AMERIPATH INC
Form 10-K/A
August 08, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
Amendment No. 1

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

FOR THE YEAR ENDED DECEMBER 31, 2000

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____.

AMERIPATH, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	65-0642485
(State or Other Jurisdiction Incorporation or Organization)	(I.R.S. Employer Identification No.)

7289 Garden Road, Suite 200, Riviera Beach, Florida 33404
(Address of Principal Executive Offices)

Registrant's Telephone Number, Including Area Code: (561) 845-1850

Securities Registered Pursuant to Section 12(B) of the Act:

Securities Registered Pursuant to Section 12(G) of the Act:

Common Stock (Par Value $.01 Per Share)
(Title of Class)

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

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

The aggregate market value of voting stock held by non-affiliates of the Registrant as of March 16, 2001 was approximately $430.4 million based on the $17.44 closing sale price for the Common Stock on the NASDAQ National Market System on such date. For purposes of this computation, all executive officers and directors of the Registrant have been deemed to be affiliates. Such determination should not be deemed to be an admission that such directors and officers are, in fact, affiliates of the Registrant.

The number of shares of Common Stock of the Registrant outstanding as of March 16, 2001 was 24,941,749.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement relating to the Registrant's 2001 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission no later than 120 days after the end of the year covered by this Report are incorporated by reference into Part III of this Report.

PART I

ITEM 1. GENERAL BUSINESS

AmeriPath, Inc. and its subsidiaries ("AmeriPath" or the "Company") is the largest physician and laboratory company focused on providing anatomic pathology, cancer diagnostic, genomics, and healthcare 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"). This 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 (each a "Managed Practice"). Although such Managed Practices are not owned by the Company, the statistical data appearing throughout this report on form 10-K including the description of such items as the number of pathologists, hospital contracts, employees and outpatient laboratories incorporates the statistical data from the Managed Practices as if they were owned by the Company. Unless otherwise indicated, the information presented in the current and previous years includes Inform DX for all periods. The Company's 425 pathologists provide medical diagnostic services in outpatient laboratories owned, operated and managed by the Company, hospitals, and outpatient ambulatory surgery centers. Of these pathologists, 419 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).

As of December 31, 2000, the Company and the Managed Practices had contracts with a total of 224 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 historical information included in this statistical data chart includes Inform DX changes as if the acquisition had occurred prior to 1998.

Statistical Data:

	December 31,	
	1998	1999
. Pathologists	299	370
. Hospital Contracts	168	207
. Employees	1,616	1,865

. Outpatient laboratories	28	36
. Practices		
Owned	28	34
Managed	8	7
. Net revenues (in 000's)		
Owned Practices	$177,304	$233,269
Managed Practices	$ 16,012	$ 24,163

The Company essentially operates as a pathology group practice and is legally structured so as to comply with the different laws dealing with the corporate practice of medicine. Refer to the section entitled "AmeriPath Corporate Structure" for a more detailed discussion of the Company's legal structure in the various states.

AmeriPath manages and controls all of the non-medical functions of the Practices, including:

- recruiting, training, employing and managing the technical and support staff of the Practices;
- developing, equipping and staffing laboratory facilities;
- establishing and maintaining courier services to transport specimens;
- negotiating and maintaining contracts with hospitals, national clinical laboratories and managed care organizations and other payors;
- 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;
- maintaining compliance with applicable laws, rules and regulations; and
- providing slide preparation and other technical services for the Practices.

During 2000, the Company acquired eight Practices, including Inform DX, in 14 states (adding a total of 128 pathologists): six of these were in states in which the Company previously operated (Pennsylvania, New York, Georgia, Florida, Mississippi and Texas) and eight were in additional states (Virginia, Oklahoma, Missouri, Tennessee, Massachusetts, California, Colorado and West Virginia).

Anatomic Pathology; Industry Overview

Pathologists are medical doctors who specialize in the science of pathology, the study of disease. Following college and medical school, pathologists typically spend five or more years to become eligible to sit for certification by the American Board of Pathology in anatomic and clinical pathology. Many pathologists spend additional years of training to receive certification in subspecialty areas of pathology such as dermatopathology (study of diseases of the skin), hematopathology (study of diseases of the blood and bone marrow), immunopathology (study of diseases of the immune system), and cytopathology (study of abnormalities of cells).

Anatomic pathology involves evaluating tissues (surgical pathology) and cells (cytopathology) through variable magnifications using a microscope. In surgical pathology, the goal of such microscopic evaluations is to make a definitive diagnosis of a patient's disease. Virtually all tissues removed from patients during surgery (hence the term "surgical" pathology) are examined under the microscope by pathologists in order to determine whether or not a disease is present; examples of surgical pathology specimens seen by pathologists include breasts, prostate, skin, and bone marrow biopsies. Thus, pathologists play an

indispensable role in determining whether a patient's illness is benign, inflammatory or cancerous. The surgical patient's subsequent treatment almost always depends on the diagnosis rendered by the surgical pathologist. For this reason, doctors often refer to pathologists as the "physician's physician" a compliment that acknowledges the fact that the pathologist's diagnosis represents a critical factor in determining a patient's future care.

Pathologists receive tissue samples from surgical procedures performed on both inpatients (patients seen in hospitals) and outpatients (patients seen in physician offices and in ambulatory surgery centers). Subspecialties within the area of surgical pathology include dermatopathology and hematopathology. The Company currently employs 419 pathologists who are board certified in anatomic pathology (6 are board eligible); over 190 of them have additional subspecialty board certification.

Cytopathology involves the evaluation of cells under the magnification of a microscope. Pathologists examine cells obtained from body fluids, from solid tissues aspirated through needles and from scrapings of body tissues. The most widely known cytopathologic examination is the "Pap" smear, developed by George Papanicolaou in 1940. A conventional "Pap" smear consists of a scraping of cells taken from the cervix, spread on a slide, stained with a dye to color the cells, and examined by a pathologist using a microscope. To help reduce the number of false negatives, another form of cell accumulation was developed. This mono-layer technology collects a sample from the cervix using a cyto-brush, which is then rinsed into a vial filled with preserved solution. The cell solution is processed at a laboratory by a technician. The device filters the blood and mucous and spreads cells in a thin layer, making the slide easier to read. Despite the higher cost of mono-layer methods, the technology is rapidly gaining acceptance in the medical community. "Pap" smears are considered screening tests, which provide another physician with information that suggests whether or not a potentially dangerous condition is present. If an abnormality is detected, the pathologist recommends what additional diagnostic procedures (such as biopsy of the affected tissue) may be necessary. Other cytopathology examinations may, in and of themselves, be diagnostic of a specific disease condition. As with surgical pathology specimens, cytopathology specimens may come from hospitalized patients, from patients in ambulatory surgery centers, from patients being seen in private physician offices, from clinics, or from pathologists taking aspiration biopsies directly from patients. Experts in this subspecialty of pathology are called cytopathologists. All of the Company's anatomic pathologists possess board certification that qualifies them to read cytology cases. Of these pathologists, 62 are also board certified cytopathologists.

Clinical pathology represents the second major category of pathology. Broadly defined, clinical pathology involves the study of diseases identified by analyzing blood or other body fluids such as urine or spinal fluid (the liquid that surrounds the brain and spinal cord). Frequently, high volume, high technology automated equipment performs these analyses.

Pathologists' responsibilities related to automated testing revolve around their roles as medical directors and clinical consultants. Pathologists are legally responsible for the validity and accuracy of clinical laboratory test results and for the function of the clinical laboratory under the federal Clinical Laboratory Improvement Act of 1988 ("CLIA"), for identifying additional diagnostic and/or therapeutic approaches suggested by the laboratory result; and for discussing the possible clinical significance of laboratory results with attending physicians in light of the patient's history and symptoms.

