, to $4.5 million for the same period of 2001. The increase is attributable to the amortization of goodwill and other identifiable intangible assets recorded in connection with anatomic pathology practices acquired after March 31, 2000, and payments made on the contingent notes, as well as a

reduction in the weighted average amortization periods from 31 to 30 years. Amortization expense is expected to increase in the future as a result of additional identifiable intangible assets and goodwill arising from future

acquisitions, and any payments required to be made pursuant to the contingent notes issued in connection with acquisitions.

The Company continually evaluates whether events or circumstances have occurred that may warrant revisions to the carrying values of its goodwill and other identifiable intangible assets, or to the estimated useful lives assigned to such assets. Any significant impairment recorded on the carrying values of the Company's goodwill or other identifiable intangible assets could have a material adverse effect on the Company's consolidated financial position and results of operations. Such impairment would be recorded as a charge to operating profit and reduction in intangible assets.

Merger-related Charges

The merger-related charges of $7.1 million for the three months ended March 31, 2001 relate to AmeriPath's acquisition of Inform DX and include transaction costs and costs related to the closing of the Inform DX corporate office in Nashville and the consolidation or closing of the overlapping operations of Inform DX in New York and Pennsylvania. AmeriPath effectively closed the Nashville office March 31, 2001 and based on its current plans expects to complete the integration of the New York and Pennsylvania operations by the end of July 2001. The restructuring of the combined operations of AmeriPath and Inform DX are expected to result in potential annual operating synergies of up to $5 million. Since the majority of the positive effect of such savings on operations will not begin to be realized until the second half of 2001, AmeriPath expects the acquisition of Inform DX to be nominally dilutive for the first six months and accretive for the year 2001.

Income from Operations and Net Income

Income from operations decreased $3.2 million, or 22.9%, from $14.0 million for the three months ended March 31, 2000, to $10.8 million in the same period of 2001. Without the merger-related charges, income from operations would have increased by $3.9 million, or 27.8%, to $17.9 million.

Net income for the three months ended March 31, 2001 was $3.2 million, a decrease of $2.8 million, or 46.6%, over the same period in 2000. Diluted earnings per share for the three months ended March 31, 2001 decreased to $0.12 from $0.27 for the comparable period of 2000, based on 26.0 million and 22.8 million weighted average shares outstanding, respectively. Diluted earnings per share would have been $0.30 without the merger-related charge.

Interest Expense

Interest expense increased by $1.3 million, or 38.7%, from $3.4 million for the three months ended March 31, 2000, to $4.7 million for the same period in 2001. The majority of this increase was attributable to the higher average amount of debt outstanding during the three months ended March 31, 2001. For the three months ended March 31, 2001, average indebtedness outstanding was $207.3 million, compared to average indebtedness of $170.8 million outstanding in the same period of 2000. The Company's effective interest rate was 9.2% and 8.0% for the three month periods ended March 31, 2001 and 2000, respectively. Although there have seen some declines in interest rates in the first quarter of 2001, $105 million of the credit facility is hedged with an interest rate swap which is at a fixed rate of roughly 10%, while the remaining balance of the credit facility floats with LIBOR.

Provision for Income Taxes

The effective income tax rate was approximately 42.8% and 46.8% for the three month period ended March 31, 2000 and 2001, respectively. Generally, the effective tax rate is higher than AmeriPath's statutory rates primarily due to

the non-deductibility of the goodwill amortization and section 481(a) adjustments (cash to accrual) related to the Company's acquisitions. In addition, for the three-month period ended March 31, 2001 the Company had non-deductible merger-related charges, which further increased the effective tax

rate. The effective tax rate for the three-month period ended March 31, 2001, excluding these items would have been approximately 41.5%.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2001, the Company had working capital of approximately $41.5 million, an increase of $0.7 million from the working capital of $40.8 million at December 31, 2000. The increase in working capital was due primarily to increases in net accounts receivable of $6.1 million and cash and cash equivalents of $1.7 million offset by an increase in accounts payable and accrued expenses of $7.1 million.

For the three month periods ended March 31, 2000 and 2001, cash flows from operations were $12.0 million, 16% of net revenue, and $11.7 million, 12% of net revenue, respectively. Excluding pooling merger-related charges paid for Inform DX of $1.5 million, cash flow from operations would have been $13.2 million. For the three months ended March 31, 2001, cash flow from operations and borrowings under the Company's Credit Facility were used to make contingent note payments of $13.4 million and acquire $2.1 million of property and equipment.

At March 31, 2001, the Company had $28.0 million available under its Credit Facility with a syndicate of banks led by Fleet National Bank (formerly BankBoston, N.A.). The amended facility provides for borrowings of up to $230 million in the form of a revolving loan that may be used for working capital purposes and to fund acquisitions. As of March 31, 2001, $202.0 million was outstanding under the revolving loan with an annual effective interest rate of 8.65%.

In May 2000, the Company entered into three interest rate swaps transactions with an effective date of October 5, 2000, variable maturity dates, and a combined notional amount of $105 million. See Item 3. - Quantitative and Qualitative Disclosures About Market Risk for details on these new swap agreements. These interest rate swap transactions involve the exchange of floating for fixed rate interest payments over the life of the agreement without the exchange of the underlying principal amounts. The differential to be paid or received is accrued and is recognized as an adjustment to interest expense. These agreements are indexed to 30 day LIBOR. The Company uses derivative financial instruments to reduce interest rate volatility and associated risks arising from the floating rate structure of its credit facility and they are not held or issued for trading purposes. The Company is required by the terms of its credit facility to keep some form of interest rate protection in place. At March 31, 2001, the Company believes that it is in compliance with the covenants of the credit facility.