In other words, pathologists play a critical role in ensuring that

laboratory tests are performed accurately and in a timely fashion. Once again, the pathologist's role as a "physician's physician" makes a critical contribution to the proper diagnosis and efficient management of patients with virtually every disease.

Pathologists perform their duties in laboratories within hospitals, within free-standing local, regional, and national laboratories independent of hospitals, within ambulatory surgery centers, and within a variety of other settings. Because tissue and fluid samples are readily transportable, pathologists working within one of these settings may actually receive specimens for evaluation and diagnosis from multiple sources including physician offices, clinics, other laboratories, and even other hospitals. This ability to deliver work to sites having capacity to handle additional volume enhances the pathologists' productivity and allows a pathology practice to serve a larger geographic area. The Company uses this strategy to ensure the growth of "same practice net revenues," while making its pathologists more productive and efficient, and enabling the Company to better serve the customer by utilizing the specialized expertise available within the Company's pathologists.

The Company expects the market for anatomic pathology services to grow primarily due to the aging of the United States population, the increasing incidence of cancer, and accelerating medical advancements that allow for the earlier diagnosis and treatment of diseases. The American Cancer Society estimates that approximately 13 million Americans alive today have had, or still have, some form of cancer and in 2000, about 1.2 million new cancer cases are expected to be diagnosed, 47,700 of which will be new melanoma cases. Studies published by the American Cancer Society revealed that there were approximately 1.3 million new cases of non-melanoma cases (basal cell carcinoma and squamous cell carcinoma) diagnosed in 1999. According to the American Medical Association, there are approximately 14,000 practicing pathologists in the United States.

Current trends within healthcare may accelerate the demand for the Company's services. Healthcare cost containment pressures, the increasing influence of managed care, and medical and technological advancements drive hospitals to reduce the length of patient stays, decrease the number of procedures being performed as inpatients, and increase the number of procedures shifted to the outpatient setting. The Company expects to capitalize on this trend by working with hospitals to eliminate the redundancies within the typical anatomic pathology laboratories that exist within hospitals, thereby reducing hospitals' costs. By consolidating and centralizing these functions into more efficient and cost effective outpatient anatomic pathology laboratories, the Company will also be able to broaden the range of subspecialty services it offers and to develop new esoteric testing capabilities. Because the trend toward providing medical services in outpatient settings almost certainly will continue, the Company will be well positioned to capitalize on these opportunities.

Although the selection of a pathologist is primarily made by individual referring physicians, a trend is evolving toward decisions being made by managed care organizations and other third-party payors. While the majority of referrals by managed care organizations for outpatient anatomic pathology services are made directly to pathology practices on a local basis, in certain instances managed care organizations contract with national clinical laboratories. Generally, these national clinical laboratories subcontract anatomic pathology and cytology services to large practices that can provide a comprehensive range of anatomic pathology and cytology services. The Company believes that hospitals and national clinical laboratories will continue to outsource for the provision of anatomic pathology services.

Historically, the anatomic pathology industry has been highly fragmented, with the majority of the services being provided by relatively small practices.

The Company estimates that there are over 3,300 pathology practices operating in outpatient laboratories in the United States. There is an evolving trend among pathologists to form larger practices to provide a broader range of outpatient and inpatient services and enhance the utilization of the practice's pathologists. The Company believes this trend can be attributed to several factors, including cost containment pressures by government and other third-party payors, increased competition, managed care and the increased costs and complexities associated with operating a medical practice. Moreover, given the current trends of increasing outpatient services, outsourcing and the consolidation of hospitals, pathologists are seeking to align themselves with larger practices and physician practice management companies that can assist

providers in the evolving healthcare environment. Larger practices and corporate structures can offer physicians certain advantages, such as:

- obtaining and negotiating contracts with hospitals, managed care providers and national clinical laboratories;
- marketing and selling of professional services;
- providing continuing education and career advancement opportunities;
- making available a broad range of specialists with whom to consult;
- providing access to capital and business and management experience;
- establishing and implementing more efficient and cost effective billing and collection procedures; and
- expanding the practice's geographic coverage area.

Each of the foregoing factors support the pathologists in the efficient management of the complex and time-consuming non-medical aspects of their practice.

Business Strategy

The Company's objective is to enhance its position as the largest provider of anatomic pathology services through the following strategies:

Focus on Anatomic Pathology. The Company believes that its focus of providing management services to anatomic pathology practices provides it with a competitive advantage in the management of such practices. As a result of the Company's single focus, pathologists are able to form an internal network for consultations and to offer specialized services and testing to their clients. The Company also believes that its single specialty focus enhances its expertise in managing both inpatient and outpatient pathology practices.

In the fourth quarter of 1998, the Company began the operation of its Center for Advanced Diagnostics ("CAD") in Fort Myers, Florida. In the second quarter of 2000, this operation was moved to an expanded facility in Orlando, Florida. CAD focuses on the detection and diagnosis of cancers. CAD offers a full array of diagnostics for hematopoietic and solid tissue malignancies, including molecular genetics, cytogenetics, flow cytometry, specialized immunohistochemistry, and minimal residual disease detection. CAD's staff includes multiple doctoral scientists with extensive experience and reputations in molecular genetics, cytogenetics, flow cytometry, and pathology. Pathologists, board certified in anatomic and clinical pathology, with subspecialty expertise in hematopathology, cytopathology, and solid tumor diagnosis complete the medical and scientific staff. In addition to diagnostic testing for both AmeriPath and non-AmeriPath physicians, hospitals, and other healthcare providers, CAD will be able to perform developmental work for diagnostic manufacturers, clinical research organizations ("CROs"), and big pharmaceutical companies using AmeriPath's unparalleled access to normal, abnormal, and cancerous tissues.

During the second quarter of 1999, the Company entered into a services agreement with A. Bernard Ackerman, M.D., widely regarded as the preeminent dermatopathologist in the world. In order to maximize the effectiveness of Dr. Ackerman's affiliation with the Company, AmeriPath established the "Ackerman Academy of Dermatopathology" and a diagnostic facility in New York City. The Academy has an accredited dermatopathology fellowship training program with state-of-the-art instrumentation, including a 27-head microscope, and one of the most technologically advanced audiovisual systems available. The diagnostic facility, AmeriPath New York, operates as a licensed independent outpatient laboratory specializing in dermatopathology and offers adjunctive methods for diagnosis, including immunoperoxidase, marker studies, gene rearrangement, and immunofluorescence.

Acquire Leading Practices. The Company expects to increase its presence in existing markets and enter into new markets through acquisitions of, affiliations with and strategic minority investments in leading practices. The Company's acquisition criteria include market demographics, size, profitability, local prominence, payor relationships, synergy with other acquisitions in a given geographic region and opportunities for growth of the acquired practice. The Company intends to continue to source acquisitions and affiliations by capitalizing on the professional reputations of its acquired practices and its pathologists, and the Company's management experience and the benefits of being part of a public company, including increased resources and access to capital. In existing markets, the Company targets acquisitions and affiliations that can expand its presence, provide specialization, such as dermatopathology, and provide operational efficiencies for the practices in that market. In new markets, the Company seeks to acquire and affiliate with prominent practices to serve as a platform for building

upon their long-standing relationships and reputations. The Company is revisiting its acquisition strategy, particularly its pace of acquisitions, and will focus on fold-in acquisitions that will densify its operations in strategically targeted markets and larger pedestal acquisitions.

Diagnostic Healthcare Provider. 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. In addition to the Company's establishment of its Center for Advanced Diagnostics, the Company has taken the steps described in the paragraph above in connection with such transition. 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, all 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. However, 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.