On March 29, 2001, the Company and its lenders executed an amendment ("Amendment No. 3") to its Credit Facility, dated December 16, 1999, which excluded an additional $5.4 million, or $28.3 million in total, of charges from its covenant calculations. In addition, Amendment No. 3 (i) increased the Company's borrowing rate by 37.5 basis points; (ii) requires the Company to use a minimum of 30% equity for all acquisitions; (iii) requires the Company to use no more than 20% of consideration for acquisitions in the form of contingent notes and; (iv) requires lender approval of all acquisitions with a purchase price greater than $10 million. The Company will also be required to pay an amendment fee of up to 30 basis points to those lenders which consented to the amendment. The amendment

fee will be approximately $600,000.The amendment is not expected to have an adverse effect on the Company's operations or strategies.

The Company expects to continue to use its credit facility to fund acquisitions and for working capital. The Company anticipates that funds generated by operations and funds available under the credit facility will be sufficient to meet working capital requirements and contingent note obligations, and to finance capital expenditures over the next 12 months. Further, in the event payments under the contingent notes issued in connection with acquisitions become due, the Company believes that the incremental cash generated from operations would exceed the cash required to satisfy the Company's payment, if any, of the contingent obligations in any one year period. Such payments, if any, will result in a corresponding increase in goodwill and the related amount of amortization thereof in periods following the payment. Funds generated from operations and funds available under the credit facility may not be sufficient to implement the Company's longer-term growth strategy. The Company may be required to seek additional financing through additional increases in the credit facility, to negotiate credit facilities with other banks or institutions or to seek additional capital through private placements or public offerings of equity or debt

securities. No assurances can be given that the Company will be able to extend or increase the existing credit facility, secure additional bank borrowings or complete additional debt or equity financings on terms favorable to the Company or at all.

QUALIFICATION OF FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. Statements contained anywhere in this Form 10-Q that are not limited to historical information are considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding the Company's expectations, beliefs, intentions, plans or strategies regarding the future. These forward-looking statements are based largely on the Company's expectations which are subject to a number of known and unknown risks, uncertainties and other factors discussed in this report and in other documents filed by the Company with the Securities and Exchange Commission (including, without limitation, the Company's Annual Report on Form 10-K for the year ended December 31, 2000), which may cause actual results to be materially different from those anticipated, expressed or implied by the forward-looking statements. All forward-looking statements included in this document are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statements to reflect future events or circumstances. Forward-looking statements are sometimes indicated by words such as "may," "should," "believe," "expect," "anticipate" and similar expressions.

In addition to the risks and uncertainties identified elsewhere herein and in other documents filed by the Company with the Securities and Exchange Commission, the following factors should be carefully considered when evaluating the Company's business and future prospects: general economic conditions; competition and changes in competitive factors; the extent of success of the Company's operating initiatives and growth strategies (including without limitation, the Company's continuing efforts to (i) achieve continuing improvements in performance of its current operations, by reason of various synergies, marketing efforts, revenue growth, cost savings or otherwise, (ii) transition into becoming a fully integrated healthcare diagnostic information

provider, including the Company's efforts to develop, and the Company's investment in, new products, services, technologies and related alliances, such as the alliance with Genomics Collaborative, Inc. (iii) acquire or develop additional pathology practices (as further described below), and (iv) develop and expand its managed care and national clinical lab contracts); federal and state healthcare regulation (and compliance); reimbursement rates under government-sponsored and third party healthcare programs and the payments received under such programs; changes in coding; changes in technology; dependence upon pathologists and contracts; the ability to attract, motivate, and retain pathologists; labor and technology costs; marketing and promotional efforts; the availability of pathology practices in appropriate locations that the Company is able to acquire on suitable terms or develop; the successful completion and integration of acquisitions (and achievement of planned or expected synergies); access to sufficient amounts of capital on satisfactory terms; and tax laws. In addition, the Company's strategy to penetrate and develop new markets involves a number of risks and challenges and there can be no assurance that the healthcare regulations of the new states in which the Company enters and other factors will not have a material adverse effect on the Company. The factors which may influence the Company's success in each targeted market in connection with this strategy include: the selection of appropriate qualified practices; negotiation, execution and consummation of definitive acquisition, affiliation, management and/or employment agreements; the economic stability of each targeted market; compliance with state, local and federal healthcare and/or other laws and regulations in each targeted market (including health, safety, waste disposal and zoning laws); compliance with applicable licensing approval procedures; restrictions under labor and employment laws, especially non-competition covenants. Past performance is not necessarily indicative of future results.

RISK FACTORS

You should carefully consider each of the following risks and all of the other information set forth in this Form 10Q. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business.

If any of the following risks actually occur, our business prospects, financial condition and results of operations could be materially adversely affected and the trading price of our common stock could decline. In any such case, you could lose all or part of your investment in our company.

Our business could be harmed by future interpretation or implementation of state laws regarding prohibitions on the corporate practice of medicine.