Expand Sales and Marketing Efforts. The Company focuses on generating internal growth for the Practices by augmenting their existing physician and contractual relationships through a professional sales and marketing program. The Company's marketing program is designed to: increase relationships with physicians over a broader geographic region; expand contracts with national clinical laboratories that subcontract for anatomic pathology services; and capitalize on existing managed care relationships. Since specimens are readily transportable, the Company's sales and marketing efforts focus on expanding the geographic scope of the Practices. Ten Practices presently have contracts to provide outpatient anatomic and cytopathology pathology services with the two major national clinical laboratories. These contracts generally are exclusive to the individual Practice. The Company is seeking to extend its existing contracts with the national clinical laboratories to include multiple Practices that cover broader geographic regions. The Company believes that its regional business model offers national clinical laboratories and managed care organizations a convenient single source for anatomic pathology services.

Increase Contracts with Hospitals. The Company seeks to obtain additional exclusive hospital contracts for each Practice in a region through the acquisition of other anatomic pathology practices, as well as through the expansion of the Company's existing relationships with multi-hospital systems. The Company believes that multi-hospital systems can benefit from contracting with a single provider of pathology services in a geographic region through the consolidation of clinical laboratory, histology and other ancillary hospital support functions, thereby reducing costs, and simplifying and consolidating contractual relationships with managed care organizations and other third party payors. In addition, the Company believes that providing inpatient laboratory services to multiple hospitals within a geographic area facilitates the development and effectiveness of a successful outpatient services network by creating market presence and economies of scale offering a broader range of pathology expertise while maintaining the important physician relationships.

Achieve Operational Efficiencies. The Company believes that its Practices will benefit from the management and administrative support provided by the Company's corporate staff, which provides oversight and technical and administrative support services. The Company has centralized accounting and financial reporting, payroll, benefits administration, purchasing, managed care contracting, risk management and corporate compliance. Furthermore, the Company has achieved and continues to pursue certain cost and operational efficiencies, enhancing the Practices' profitability and efficiency by utilizing the Company's collective buying power to negotiate discounts on laboratory equipment and medical supplies and reductions in premiums for health, property, casualty and professional liability insurance. Also, prior to their acquisition, each of the Practices either managed their billing and collections in-house or outsourced these functions. The Company continues to evaluate the billing and collection systems of the Practices and centralizes such functions to the extent determined practicable and efficient.

Regional Business Model

The Company believes that its regional business model offers short and long-term benefits to the Company, its pathologists, referring physicians, third party payors and patients. The Company continues to integrate the Practices' administrative and technical support functions, including accounting, payroll, purchasing, risk management, billing and collections, and expects such

integration to result in enhanced operational efficiencies. The Company's courier system for transporting specimens enables the Practices to penetrate areas outside their current markets and enhance the utilization of their laboratory facilities. The Company also integrates and coordinates the sales and marketing personnel of the Practices to promote the Practices to physicians, hospitals, surgery centers, managed care organizations and national clinical laboratories. This marketing effort is based upon promoting the broad geographic coverage, professional pathologist expertise and the extensive professional services offered by the Company. The Company's strategy is to leverage its size to expand its contracts with national clinical laboratories to all of the areas covered by its Practices. The Company markets its services under the name "AmeriPath" in order to develop brand identification of products and services to payors and other clients. The Company plans to integrate the Practices' management information systems into a single system (or at a minimum consolidate the information resident on the various lab information systems) that will expand the financial and diagnostic reporting capabilities of each of the Practices and the Company. Based on the foregoing, the Company believes that implementation of this regional model increases the revenues and profitability of the Practices in the region, and the Company is applying this regional business model, in whole or in part, to other states in which it operates.

Through the implementation of its operating strategies, the Company continues to develop integrated networks of anatomic pathology practices on a regional basis. These networks consist of a number of practices that together: (i) have a substantial regional market presence; (ii) offer a broad range of services; (iii) have extensive physician contacts; and (iv) possess complementary strengths and opportunities for operational and production efficiencies. The Company has developed its regional business model in Florida and is replicating its model in Texas and the Midwest. The Company believes that Florida represents an attractive market due to its population, demographics, including the growth of the general population and a large elderly population, as well as the Company's familiarity and understanding of the anatomic pathology market in Florida. The Company currently owns, controls and manages anatomic pathology practices throughout Florida including Miami, Fort Lauderdale, Jacksonville, Orlando, Daytona, Fort Myers and Tampa. In addition, the Company contracts with Quest Diagnostics ("Quest"), a national clinical laboratory, to provide anatomic pathology services on an exclusive basis in most of Florida's counties.

The Florida regional model has been an effective tool in building the Company's business. Net revenues for the Florida region have increased 22.2% in the past two years while adding only one pathologist to the region. Operating margins as a percent of net revenue for the region have declined in the past two years, primarily due to an increase in laboratory staffing costs, including physicians, and a higher percentage of revenue from national clinical laboratory contracts which have lower revenue per unit. However, this lower net revenue per unit from national lab contracts has been offset in part by increased efficiencies attributable to the Florida regional business model. The Florida region's operating margin was 29.2% for the year ended December 31, 2000 compared to the Company's overall operating margin, excluding corporate expenses, of 26.9% for the same period.

The Company believes that its improving performance in Florida, as reflected in the following table, is due in part to the favorable results of its regional model in Florida:

	December 31,	
1998	1999	2000

Florida Statistics	(dollars in millions)		
Number of Practices	11	12	14
Pathologists	82	80	83
Hospital contracts	31	31	32
Net revenues	$85.1	$92.5	$104.0
Operating margin before amortization	$25.6	$27.7	$ 30.4
Operating margin as a percent of net revenues	30.1%	30.0%	29.2%

AmeriPath Corporate Structure

AmeriPath is a holding company that, through its subsidiaries, provides pathology services and management services to other pathology laboratories. The Company's revenues are primarily derived from two segments: its Owned Practices and its Managed Practices, as further described below. The Owned Practices consist of subsidiaries (the "Practice Subsidiaries") that directly employ physicians, and subsidiaries (the "Manager Subsidiaries") that enter into management services agreements with affiliated practices (each, a "PA Contractor") which, in turn, employ the physicians. The Manager Subsidiaries are typically utilized in states with laws that restrict the corporate practice of medicine. As a result of the corporate practice of medicine doctrine, the affiliated physicians in these states retain ownership of the PA Contractor, but the Manager Subsidiaries typically enter into contractual arrangements that generally (i) prohibit the affiliated physicians from transferring their ownership interests in the PA Contractor, except in very limited circumstances, and (ii) require the affiliated physicians to transfer their ownership in the PA Contractor to designees of AmeriPath upon the occurrence of specified events. The Managed Practices are affiliated practices that are not owned by the Company, but they contract with the Company to provide management services. The manner in which AmeriPath operates a particular Practice is determined primarily by whether it is an Owned or Managed Practice and the corporate practice of medicine restrictions of the state in which the Practice is located and other applicable regulations. The Company believes that it exercises care in its efforts to structure its practices and arrangements with hospitals and physicians and its subsidiaries so as to comply with relevant federal and state laws and believes that such current arrangements and practices comply with all applicable statutes and regulations. However, due to uncertainties in the law there can be no assurance that such arrangements or practices could be deemed to be in noncompliance in the future, or that such occurrence could not result in a material adverse effect on the Company.

Corporate practice of medicine restrictions, which are discussed in further detail under "Government Regulation" below, generally prohibit corporate entities from employing or otherwise exercising control over physicians. In states that do not prohibit a for-profit corporation from employing physicians such as Florida, Alabama, Mississippi and Kentucky, AmeriPath operates its Owned Practices through Practice Subsidiaries, which are subsidiary corporations of AmeriPath that directly employ the physicians. In states that prohibit a for-profit corporation from employing physicians, such as Texas, Indiana, Ohio, North Carolina, Michigan, Wisconsin, New York and Pennsylvania, AmeriPath operates each Owned Practice through a Manager Subsidiary, which is a subsidiary of AmeriPath that has a long-term management agreement with the applicable PA Contractor, which in turn employs the physicians (see "--Ownership and Management of the PA Contractor" for explanation of PA Contractor). In many cases, several Practices are included within or organized under a single Practice Subsidiary or PA Contractor, as the case may be.