We acquire or affiliate with physician practices located in many states across the country. However, the laws of many states prohibit business corporations, including AmeriPath and its subsidiaries, from owning corporations that employ physicians, or from exercising control over the medical judgments or decisions of physicians. These laws and their interpretations vary from state to state and are enforced by both the courts and regulatory authorities, each with broad discretion. The manner in which we operate each practice is determined primarily by the corporate practice of medicine restrictions of the State in which the practice is located and other applicable regulations.

We believe that we are currently in material compliance with the corporate practice of medicine laws in each of the states in which we operate. Nevertheless, it is possible that regulatory authorities or other parties may assert that we are engaged in the unauthorized corporate practice of medicine.

If such a claim were successfully asserted in any jurisdiction, we could be subject to civil and criminal penalties under such jurisdiction's laws and could be required to restructure our contractual and other arrangements. Alternatively, some of our existing contracts could be found to be illegal and unenforceable. In addition, expansion of our operations to other "corporate practice" states may require structural and organizational modification to the form of relationship that we currently have with physicians, affiliated practices and/or hospitals. Such results or the inability to successfully restructure contractual arrangements could have a material adverse effect on our business, financial condition and results of operations.

We could be hurt by future interpretation or implementation of federal anti-kickback laws.

The federal anti-kickback law and regulations prohibit any knowing and willful offer, payment, solicitation and receipt of any form of remuneration, either directly or indirectly, in return for, or to induce the referral of an individual for a service for which payment may be made by Medicare and Medicaid or certain other federal health care programs, or the purchasing, leasing, ordering or arranging for, or recommending the purchase, lease or order of, any service or item for which payment may be made by Medicare, Medicaid or certain other federal health care programs. Violations of federal anti-kickback law are punishable by monetary fines, civil and criminal penalties and exclusion from participation in Medicare, Medicaid and other federal health care programs. Several states have similar laws.

The federal government has published regulations that provide "safe-harbors" that protect business transactions that meet enumerated requirements from prosecution under the federal anti-kickback law. The failure to meet the requirements of a safe harbor does not necessarily mean that a transaction violates the anti-kickback law. While arrangements that we enter into with physicians and third parties may not satisfy all requirements under applicable safe harbors, we believe our operations are in material compliance with applicable Medicare and fraud and abuse laws, including the anti-kickback law. There is a risk however, that the federal government might investigate arrangements which do not satisfy the safe harbors. If our arrangements with physicians and third parties were found to be illegal, we would be subject to civil and criminal penalties, including exclusion from the participation in government payor programs, which could materially adversely affect our business, financial condition and results of operations.

The Department of Health and Human Services Office of the Inspector General issues advisory opinions that provide advice on whether proposed business arrangements violate the anti-kickback statute. In Advisory Opinion 99-13, the OIG opined that when prices for laboratory services for non-governmental patients are discounted below Medicare reimbursable rate, the anti-kickback statute may be implicated. The OIG found prices discounted below the laboratory supplier's costs to be particularly problematic. In the same opinion, OIG suggests that a laboratory may be excluded from federal health care programs if it charges Medicare or Medicaid amounts substantially in excess of discounted charges to the physician. In the

OIG's opinion, charges are likely excessive if the profit margin for Medicare business exceeds profit margin for non-federally reimbursed business.

The OIG also has addressed physician practice management arrangements in an advisory opinion. In Advisory Opinion 98-4, the OIG found that management fees based on a percentage of practice revenues may violate the anti-kickback statute. Although these advisory opinions only apply to the parties who request

them, in the event that we our found to have arrangements that are inconsistent with the OIG's opinions, the OIG might take the position that the arrangements violate the anti-kickback law. Any such finding could have a material adverse impact on us.

Our business could be harmed by future interpretation or implementation of the federal Stark Law and other state and federal anti-referral laws.

We are also subject to federal and state statutes and regulations banning payments for referral of patients and referrals by physicians to health care providers with whom the physicians have a financial relationship. The federal Stark Law applies to Medicare and Medicaid and prohibits a physician from referring patients for certain services, including laboratory services, to an entity with which a physician has a financial relationship. Financial relationship includes both investment interests in an entity and compensation arrangements with an entity. If an arrangement is covered by the Stark Law, all of the requirements of the Stark Law exception must be satisfied. Many states also have laws that are similar to the Stark Law. These statutes and regulations generally apply to services reimbursed by both governmental and private payors. Violations of these laws may result in prohibition of payment for services rendered, loss of licenses as well as fines and criminal penalties. In addition, violation of the Stark Law may result in exclusion from Medicare and Medicaid. State statutes and regulations affecting the referral of patients to health care providers range from statutes and regulations that are substantially the same as the federal laws and the safe harbor regulations to a requirement that physicians or other health care professionals disclose to patients any financial relationship the physicians or health care professionals have with a health care provider that is being recommended to the patients. These laws and regulations vary significantly from state to state, are often vague and, in many cases, have not been interpreted by courts or regulatory agencies. Adverse judicial or administrative interpretations of any of these laws could have a material adverse effect on our business, financial condition and results of operations. In addition, expansion of our operations to new jurisdictions, or new interpretations of laws in existing jurisdictions, could require structural and organizational modifications of our relationships with physicians to comply with that jurisdiction's laws. Such structural and organizational modifications could have a material adverse effect on our business, financial condition and results of operations.

We have financial relationships with our physicians, as defined by the federal Stark Law, in the form of compensation arrangements, ownership of our shares, contingent promissory notes issued by us in connection with acquisitions, or a combination of the above. We believe that such existing compensation arrangements are structured to comply with an applicable Stark Law exception. We also believe that the ownership of our shares by physicians should fall within the publicly traded stock exception to the Stark Law's definition of financial relationship. However, certain physician-owned shares do have transfer restrictions and, as a result, the government could take the position that all of the requirements of this exception are not met. The contingent notes held by some physicians do not meet an exception to the Stark Law's definition of financial relationship. In either case, however, we believe that our current operations comply with the Stark law because physicians affiliated with us ordinarily do not make referrals and in any event have been instructed, and are believed to be following such instructions, not to make referrals to us. To the extent physicians affiliated with us may make a referral to us and a financial relationship exists between us and the referring physician through either the ownership of our shares or contingent notes, the government might take the position that the arrangement does not comply with the federal Stark Law. Any such finding may have a material adverse impact on our business, financial conditions or results from operations.

We could be hurt by future interpretation or implementation of state and federal anti-trust laws.

In connection with the corporate practice of medicine laws, the physician practices with which we are affiliated in some states are organized as separate legal entities. As such, the physician practice entities may be deemed to be persons separate both from us and from each other under the antitrust laws and, accordingly, subject to a wide range of laws that prohibit anti-competitive conduct among separate legal entities. In addition, we are seeking to acquire or affiliate with established and reputable practices in our target geographic markets. We believe that we are in compliance with these laws and intend to comply with any state and federal laws that may affect our development of integrated health care delivery networks. Nevertheless, a review of our business by courts or regulatory authorities could adversely affect our business, financial condition or results from operations.

Our business could be harmed by future interpretation or implementation of the Health Care Insurance Portability and Accountability Act

The Health Care Insurance Portability and Accountability Act, or HIPAA, created criminal provisions, which impose criminal penalties for fraud against any health care benefit program for theft or embezzlement involving health care and for false statements in connection with the payment of any health benefits. HIPAA also provided broad prosecutorial subpoena authority and authorized property forfeiture upon conviction of a federal health care offense. Significantly, the HIPAA provisions apply not only to federal programs, but also to private health benefit programs as well. HIPAA also broadened the authority of the OIG to exclude participants from federal health care programs. Because of the uncertainties as to how the HIPAA provisions will be enforced, we are currently unable to predict their ultimate impact on us. Although we are unaware of any current violations of HIPAA, the government may in the future seek penalties against us for violations of HIPAA, which could have a material adverse effect on business, financial condition or results from operations.

We charge our clients on a fee-for-service basis, so we incur financial risk related to collections as well as potentially long collection cycles when seeking reimbursement from third party payors.

Substantially all of our net revenues are derived from our practices' charging for services on a fee-for-service basis. Accordingly, we assume the financial risk related to collection, including the potential uncollectability of accounts, long collection cycles for accounts receivable and delays attendant to reimbursement by third party payors, such as governmental programs, private insurance plans and managed care organizations. Increases in write-offs of doubtful accounts, delays in receiving payments or potential retroactive adjustments and penalties resulting from audits by payors may require us to borrow funds to meet our current obligations or may otherwise have a material adverse effect on our business, financial condition and results of operations.

We rely upon reimbursement from government programs for a significant portion of our revenues, and if reimbursement rates from government programs decline, it could have a material adverse effect on our business.

We derive approximately 20% of our collections from payments made by government sponsored health care programs (principally Medicare and Medicaid). These programs are subject to substantial regulation by federal and state governments. Any change in reimbursement regulations, policies, practices, interpretations or statutes that places limitations on reimbursement amounts, or changes in reimbursement coding, or practices could materially and adversely affect our business, financial condition and results of operations. Increasing budgetary

pressures at both the federal and state level and concerns over escalating costs of health care have led, and may continue to lead, to significant reductions in health care reimbursements. State concerns over the growth in Medicaid also could result in payment reductions. Although governmental payment reductions have not materially affected us in the past, it is possible that such changes in the future could have a material adverse effect on our business, financial condition and results of operations. In addition, Medicare, Medicaid and other government sponsored health care programs are increasingly shifting to some form of managed care. Some states have recently enacted legislation to require that all Medicaid patients be converted to managed care organizations, and similar legislation may be enacted in other states, which could result in reduced payments to us for such patients. In addition, a state-legislated shift in a Medicaid plan to managed care could cause the loss of some, or all, Medicaid business for us in

that state if we were not selected as a participating provider. Additionally, funds received under all health care reimbursement programs are subject to audit with respect to the proper billing for physician services and, accordingly, retroactive adjustments of revenue from these programs could occur. We expect that there will continue to be proposals to reduce or limit Medicare and Medicaid reimbursements.

There has been an increasing number of state and federal investigations of hospitals and hospital laboratories, which may increase the likelihood of investigations of our business practices to the extent that we have relationships with the hospitals being investigated.

Significant media and public attention has been focused on the health care industry due to ongoing federal and state investigations reportedly related to certain referral and billing practices, laboratory and home health care services and physician ownership and joint ventures involving hospitals. Most notably, HCA is under investigation with respect to such practices. We operate laboratories on behalf of and have numerous contractual agreements with hospitals, including 28 pathology service contracts with HCA hospitals as of March 31, 2001. The government's ongoing investigation of HCA could result in a governmental investigation of one or more of our operations that have arrangements with HCA. In addition, the OIG and the Department of Justice have initiated hospital laboratory billing review projects in certain states and are expected to extend such projects to additional states, including states in which we operate hospital laboratories. These projects increase the likelihood of governmental investigations of laboratories owned and operated by us. Although we monitor our billing practices and hospital arrangements for compliance with prevailing industry practices under applicable laws, such laws are complex and constantly evolving and it is possible that governmental investigators may take positions that are inconsistent with our practices or industry practices. The government's investigations of entities with which we contract may have other effects which could materially and adversely affect us, including termination or amendment of one or more of our contracts or the sale of hospitals potentially disrupting the performance of services under such contracts. In addition, in certain instances indemnity insurers and other non-governmental payors have sought repayment from providers, including laboratories, for alleged overpayments.