Owned Practices. Owned practices are operated through Manager and Practice Subsidiaries. The Manager and Practice Subsidiaries are wholly-owned subsidiaries of AmeriPath and the officers and directors of such companies are generally members of AmeriPath's executive management team. The financial statements of the Manager and Practice Subsidiaries are included in the consolidated financial statements of AmeriPath.

Ownership and Management of the PA Contractors. The term PA Contractor, is used throughout this document to refer to an entity which has a contractual relationship with the Company but is not owned directly by AmeriPath. These entities can be a professional corporation or professional association, as permitted and defined in various state statutes. The PA Contractors operating in North Carolina, Wisconsin, New York, Michigan and Pennsylvania are owned by physicians affiliated with AmeriPath. To the extent permitted by law, the officers and directors of the PA Contractors are members of AmeriPath's executive management team. However, in states where law prohibits such non-licensed physician personnel from serving as an officer or director of a PA Contractor, eligible affiliated physicians serve in such positions. The affiliated physicians who own PA Contractors have entered into agreements with AmeriPath that generally (i) prohibit such affiliated physicians from transferring their ownership interests in the PA Contractor, except in very limited circumstances and (ii) require such affiliated physicians to transfer their ownership in the PA Contractor to designees of AmeriPath upon the occurrence of specified events.

The PA Contractors in Ohio and Indiana are owned by trusts. The beneficiary of such trusts is AmeriPath and the Trustees of such trusts are affiliated physicians. The PA Contractors operating in Texas are organized as not-for-profit 5.01(a) corporations, which are discussed in greater detail under the caption "Government Regulation" below. The sole member of the not-for-profit PA Contractors in Texas is AmeriPath.

Each PA Contractor is party to a long-term management agreement with one of the Company's Manager

Subsidiaries. Under the terms of these management agreements, AmeriPath generally provides all non-medical and administrative support services to the Practices including accounting and financial reporting, human resources, payroll, billing, and employee benefits administration. In addition, the management agreements give the Manager Subsidiaries certain rights with respect to the management of the non-medical operations of the PA Contractors. The management agreements require the PA Contractors to pay a management fee to the applicable Manager Subsidiaries. The fee structure is different for each Practice based upon various factors, including applicable law, and includes fees based on a percentage of earnings, performance-based fees, and flat fees that are adjusted from time to time.

In accordance with Emerging Issues Task Force 97-2:"Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Agreements" ("EITF 97-2"), the financial statements of the PA Contractors are included in the consolidated financial statements of AmeriPath since AmeriPath has a controlling interest in the PA Contractor.

Managed Practices. The term Managed Practices refers to AmeriPath's operation and management of pathology practices under long-term service agreements with affiliated physician groups. Generally, the Company acquires the practice's assets, and the physician groups maintain their separate corporate or partnership entities and enter into employment and noncompete

agreements with the practicing physicians. Costs of obtaining service agreements are amortized using the straight-line method over 25 years.

Service agreements represent the exclusive right to operate the Company's practices in affiliation with the related physician groups during the term of the agreements. Pursuant to the service agreements, the Company provides the physician groups with equipment, supplies, support personnel, and management and financial advisory services. Physician groups are responsible for the recruitment and hiring of physicians and all other personnel who provide pathological services, and for all issues related to the professional, clinical and ethical aspects of the practice. As part of the service agreements, physician groups are required to maintain medical malpractice insurance which names the Company as an additional insured. The Company is also required to maintain general liability insurance and name the physician groups as additional insureds. Upon termination of the service agreements, the respective physician groups are required to obtain continuing liability insurance coverage under either a "tail policy" or a "prior acts policy."

The management services fees charged under the service agreements are based on a predetermined percentage of net operating income of the Managed Practices. Management service revenue is recognized by the Company at the time physician service revenue is recorded by the physician group. The Company also participates to varying degrees in non-physician revenues generated from ancillary services offered through the laboratories. The Company charges a capital fee for the use of depreciable assets owned by the Company and recognizes revenue for all practice expenses that are paid on behalf of the practices. Practice expenses exclude the salaries and benefits of the physicians.

AmeriPath does not consolidate the financial statements of the Managed Practices because it does not have a controlling financial interest, as defined by EITF 97-2.

Operation of Practices Generally. AmeriPath manages and controls all of the non-medical functions of the Practices. AmeriPath is not licensed to practice medicine. The practice of medicine is conducted solely by the affiliated physicians.

In managing the Owned Practices, the Board of Directors and management of AmeriPath formulate strategies and policies which are implemented locally on a day-to-day basis by each Owned Practice, without regard to whether such practice is organized as a Manager or Practice Subsidiary or PA Contractor. Each Owned Practice has a pathologist Managing Director who is responsible for overseeing the day-to-day management of the Owned Practice, who reports to one of four Regional Managing Directors, three of whom are pathologists, who in turn report to executive officers of the Company. AmeriPath's Medical Director and Chief Operating Officer develop and review standards for the affiliated physicians and their medical practices and review quality and peer review matters with each Owned Practice's Medical Director (or a medical review committee). AmeriPath's Chief Operating Officer, a physician, oversees all employment matters with respect to affiliated physicians and staffing decisions at the Owned Practices.

The Managed Practices, pursuant to their service agreements, manage all aspects of the affiliated physician groups other than the provision of medical services, which is controlled solely by the physician groups. The affiliated physician

group's joint policy board, equally represented by physicians and employees of AmeriPath, focus on strategic and operational planning, marketing, managed care

arrangements and other major issues facing the group.

Hospital Contracts and Laboratories. The Practices typically contract with hospitals to exclusively provide pathology services. The Practices staff each hospital with at least one pathologist who generally serves as the Medical Director of the hospital laboratory and who facilitates the hospital's compliance with licensing requirements. The Practices are responsible for recruiting, staffing and scheduling the Practice's affiliated physicians in the local hospital's inpatient laboratories. The Medical Director of the laboratory is responsible for: (i) the overall management of the laboratory, including quality of care, professional discipline and utilization review; (ii) serving as a liaison to the hospital administrators and medical staff; and (iii) maintaining professional and public relations in the hospital and the community. Several Practices have both outpatient laboratories and hospital contracts, which allow outpatient specimens to be examined by the hospital pathologists, enhancing the utilization of pathologists in inpatient facilities. In the hospitals, technical personnel are typically employed by the hospital, rather than by the Practices. Upon initiation, the hospital contracts typically have terms of one to five years and contain conditional renewal provisions. Some of the contracts also contain clauses that allow for termination by either party with relatively short notice. As of December 31, 2000, the Practices had 224 hospital contracts, the terms of which vary, however, substantially all of these contracts will expire within the next three years, subject, in most cases, to automatic renewal unless either party notifies the other party of its election not to renew. Loss of any particular hospital contract would not only result in a loss of net revenue to the Company, but also a loss of outpatient net revenue that may be derived from the relationship with a 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.

In the past, the Company provided services at four hospitals and an ambulatory care facility owned by Primary Health Systems ("PHS"), a regional hospital network in Cleveland, Ohio. During the first quarter of 2000, PHS began implementing a plan of reorganization filed under Chapter 11 with the U.S. Bankruptcy Court for the District of Delaware, and closed one hospital. During the second quarter, the bankruptcy court approved the sale of two hospitals and the ambulatory care facility to local purchasers in the Cleveland area. The purchasers, who elected to employ their own pathologists, did not accept the Company's contracts with these two hospitals and the ambulatory care facility. One hospital has not been sold and continues to do business with the Company. This resulted in asset impairment and related charges of $5.2 million in 2000. In addition, during the fourth quarter of 2000, a hospital in South Florida where AmeriPath had the pathology contract, requested proposals for its pathology services, and AmeriPath was unsuccessful in retaining this contract. Based upon the remaining projected cash flow from this hospital network, the Company determined that the intangible assets were impaired and recorded a pre-tax non-cash charge of approximately $1.0 million.