There has been a heightened scrutiny of Medicare and Medicaid billing practices in recent years, which may increase our possibility of being subject to costly investigations.

Payors periodically reevaluate the services they reimburse. In some cases, government payors such as Medicare also may seek to recoup payments previously

made for services determined not to be reimbursable. Any such action by payors would have an adverse affect on our revenues and earnings.

Moreover, the federal government has become more aggressive in examining laboratory billing and seeking repayments and penalties as the result of improper billing for services (e.g., the billing codes used), regardless of whether carriers had furnished clear guidance on this subject. The primary focus of this initiative has been on hospital laboratories and on routine clinical chemistry tests, which comprise only a portion of our revenues. Although the scope of this initiative could expand, it is not possible to predict whether or in what direction the expansion might occur. We believe that our practices are proper and do not include any allegedly improper practices now being examined. However, the government could broaden its initiative to focus on the type of services furnished by us and, if this were to happen, we might be required to repay money.

Furthermore, HIPAA and Operation Restore Trust have strengthened the powers of the OIG and increased the funding for Medicare and Medicaid audits and investigations. As a result, the OIG is currently expanding the scope of its health care audits and investigations. Federal and state audits and inspections, whether on a scheduled or unannounced basis, are conducted from time to time at our facilities. If a negative finding is made as a result of such an investigation, we could be required to change coding practices or repay amounts paid for incorrect practices either of which could have a material adverse effect on our business, financial condition and results from operations.

We are dependent on hospital contracts for a significant portion of our revenues, which are short term and can easily be terminated.

Our hospital contracts typically have terms of one to five years from their date of execution and automatically renew for additional terms of one year unless otherwise terminated by either party. The contracts generally provide that the hospital may terminate the agreement prior to the expiration of the initial or any renewal term. Loss of any particular hospital contract would not only result in a loss of net revenue to us under that contract, but may also result in a loss of outpatient net revenue that may be derived from our relationship with the hospital and its medical staff. Continuing consolidation in the hospital industry may result in fewer hospitals or fewer laboratories as hospitals move to combine their operations. As of March 31, 2001, our practices had contracts with 237 hospitals, of which the majority are exclusive, and 28 of which are executed with HCA. Such contracts with hospitals may be terminated or may not be renewed in the future.

If we are unable to make acquisitions in the future, our rate of growth will slow.

Much of our historical growth has come from acquisitions, and we expect to continue to pursue growth through the acquisition and development of laboratories. However, we may be unable to continue to identify and complete suitable acquisitions at prices we are willing to pay or to obtain the necessary financing. In addition, since we are a bigger company, the amount that acquired businesses contribute to our revenue and profits will likely be smaller on a percentage basis. We also compete with other companies to identify and complete suitable acquisitions. We expect this competition to intensify, making it more difficult to acquire suitable companies on favorable terms. Further, the businesses we acquire may not perform well enough to justify our investment. If we are unable to make additional acquisitions on suitable terms, we may not meet our growth expectations.

Our future growth will depend on our ability to secure adequate capital resources and to effectively integrate newly acquired practices.

In addition to acquisitions of and affiliations with practices, we intend to continue to grow through internal expansion. We derive our net revenue from the net revenue of our practices. Our growth strategy requires: (i) capital investment; (ii) compliance with present or future laws and regulations that may differ from those to which we are currently subject; (iii) further development of our corporate management and operational, financial and accounting resources to accommodate and manage growth; and (iv) the ability to expand our physician and employee base and to train, motivate and manage employees. Failure to meet these requirements could limit our growth potential and may have a material adverse effect on our business, financial condition and results of operations. Although we are taking steps to manage our growth, we cannot assure you that we will be able to do so efficiently or that our growth rate will continue in the future.

Our expansion into new markets will require us to maintain and establish payor and customer relationships and to convert the patient tracking and financial reporting systems of new practices to our systems. Significant delays or expenses with regard to this process could have a material adverse effect on the integration of additional practices and on our financial condition and results of operations. We cannot assure you that we will be able to maintain or establish payor and customer relationships, convert management information systems or integrate new practices into our combined network.

The integration of additional practices typically requires the implementation and centralization of purchasing, accounting, human resources, management information systems, cash management and other systems, which may be difficult, costly and time-consuming. Our operating results in fiscal quarters immediately following a new practice affiliation may be adversely affected while we attempt to complete the integration process. We may encounter significant unanticipated costs or other problems associated with the future integration of practices into our combined network of affiliated practices. Future affiliations could have a material adverse effect on our business, financial condition and results of operations, particularly during the period immediately following completion of such affiliations.

We may inherit significant liabilities from practices that we acquire.

We perform due diligence investigations with respect to potential liabilities of acquired and affiliated practices and obtain indemnification with respect to liabilities from the sellers of such practices. Nevertheless, undiscovered claims may subsequently arise and liabilities for which we become responsible

may be material or may exceed either the limitations of any applicable indemnification provisions or the financial resources of the indemnifying parties. Furthermore, through our corporate compliance program, we regularly review each practice's compliance with federal and state health care laws and regulations and revise, as appropriate, the operations, policies and procedures of our practices to conform to our policies and procedures and applicable law. While we believe that the operations of our practices prior to their acquisition were generally in compliance with such laws and regulations, we cannot assure you that the prior operations of such practices were in full compliance with such laws, as such laws may ultimately be interpreted. Moreover, although we maintain an active compliance program, it is possible that the government might challenge some of our current practices as not being in full compliance with such laws. A violation of such laws by a practice could result in civil and criminal penalties, exclusion of the physician, the practice or us from

participation in Medicare and Medicaid programs and/or loss of a physician's license to practice medicine.

We have significant contingent liabilities payable to many of the sellers of practices that we recently acquired.

In connection with our practice acquisitions, we typically agree to pay to sellers of the practices additional consideration in the form of debt obligations, payment of which is contingent upon the practice achieving certain specified profitability criteria over periods ranging from three to five years from the date of acquisition. The principal amount and accrued interest of the contingent amount to be paid cannot be determined until the contingency periods terminate and achievement of the profitability criteria is determined. As of December 31, 2000, if the maximum criteria for the contingency payments with respect to all prior acquisitions were achieved, we would be obligated to make payments, including principal and interest, of approximately $198.4 million over the next three to five years. Lesser amounts of cash would be paid if the maximum financial criteria are not met. Although we believe that we will be able to make such cash payments from internally generated funds or proceeds of future borrowings, we cannot assure you that we will be able to do so. Payments of these contingent amounts will affect our earnings per share and may cause volatility in the market price of our common stock. We expect to continue to use contingent notes as partial consideration for acquisitions and affiliations. While we believe that the contingent notes do not violate federal or state "anti-kickback" or "self-referral" statutes, it is nevertheless possible that such arrangements may get challenged by regulatory authorities seeking to enforce such laws.

We have recorded a significant amount of intangible assets, which may never be realized.

Our acquisitions have resulted in significant increases in net identifiable intangible assets and goodwill. Net identifiable intangible assets, which include hospital contracts, physician client lists, management service agreements and laboratory contracts acquired in acquisitions were approximately $266.0 million at March 31, 2001, representing approximately 45.9% of our total assets. Net identifiable intangible assets are recorded at fair value on the date of acquisition and are being amortized over periods ranging from 10 to 40 years. Goodwill, which relates to the excess of cost over the fair value of net assets of businesses acquired, was approximately $189.7 million at March 31, 2001, representing approximately 32.7% of our total assets. We amortize goodwill on a straight-line basis over periods ranging from 15 to 35 years. On an ongoing basis, we make an evaluation to determine whether events and circumstances indicate that all or a portion of the carrying value of intangible assets may no longer be recoverable, in which case an additional charge to earnings may be necessary. We cannot assure you that we will ever realize the value of our intangible assets. Any future determination requiring the write off of a significant portion of unamortized intangible assets could have a material adverse effect on our business, financial condition and results of operations.

Our business is highly dependent on the recruitment and retention of qualified pathologists.

Our business is dependent upon recruiting and retaining pathologists, particularly those with subspecialties, such as dermatopathology. While our practices have been able to recruit (principally through practice acquisitions) and retain pathologists, we cannot assure you that we or our practices will be able to continue to do so successfully or on terms similar to our current arrangements. The relationship between the pathologists and their respective local medical communities is important to the operation and continued profitability of each practice. Loss of one of our pathologists could lead to the loss of hospital contracts or other sources of revenue that depend on our

continuing relationship with that pathologist. In the event that

a significant number of pathologists terminate their relationships with our practices or become unable or unwilling to continue their employment, or in the event non-compete agreements with a number of physicians were terminated or determined to be invalid or unenforceable, our business, financial condition and results from operation could be materially and adversely affected.

Proposals to reform the health care industry may have a material adverse effect on our business.

Federal and state governments have recently focused significant attention on health care reform. It is not possible to predict which, if any, proposal will be adopted. It is possible that the health care regulatory environment will change so as to restrict our existing operations, impose additional requirements on us or limit our expansion. Costs of compliance with changes in government regulations may not be subject to recovery through price increases. Some of the proposals under consideration, or others that may be introduced, could, if adopted, have a material adverse effect on our business, financial condition and results of operations.

Competition from other providers of pathology services may adversely affect our business.

Our services include the provision of physician practice management services to pathology practices and the provision of pathology and cytology diagnostic services. Competition may result from other anatomic pathology practices, companies in other health care industry segments, such as other hospital-based specialties, national clinical laboratories, large physician group practices or pathology physician practice management companies that may enter our markets, some of which may have greater financial and other resources than us.

We compete with several companies, and such competition can reasonably be expected to increase. In addition, companies in other health care segments, such as hospitals, national clinical laboratories, third party payors, and health maintenance organizations, many of which have greater financial resources than us, may become competition in the employment and management of pathology practices. We compete for acquisitions and affiliations on the basis of our reputation, management experience, status and resources as a public company and our focus on anatomic pathology. We cannot assure you that we will be able to compete effectively, and it is possible that additional competitors will enter our markets and make it more difficult for us to acquire or affiliate with practices on favorable terms.