As of December 31, 2000, the Practices had contracts with 27 hospitals that are owned by HCA - The Healthcare Company ("HCA"), the country's largest publicly owned hospital company formerly known as Columbia/HCA Healthcare Corporation. Net revenues generated from contracts with HCA hospitals were $32.0 million in 1998, $39.4 million in 1999 and $43.5 million in 2000.

All of AmeriPath's outpatient laboratories are licensed and certified under the guidelines established by CLIA and applicable state statutes and are managed by a Medical Director of the laboratory. AmeriPath's corporate compliance, quality assurance and quality improvement programs are designed to assure that all laboratories and other operations are in compliance with applicable laws, rules and regulations.

Information Technology

During 2000, the Company reorganized its Information Technology Group ("IT") to better serve the existing and planned model for the information needs of the Company. IT focused on three central issues: increasing reliability of our information systems, conversion to the new billing program, and beginning in the fourth quarter, a heightened effort of sales and marketing technology initiatives. During 2000, the IT staffing was increased, including the hiring of a Chief Information Officer, Director of IT Operations, Director of Software Development, and the establishment of a Project Management office. The new team established a "Best Practice" approach to managing services to the Company laboratories. These services have resulted in better performing information systems, increased focus on centralization of information, and a greater level of standardization across our businesses.

The Company recognized the opportunity in the market for enhanced reporting to our customers and has launched a technology initiative to produce reports that include organ maps, photomicrographs and patient education. Enhanced reports

in GI, Obstetrics and Gynecology, and Urology are available in most of our markets and the technology initiative is expected to be completed by the end of the second quarter of 2001. Our programs for acquiring the images and producing the reports are very efficient and additional programs will be implemented as customer sales increase.

Consolidation of data to our data warehouse continues and will be completed at the end of the first quarter of 2001. The Inform DX acquisition provided opportunities to reduce the effort and expense in completing this project because Inform DX had already made a significant amount of investment in program development and related technology. The information acquisition process and repository of our utilization data has been completed. The sales and marketing department will be the early adopters of the new program to manage and market our business.

The Company believes that its increasing integration and consolidation of its laboratory information, billing and collections and financial reporting systems enable it to monitor the operations of the Practices, enhance utilization of the pathologists, develop practice protocols and archives and provides the Company with a competitive advantage in negotiating national clinical laboratory and managed care contracts. Each of the Company's laboratories has a laboratory information system that enables laboratory personnel to track, process, report and archive patient diagnostic information.

The Company's systems include an outpatient billing software program at its Fort Lauderdale centralized billing operation, which is being utilized for the integration of outpatient billing. In its effort to further increase the capacity of its centralized billing operations, during 1999 the Company signed an agreement with a large healthcare software provider for a billing, accounts receivable and collections system. In addition to performing services for outpatient billing, hospital billing is being tested on the new billing system. Conversion from the current billing systems to the new billing system is anticipated to be completed by the end of 2002. The Company has installed a complete general ledger and financial reporting system to handle accounting for the Practices and to consolidate all accounting and financial information. As of March 2001, all of the Practices have been integrated onto one common accounting system.

The company is focused on being federal Health Insurance Portability and

Accountability Act of 1996 ("HIPAA") compliant and an audit will be conducted to assure compliance. We are currently in the planning stages of the audit and have interviewed outside services for engagement.

Sales and Marketing

Outpatient Market. The Company's marketing efforts are focused on physicians, hospital and outpatient surgery center administrators, national clinical laboratories and managed care organizations. Other than Inform DX, prior to being acquired by the Company, the Practices' marketing efforts were primarily based on the professional reputations and the individual efforts of pathologists. The Company believes that there is an opportunity to capitalize on these professional reputations by hiring experienced personnel and utilizing professional sales and marketing techniques. Historically, some of the outpatient practices marketed outpatient services primarily to dermatologists, over a broad geographic area including neighboring states. The Company continues to expand its sales force with additional sales personnel and management staff to accommodate new acquisitions as well as increase same store growth. These field representatives are supervised by regional sales managers who coordinate the implementation of regional contracting efforts, leverage operational capabilities, support national sales strategies and provide ongoing training and field sales support. The Regional Sales Managers report to the Vice President of Sales and Marketing to ensure the implementation of consistent and effective sales activities nationwide. The sales and marketing staff also includes Directors of Marketing and Managed Care. In 2000, the Company added one position to the marketing department, a manager of art and creative design, to coordinate support efforts for its product managers who report directly to the Director of Marketing. The Director of Managed Care directs regional managers of managed care in negotiating additional contracts. In 2000, the Company added one northeast regional manager to its Managed Care Department. The Director of Managed Care Sales supervises the department's efforts in securing national contracts, while the Manager of Contract Administration ensures adherence to contract terms and conditions.

National Clinical Laboratory Marketing. The national clinical laboratories contract with managed care organizations to provide clinical laboratory services, as well as anatomic pathology and cytology services. The clinical laboratory market is primarily dominated by two laboratories, Quest and Laboratory Corporation of America Holdings ("LabCorp"). Their contracts with managed care organizations are typically capitated. Ten Practices have subcontracts with these two large national clinical laboratories to provide anatomic pathology and cytology services. Under these contracts, which typically run from one to three years with automatic renewals unless terminated earlier, the Practices bill the national

clinical laboratories on a discounted fee-for-service basis. The reduced fee is offset by the national clinical laboratories provision of courier services, supplies, and reduced billing costs and lower bad debts, since the national clinical labs bear the capitation risk. The Company is directing its marketing efforts to national clinical laboratories to expand these contracts on a regional basis to additional Practices as well as to enter into new contracts. At the same time, the Company is seeking to secure new contracts and expand existing provider contracts with managed care organizations for the provision of anatomic pathology services directly to their members and is prepared to negotiate flexible arrangements with managed care organizations, including discounted fee-for-service or capitated contracts. There can be no assurance that the Company's effort to contract directly with managed care organizations will not adversely affect the Company's relationship with the national clinical laboratories.

Client and Payor Relationships

The Practices also provide services to a wide variety of other healthcare providers and payors including physicians, government programs, indemnity insurance companies, managed care organizations and national clinical laboratories. Fees for anatomic pathology services rendered to physicians are billed either to the physicians, to the patient or to the patient's third party payor.

Contracts and Relationships with Owned Practice Physicians

For the Owned Practices, the Company employs pathologists, or manages the PA Contractors who employ pathologists, to provide medical services in hospitals or in other inpatient and outpatient laboratories. Pathologist employment agreements typically have terms of three to five years and generally can be terminated at any time upon 60 to 180 days notice. The pathologists generally receive a base salary, fringe benefits, and may be eligible for an incentive performance bonus. In addition to compensation, the Company provides its pathologists with uniform benefit plans, such as disability, supplemental retirement, life and group health insurance and medical malpractice insurance. The pathologists are required to hold a valid license to practice medicine in the jurisdiction in which they practice and, with respect to inpatient or hospital services, to become a member of the medical staff at the contracting hospital with privileges in pathology. The Company is responsible for billing patients, physicians and third party payors for services rendered by the pathologists. Most of the employment agreements prohibit the physician from competing with the Company within a defined geographic area and prohibit solicitation of pathologists, other employees or clients of the Company for a period of one to two years after termination of employment.

The Company's business is dependent upon the recruitment and retention of pathologists, particularly those with subspecialties, such as dermatopathology. While the Company has been able to recruit (principally through practice acquisitions) and retain pathologists, no assurance can be given that the Company will be able to continue to do so successfully or on terms similar to its current arrangements. The relationship between the Company's pathologists and their respective local medical communities is important to the operation and continued profitability of the Practices. In the event that a significant number of pathologists terminate their relationships with the Company or become unable or unwilling to continue their employment, the Company's business could be materially and adversely affected.

The experience and specialized certifications of the Company's affiliated physicians provide opportunities for immediate consultation in complex cases among the internal network of affiliated physicians. Pathology is a specialized field of medicine and is a core requirement in a dermatologist's training. Through teaching at medical institutions, the Company's affiliated physicians have an opportunity to develop a reputation and following among residents and practicing physicians. Several affiliated physicians have teaching positions with universities or affiliations with other educational institutions for the training and continuing medical education of physicians, particularly dermatologists.

Government Regulations

The Company's business is subject to many of governmental and regulatory requirements relating to healthcare matters as well as laws and regulations that relate to business corporations. The Company believes that it exercises care to structure its practices and arrangements with hospitals and physicians to comply with relevant federal and state law. It also believes such current arrangements and practices do comply with applicable statutes and regulations. However,

there can be no assurance that the Company's current or prior practices or arrangements will not be found to be in noncompliance with law, or that such occurrence will not result in a material adverse effect to the Company.

The Company derived approximately 20% and 19% of its Owned Practices' collections for the years ended December 31, 1999 and 2000, respectively, from payments made by government sponsored healthcare programs (principally Medicare and Medicaid). The decrease in the percentage of collections attributable to government sponsored healthcare programs resulted primarily from the acquisition of practices outside Florida, with smaller Medicare populations. These programs are subject to substantial regulation by the federal and state governments. Any change in payment regulations, policies, practices, interpretations or statutes that places limitations on reimbursement amounts, or changes in reimbursement coding, or practices could materially and adversely affect the Company's financial condition and results of operations. Increasing budgetary pressures at both the federal and state level and concerns over the continued increase of the costs of healthcare have led, and may continue to lead, to significant reductions in health care payments. State concerns over the growth in Medicaid also could result in payment reductions. Although governmental payment reductions have not materially affected the Company in the past, it is possible that such changes in the future could have a material adverse effect on the Company's financial condition and results of operations. In addition, Medicare, Medicaid and other government sponsored healthcare 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 the Company 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 the Company in that state if the Company 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. Retroactive adjustments of revenue from these programs could occur. The Company expects that there will continue to be proposals to reduce or limit Medicare and Medicaid payment for services.

In connection with practice acquisitions, the Company performs certain due diligence investigations with respect to the potential liabilities of acquired practices and obtains indemnification with respect to certain liabilities from the sellers of such practices. Nevertheless, there can be undiscovered claims that subsequently arise. There can be no assurance that any liabilities for which the Company becomes responsible (despite such indemnification) will not be material or will not exceed either the limitations of any applicable indemnification provisions or the financial resources of the indemnifying parties. Furthermore, the Company, through its Corporate Compliance Program, regularly reviews the Practices' compliance with federal and state health care laws and regulations and revises as appropriate the operations, policies and procedures of its Practices to conform with the Company's policies and procedures and applicable law. While the Company believes that the operations of the Practices prior to their acquisition were generally in compliance with such laws and regulations, there can be no assurance that the prior operations of the Practices were in full compliance with such laws, as such laws may ultimately be interpreted. Moreover, although the Company maintains an active compliance program, it is possible that the government might challenge some of the current practices of the Company as not being in full compliance with such laws. A violation of such laws by a practice or the Company could result in civil and criminal penalties, exclusion of the physician, the practice or the Company from participation in Medicare and Medicaid programs and/or loss of a physician's license to practice medicine.

Fraud and Abuse. Federal anti-kickback law and regulations prohibit any knowing and willful offer, payment, solicitation or receipt of any form of remuneration, either directly or indirectly, in return for, or to induce: (i) 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 (ii) 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 healthcare programs. Violations of federal anti-kickback rules 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 laws that are similar.

Safe Harbors. The federal government has published regulations that provide "safe-harbors" that protect from prosecution under federal anti-kickback laws business transactions that meet certain requirements. Failure to meet the requirements of a safe harbor, however, does not necessarily mean a transaction violates the anti-kickback law. The Company believes its operations are in material compliance with applicable Medicare and fraud and abuse laws and seeks to structure arrangements to comply with applicable safe harbors where reasonably possible. There is a risk however, that the federal government might investigate such arrangements and conclude they violate the anti-kickback statute. If the Company's arrangements were found to be illegal, the Company, the physician groups and/or the individual physicians would be subject to civil and criminal penalties, including exclusion from the participation in government reimbursement programs, which could materially adversely affect the Company.

Advisory Opinions. The Department of Health and Human Services Office of Inspector General ("OIG") issues advisory opinions that provide advice on whether proposed business arrangements violate the anti-kickback law. In Advisory Opinion 99-13, the OIG opined when prices for laboratory services for non-governmental patients are discounted below

Medicare reimbursable rate, the anti-kickback law may be implicated. The OIG found prices discounted below the laboratory supplier's costs to be particularly problematic. In the same opinion, OIG suggested 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. These Advisory Opinions suggest that OIG might challenge certain prices below Medicare reimbursement rates or arrangements based on a percentage of revenues. While the Company believes its arrangements comply with applicable law, OIG's advisory opinions suggest there is a risk of an adverse OIG finding relating to practices reviewed in the advisory opinions. Any such finding could have a material adverse impact on the Company.

Self-Referral and Financial Inducement Laws. The Company is 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 the physician has a financial relationship. Financial relationships include 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 a 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 simple 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 the operating results and financial condition of the Company. In addition, expansion of the Company's operations to new jurisdictions, or new interpretations of laws in existing jurisdictions, could require structural and organizational modifications of the Company's relationships with physicians to comply with that jurisdiction's laws. Such structural and organizational modifications could have a material adverse effect on the operating results and financial condition of the Company.

Physicians affiliated with the Company may have financial relationships with the Company, as defined by the federal Stark Law, in the form of compensation arrangements, ownership of Company shares, contingent promissory notes with the Company, or a combination of the above. With respect to compensation arrangements, the Company believes that existing arrangements are structured to comply with an applicable Stark Law exception. With respect to the ownership of shares, the Company believes that the ownership of Company 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 a transfer restriction 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, the Company believes that its current operations comply with the Stark Law. Pathologists are exempted from the Stark regulations for work that they order themselves and perform themselves or in their associated laboratory. However, physicians affiliated with the Company do make referrals that could be considered covered under the Stark law. We believe however, that the Company does meet, at a minimum, one of the applicable exceptions stated in the Stark Law and regulations, in the event that the government considers these transactions to covered by the Stark Law. All physicians affiliated with the Company have been instructed on the Stark Law and regulations and are believed to be following such instructions. To the extent physicians affiliated with the Company may make a referral to the Company and a financial relationship exists between the Company and the referring physician through either the ownership of Company shares or contingent notes, the government might take the position that the arrangement does not comply with the Stark Law. Any such finding could have a material adverse impact on the Company.

Government Investigations of Hospitals and Hospital Laboratories. 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. The Company operates laboratories on behalf of and has

numerous contractual agreements with hospitals, including 27 pathology service contracts with HCA hospitals as of December 31, 2000. The government's ongoing investigation of HCA could result in a governmental investigation of one or more of the Company's 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 the Company operates hospital laboratories. These projects increase the likelihood of governmental investigations of laboratories owned and operated by the Company. Although the Company monitors its billing practices and hospital arrangements for compliance with prevailing industry practices under applicable laws, such laws are complex and constantly evolving and there can be no assurance that the governmental investigators will not challenge the Company's or industry practices. The government's investigations of entities with which the Company contracts may have other effects which could materially and adversely affect the Company, including termination or amendment of one or more of the Company's contracts or the sale of hospitals potentially disrupting the performance of services under such contracts.