We may be subject to significant professional liability claims and we cannot assure you that our insurance coverage limits will be sufficient to cover such claims.

Our business entails an inherent risk of claims of physician professional liability for acts or omissions of our physicians and laboratory personnel. We and our physicians periodically become involved as defendants in medical malpractice lawsuits, some of which are currently ongoing, and are subject to the attendant risk of substantial damage awards. Generally, we have consolidated our physician professional liability insurance coverages with the St. Paul Fire and Marine Insurance Company, whereby each of the pathologists is insured under claims-made policies with primary limits of $1.0 million per occurrence and $5.0 million in the annual aggregate, and share with us in surplus coverage of up to $20.0 million in the aggregate. The policy also provides "prior acts" coverage for each of our physicians with respect to our practices prior to their

acquisition by us. Further, we have provided reserves for incurred but not reported claims in connection with our claims-made policies. The terms of the purchase agreements relating to each practice acquisition contain certain limited rights of indemnification from the sellers of the practices. While we believe that we have adequate professional liability insurance coverage, we can give no assurances that a future claim or claims will not be successful and, if successful, will not exceed the limits of available insurance coverage or that such coverage will continue to be available at acceptable costs or on favorable terms. In addition, our insurance does not cover all potential liabilities arising from governmental fines and penalties, indemnification agreements and certain other uninsurable losses. A malpractice claim asserted against us, a management subsidiary, a practice subsidiary, an affiliated practice or an affiliated physician could, in the event of an adverse outcome exceeding limits of available insurance coverage, have a material adverse effect on our business, financial condition and results of operations.

The continued growth of managed care may have a material adverse effect on our business.

The number of individuals covered under managed care contracts or other similar arrangements has grown over the past several years and may continue to grow in the future. Entities providing managed care coverage have been successful in reducing payments for medical services in numerous ways, including entering into arrangements under which payments to a service provider are capitated, limiting testing to specified procedures, denying payment for specified services unless prior authorization for such services has been obtained and refusing to increase fees for specified services. The continued growth of the managed care industry and its continued success in reducing payments to medical service providers could have a material adverse effect on our business, financial condition and results of operation.

We could be damaged by the loss of our key personnel.

Our success is dependent upon the efforts and abilities of our key management personnel, particularly James C. New, our Chairman and Chief Executive Officer, Brian C. Carr, our President, Gregory A. Marsh, our Vice President and Chief Financial Officer, Alan Levin, M.D., our Chief Operating Officer and Dennis M. Smith, Jr., M.D., our Executive Vice President of Genomic Strategies and Chief Medical Officer. The loss of service of any of these persons could have a material adverse effect on our business, financial condition and results of operations.

Because of the complex nature of our billing and reimbursement arrangements, we may be at a greater risk of Internal Revenue Service Examinations.

The Internal Revenue Service, or IRS, conducted an examination of our federal income tax returns for the tax years ended December 31, 1996 and 1997 and concluded that no changes to the tax reported needed to be made. Although we believe that we are in compliance with all applicable IRS rules and regulations, if the IRS should determine that we are not in compliance in any other years, it could have a material adverse effect on the our financial position and results of operations.

Our stock price is volatile and the value of your investment may decrease, for various reasons including reasons that are unrelated to the performance of our business.

There has been significant volatility in the market price of securities of health care companies that often has been unrelated to the operating performance

of such companies. In fact, our common stock, which trades on the Nasdaq national market, has traded from a low of $8 per share to a high of $26 15/16 per share for the year ended December 31, 2000. We believe that various factors, such as legislative and regulatory developments, quarterly variations in our actual or anticipated results of operations, lower revenues or earnings than those anticipated by securities analysts, the overall economy and the financial markets could cause the price of our common stock to fluctuate substantially.

Anti-Takeover provisions in our charter documents could make it more difficult for a third party to acquire us.

Certain provisions of our Amended and Restated Certificate of Incorporation, Amended and Restated Bylaws and Preferred Share Purchase Rights Plan may be deemed to have anti-takeover effects and may delay, defer or prevent a takeover attempt that a stockholder might consider in its best interest. Any of these anti-takeover provisions could lower the value of our common stock.

The Company's business strategy emphasizes growth, which places significant demands on the Company's financial, operational and management resources and creates the risk of failing to meet the growth expectations of investors.

The Company's growth strategy includes efforts to acquire and develop new practices, develop and expand managed care and national clinical lab contracts and develop new products, services, technologies and related alliances with third parties. The pursuit of this growth strategy consumes capital resources, thereby creating the financial risk that the Company will not realize an adequate return on this investment. In addition, the Company's growth may involve the acquisition of companies, the development of products or services or the creation of strategic alliances in areas in which the Company does not currently operate.

This would require the Company's management to develop expertise in new areas, manage new business relationships and attract new types of customers. The success or failure of the Company's growth strategies is difficult to predict. The failure to achieve the Company's stated growth objectives or the growth expectations of investors could disappoint investors and harm the Company's stock price. There can be no assurance that the Company will be able to implement its growth strategy successfully or manage its expanded operations effectively and profitably.

The Company is pursuing a strategy of becoming a fully integrated healthcare diagnostic information provider, which adds uncertainty to future results of operations and could divert financial and management resources away from the Company's core business.