Corporate Practice of Medicine. The Company is not licensed to practice medicine. The practice of medicine is conducted solely by its licensed pathologists. The manner in which licensed physicians can be organized to perform and bill for medical services is governed by the laws of the state in which medical services are provided and by the medical boards or other entities authorized by such states to oversee the practice of medicine. Business corporations are generally not permitted under certain state laws to exercise control over the medical judgments or decisions of physicians, or engage in certain practices such as fee-splitting with physicians. In states where the Company is not permitted to directly own a medical practice, the Company performs only non-medical and administrative and support services, does not represent to the public or its clients that it offers medical services and does not exercise influence or control over the practice of medicine. See discussion "AmeriPath Corporate Structure", above.

The Company believes that it currently is in material compliance with the corporate practice laws in the states in which it operates. Nevertheless, there can be no assurance that regulatory authorities or other parties will not assert that the Company is engaged in the corporate practice of medicine. If such a claim were successfully asserted in any jurisdiction, the Company, and its pathologists could be subject to civil and criminal penalties under such jurisdiction's laws and could be required to restructure their contractual and other arrangements. Alternatively, some of the Company's existing contracts could be found to be illegal and unenforceable. In addition, expansion of the operations of the Company to other "corporate practice" states may require structural and organizational modification of the Company's form of relationship with physicians, PA Contractors or hospitals. Such results or the inability to successfully restructure contractual arrangements could have a material adverse effect on the Company's financial condition and results of operations.

Medicare Fee Schedule Payment for Clinical Diagnostic Laboratory Testing. Medicare reimburses hospitals based on locality-specific fee schedules on the basis of a reimbursement methodology with Consumer Price Index ("CPI") related adjustments. Medicare includes payment for services performed for clinical diagnostic laboratory inpatients within the prospectively determined Diagnosis Related Group rate paid to the hospital. Additionally, state Medicaid programs may pay no more than the Medicare fee schedule amount. Congress also has implemented a national cap on Medicare clinical diagnostic laboratory fee schedules. This national cap has been lowered several times and is now at approximately 74% of the national median. In addition, Congress frequently has either limited or eliminated the annual CPI adjustments of the Medicare clinical

diagnostic laboratory fee schedules. The Omnibus Budget Reconciliation Act of 1993 eliminated the adjustment for the years 1994 and 1995. In 1996 and 1997, however, the fee schedule adjustments were 3.2% and 2.7%, respectively. Even these modest increases were reduced in some areas due to a recalculation of national medians and by conversion in some carrier areas to a single statewide fee schedule. In the Balanced Budget Act of 1997 ("BBA"), Congress again eliminated the annual adjustments, this time for the years 1998 through 2002. The adjustment limitations and changes in the national cap made to date have not had, and are not expected by the Company to have, a material adverse effect on the Company's results of operations. Any further significant decrease in such fee schedules could have a material adverse effect on the Company.

Due to uncertainty regarding the implementation of the above-described Medicare developments, the Company currently is unable to predict their ultimate impact on the laboratory industry generally or on the Company in particular. Reforms may also occur at the state level (and other reforms may occur at the federal level) and, as a result of market pressures, changes are occurring in the marketplace as the number of patients covered by some form of managed care continues to increase. In the past, the Company has offset a substantial portion of the impact of price decreases and coverage changes through the achievement of economies of scale, more favorable purchase contracts and greater operational efficiencies. However, if further substantial price decreases or coverage changes were to occur, or if the government were to seek any substantial repayments or penalties from the Company, such developments would likely have an adverse impact on gross profits from the Company's testing services unless management had an opportunity to mitigate such impact.

Reevaluations and Examination of Billing. Payors periodically reevaluate the services they cover. In some cases, government payors such as Medicare also may seek to recoup payments previously made for services determined not to be covered. Any such action by payors would have an adverse affect on the Company's revenues and earnings.

Moreover, in recent months 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 small part of the Company's revenues. Although the scope of this initiative could expand, it is not possible to predict whether or in what direction the expansion might occur. The Company believes its practices are proper and do not include any allegedly improper practices now being examined. However, no assurance can be given that the government will not broaden its initiative to focus on the type of services furnished by the Company or, if this were to happen, on how much money, if any, the Company might be required to repay.

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 has expanded and continues to expand the scope of its health care audits and investigations. State enforcement actions are similarly expanding. Federal and state audits and inspections, whether on a scheduled or unannounced basis, are conducted from time to time at the Company's facilities.

Due to the uncertain nature of coding for pathology services, the Company cannot assure that issues such as those addressed in the 1997 Operation Restore Trust investigation will not arise again. If a negative finding is made as a result of such an investigation, the Company could be required to change coding

practices or repay amounts paid for incorrect practices either of which could have a materially adverse effect on the operating results and financial condition of the Company.

BBA Additions to Coverage. The 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 for 2000 of $36.61. The physician fee schedule conversion factor has increased from $36.61 to $38.26 in 2001.

Laboratory Compliance Plan. In February 1997, OIG released a model compliance plan for laboratories that is based largely on the corporate integrity agreements negotiated with the laboratories which settled a number of government enforcement actions against laboratories under Operation Restore Trust, initiated in 1995. The Company adopted and maintains a compliance plan, which includes components of OIG's model compliance plan, as the Company deemed appropriate to the conduct of its business. The Company's Senior Vice President of Operations serves as the Company's Compliance Officer and reports directly to the Chief Executive Officer and the Board of Directors. One key aspect of the corporate integrity agreements and the model compliance plan is an emphasis on the responsibilities of laboratories to notify physicians that Medicare covers only medically necessary services. Although these requirements focus on chemistry tests, especially routine tests, rather than on anatomic pathology services or the non-automated tests which make up the majority of the Company's business, they could affect physician test ordering habits more broadly. The Company is unable to predict whether or to what extent these developments may have an impact on the utilization of the Company's services.

Antitrust Laws. In connection with state corporate practice of medicine laws discussed above, the physician practices with which the Company is 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 the Company and from each other under the antitrust laws and, accordingly, subject to a wide range of federal and state laws that prohibit anti-competitive conduct among separate legal entities. In addition, the Company also is seeking to acquire or affiliate with established and reputable practices in its target geographic markets. The Company believes it is in compliance with federal and state antitrust laws and intends to comply with any state and federal laws that may affect its development of integrated health care delivery networks. There can be no assurance, however, that a review of the Company's business by courts or regulatory authorities would not adversely affect the operations of the Company and it's affiliated physician groups.

HIPAA Criminal Penalties. 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, the Company currently is unable to predict their ultimate impact on the Company. If the government were to seek any substantial penalties against the Company, this could have a material adverse effect on the Company.

Licensing. CLIA extends federal oversight to virtually all clinical laboratories by requiring that laboratories be certified by the government. Many laboratories must also meet governmental quality and personnel standards, undergo proficiency testing and be subject to biennial inspection. Rather than focusing on location, size or type of laboratory, this extended oversight is based on the complexity of the test performed by the laboratory. The CLIA quality standards regulations divide all tests into three categories (waived, moderate complexity and high complexity) and establish varying requirements depending upon the complexity of the test performed. The Company's outpatient laboratories are licensed by Health and Human Services ("HHS") under CLIA to perform high complexity testing. Generally, the HHS regulations require laboratories that perform high complexity or moderate complexity tests to implement systems that ensure the accurate performance and reporting of tests results, establish quality control systems, have proficiency testing conducted by approved agencies and have biennial inspections. The Company is also subject to state regulation. CLIA provides that a state may adopt more stringent regulations than federal law. For example, some state laws require that laboratory personnel meet certain qualifications, specify certain quality controls, maintain certain records and undergo proficiency testing.

Other Regulations. In addition, the Company is subject to licensing and regulation under federal, state and local laws relating to the collecting, storing, handling and disposal of medical specimens, infectious and hazardous waste and radioactive materials as well as the safety and health of laboratory employees. All Company laboratories are operated in a manner designed to comply with applicable federal and state laws and regulations relating to the generation, storage, treatment and disposal of all laboratory specimens and other biohazardous waste. The Company utilizes licensed vendors for the disposal of such specimen and waste.