As the Company pursues its transition into becoming a fully integrated healthcare diagnostic information provider, the Company anticipates that significant amounts of future revenue may be derived from products, services and alliances that do not exist today or have not been marketed in sufficient quantities to measure accurately market acceptance. Similarly, post-transition operating costs are difficult to predict with accuracy, thereby adding further uncertainty to the Company's future results of operations. The Company may experience difficulties that could delay or prevent the successful development and introduction of new healthcare diagnostic information products and services and such products and services may not achieve market acceptance. Any failure by the Company to complete this transition in a timely and cost-efficient manner could result in financial losses and could inhibit the Company's anticipated growth. In addition, the pursuit of this transition could divert financial and management resources away from the Company's core business.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to market risk associated principally with changes in interest rates. Interest rate exposure is principally limited to the revolving loan of $202.0 million at March 31, 2001.

In May 2000, the Company entered into three interest rate swaps transactions with an effective date of October 5, 2000, variable maturity dates, and a combined notional amount of $105 million. These interest rate swap transactions involve the exchange of floating for fixed rate interest payments over the life of the agreement without the exchange of the underlying principal amounts. The differential to be paid or received is accrued and is recognized as an adjustment to interest expense. These agreements are indexed to 30 day LIBOR. The following table summarizes the terms of the swaps:

Notional Amount(in millions)	Fixed Rate	Term in Months	Maturity
$45.0	6.760%	48	10/07/04
$30.0	7.612%	36	10/06/03
$30.0	7.626%	48	10/05/04

The fixed rates do not include the credit spread which is currently 2.0%. The fixed rates under the new agreements are approximately 2.6% higher than the prior agreements reflecting the numerous interest rate increases by the Federal Reserve since October 1998 and the current interest rate environment. Beginning in October 2000, these higher fixed rates will increase the Company's annual interest cost by approximately $2.7 million. In addition, further tightening of interest rates by the Federal Reserve will increase the Company's interest cost on the outstanding balance of the credit facility not subject to interest rate protection. All of the Company's swap transactions involve the exchange of floating for fixed rate interest payments over the life of the agreement without the exchange of the underlying principal amounts. The differential to be paid or received is accrued and is recognized as an adjustment to interest expense. The Company uses derivative financial instruments to reduce interest rate volatility and associated risks arising from the floating rate structure of its credit facility and are not held or issued for trading purposes. The Company is required by the terms of its credit facility to keep some form of interest rate protection in place.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

During the ordinary course of business, the Company has become and may in the future become subject to pending and threatened legal actions and proceedings. The Company may have liability with respect to its employees and its pathologists as well as with respect to hospital employees who are under the supervision of the hospital based pathologists. The majority of the pending legal proceedings involve claims of medical malpractice. Most of these relate to cytology services. These claims are generally covered by insurance. Based upon investigations conducted to date, the Company believes the outcome of such pending legal actions and proceedings, individually or in the aggregate, will not have a material adverse effect on the Company's financial condition, results of operations or liquidity. If the Company is ultimately found liable under these medical malpractice claims, there can be no assurance that the Company's medical malpractice insurance coverage will be adequate to cover any such liability. The Company may also, from time to time, be involved with legal actions related to the acquisition of and affiliation with physician practices, the prior conduct of such practices, or the employment (and restriction on

competition of) physicians. There can be no assurance any costs or liabilities for which the Company becomes responsible in connection with such claims or actions will not be material or will not exceed the limitations of any applicable indemnification provisions or the financial resources of the indemnifying parties.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

There were no shares of Common Stock issued in the first three months of 2001 or through the date of this report.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.47 Amendment No. 3, dated March 29, 2001, to the Amended and Restated Credit Agreement dated as of December 16, 1999, among AmeriPath, Inc., certain of its subsidiaries, Fleet National Bank (formerly BankBoston N.A.) and certain other lenders (Incorporated by reference to the exhibit referenced and filed with AmeriPath Form 8-K, dated March 29, 2001, filed on April 6, 2001.)

(b) Reports on Form 8-K

A Current Report on Form 8-K, dated February 27, 2001, was filed by the Company with the Securities and Exchange Commission on March 6, 2001, reporting that on February 27, 2001, the Company held a conference call for investors and analysts to discuss the Company's financial results for the fourth quarter and year ended December 31, 2000. During the call, certain information was provided regarding the Company's estimated 2001 financial ratios.

A Current Report on Form 8-K, dated March 29, 2001, was filed by the Company with the Securities and Exchange Commission on April 6, 2001, reporting that on March 29, 2001, the Company and its lenders executed an amendment to the Credit Facility ("Amendment No. 3"), which excludes an additional $5.4 million, or $28.3 million in total for all three amendments to the Credit Facility, of charges from its covenant calculations. In addition, Amendment No. 3 (i) increased the Company's borrowing rate by 37.5 basis points; (ii) requires the Company to use a minimum of 30% equity for all acquisitions; (iii) requires the Company to use no more than 20% of consideration for acquisitions in the form of contingent notes; and (iv) requires lender approval of all acquisitions with a purchase price greater than $10 million. The Company will also be required to pay an amendment fee of up to 30 basis points to those lenders which consented to the amendment. The maximum amount of the amendment fee would be $700,000.

SIGNATURES

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

AMERIPATH, INC.

Date: May 15, 2001

By: /s/ JAMES C. NEW

James C. New
Chairman and Chief Executive Officer

Date: May 15, 2001

By: /s/ GREGORY A. MARSH

Gregory A. Marsh
Vice President and
Chief Financial Officer

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