In addition to its comprehensive regulation of safety in the workplace, the federal Occupational Safety and Health Administration ("OSHA") has established extensive requirements relating to workplace safety for healthcare employees, including clinical laboratories, whose workers may be exposed to blood-borne pathogens, such as HIV and the hepatitis B virus. These regulations require work practice controls, protective clothing and equipment, training, medical follow-up, vaccinations and other measures designed to minimize exposure to, and transmission of, blood-borne pathogens. Regulations of the Department of Transportation, the Public Health Services and the U.S. Postal Service also apply to the transportation of laboratory specimens.

HIPAA Medical Information Confidentiality, Security and Financial Transaction Requirements. Among other things, HIPAA established several requirements regarding the confidentiality, security and transmission of medical information. HCFA has published proposed and final regulations that explain the application of such requirements. The final confidentiality regulations have been reopened for comment by the Bush Administration. The security regulations are proposed and the transaction standards are final. It is unclear whether these requirements will result in additional financial obligations for the Company or pose increased regulatory risk.

Insurance

The Company's business entails an inherent risk of claims of physician professional liability for acts or omissions of its physicians and laboratory personnel. The Company and its 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. The Company has consolidated its 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 the Company in surplus coverage of up to $20.0 million in the aggregate. The Company's coverage until July 1999 was with Steadfast Insurance Company (Zurich-American). The policy also provides "prior acts" coverage for each of the physicians with respect to the practices prior to their acquisition by the Company. Further, the Company has provided reserves for incurred but not reported claims in connection with its 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. The Company also maintains property and umbrella liability insurance policies. While the Company believes it has adequate professional liability insurance coverage for itself, and physicians, there can be no assurance 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, the Company's 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 the Company, an Owned or Managed 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 the Company's financial condition and results of operations.

Competition

The markets for the services provided by the Company, its Practices and pathologists are in 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 healthcare industry segments, such as other hospital-based specialties, national clinical laboratories, large physician group practices or pathology physician practice management companies that may enter the Company's markets, some of which may have greater financial and other resources than the Company.

With respect to physician practice management services, the Company believes that the principal competitive factors are the Company's pathologist leadership, and single specialty focus, sales and marketing expertise, its administrative support capabilities (billing, collections, accounting and financial reporting, information systems, and human resources). The Company believes that the infrastructure it is building provides a competitive advantage in such markets. To date, the Company has not experienced significant competition in its primary market areas. However, it does compete with several other companies, and such competition can reasonably be expected to increase. In addition, companies in other healthcare segments, such as hospitals, national clinical laboratories, third party payors, and HMO's, many of which have greater financial resources may become competition in the employment and managers of pathology practices. The Company competes for acquisitions and affiliations on the basis of its reputation, management experience, status and resources as a public company and its single focus on anatomic pathology. There can be no assurance that the Company will be able to compete effectively or that additional competitors will not enter the Company's markets or make it more difficult for the Company to acquire or affiliate with practices on favorable terms.

Service Marks

The Company has registered the service marks "AmeriPath", "CAD - The Center for Advanced Diagnostics" and the AmeriPath logo with the United States Patent and Trademark Office.

Employees

At December 31, 2000, the Company's Owned and Managed Practices employ 2,325 people, including 425 physicians. In addition to physicians, the employees of the Company and the Managed Practices include 676 laboratory technicians, 151 couriers and 1,073 billing, marketing, transcription and administrative staff, of which 98 personnel are located at the Company's executive offices. None of the Company's employees or prospective employees is subject to collective bargaining agreements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA; INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's consolidated financial statements and financial statement schedule and independent auditors' report thereon appear beginning on page F-2. See index to such consolidated financial statements and schedules and reports on page F-1.

PART IV

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

(a) 1. Financial Statements:

Reference is made to the index set forth on page F-1 of this Annual Report on Form 10-K.

2. Financial Statement Schedules:

Reference is made to the index set forth on page F-1 of this Annual Report on Form 10-K.

3. Exhibits:

Exhibit No.	Description
2.1	Asset Purchase Agreement, dated February 13, 1998, by and among AmeriPath, Inc., Anatomic Pathology Associates, LLP, Robert P. Hooker, M.D., Ralph F. Winkler, M.D., Steven A. Clark, M.D., Edward R. Wills, M.D. Robin A. Helmuth, M.D., Garry A. Bolinger, M.D., T. Max Warner II, M.D., F. Donald McGovern Jr., M.D., Richard O. McClure, M.D., Ann Moriarty, M.D., Janis K. Fitzharris, M.D., Ph. D., James E. McDermott III, M.D., Robert A. Quirey, M.D., Isabelle A. Buehl, M.D.(1)
2.2	Agreement and Plan of Merger by and among Ameripath, Inc. AMP Merger Corp., and Pathology Consultants of America, Inc. (D/B/A Inform DX), dated as of November 7, 2000 (11)
3.1	AmeriPath's Amended and Restated Bylaws (2)

3.2	Certificate of Designations of Series A Junior Participating Preferred Stock (8)
3.3	AmeriPath's Certificate of Amendment to the Amended and Restated Certificate of Incorporation (2)
4.1	Rights Agreement, dated as of April 8, 1999, between the Registrant and American Stock Transfer & Trust Company, as Rights Agent including the form of Certificate of Designations of Series A Junior Participating Preferred Stock, the form of Rights Certificate, and the form of Summary of Rights (8)
10.1	Amended and Restated 1996 Stock Option Plan (5)
10.2	Employment Agreement, dated as of October 24, 1995, between AmeriPath and James C. New (2)
10.5	Employment Agreement, dated June 30, 1996, between AmeriPath and Alan Levin, M.D. (2)
10.6	Employment Agreement, dated as of September 30, 1996, between AmeriPath Florida and Alan Levin, M.D., as amended (2)
10.7	Employment Agreement, dated as of June 30, 1996, between AmeriPath Florida and Timothy Kilpatrick, M.D. (2)
10.8	Employment Agreement, dated as of June 30, 1996, between AmeriPath Florida and Les Rosen, M.D. (2)

10.9	Credit Agreement originally dated as of May 29, 1996 and amended and restated as of June 27, 1997, among AmeriPath, Inc., the subsidiaries of AmeriPath, Inc. from time to time party thereto, the lenders from time to time party thereto and Bank of Boston, N.A. (2)
10.11	Management Agreement by and between AmeriPath APA, L.L.C. and AmeriPath Indiana, Inc., dated February 1, 1998 (1)
10.12	Stock Purchase Agreement, dated as of May 23, 1996, among AmeriPath, Inc., Derrick & Associates and the shareholders of Derrick & Associates (2)
10.13	Stock Purchase Agreement, dated as of September 30, 1996, by and among AmeriPath, Inc., David R. Barron, M.D., Inc., Ruth S. Kleier, M.D. and David R. Barron, M.D. (2)
10.14	Stock Purchase Agreement, dated as of October 31, 1996 among AmeriPath, Inc., Gulf Coast Pathology Associates, Inc., Richard Fernandez, M.D., and George Kalemeris, M.D. (2)
10.15	Form of Stock Rights Surrender & Restricted Stock Grant Agreement. (2)
10.16	1996 Director Stock Option Plan (2)
10.17	American Laboratory Associates, Inc. Series A Preferred Stock, Common Stock and Junior Subordinated Note Purchase Agreement, dated as of January 1, 1994 (2)
10.18	Letter Agreement, dated September 18, 1996, between Acquisition

Management Services, Inc. and AmeriPath, Inc. (2)

10.19 AmeriPath Management Agreement by and between AmeriPath Cincinnati, Inc. and AmeriPath Ohio, Inc., dated September 30, 1996 (2)

10.20 Management Agreement by and between Beno Michel, M.D., Inc. and AmeriPath, Inc., dated October 15, 1996 (2)

10.21 Management Agreement by and between Clay J. Cockerell, M.D., P.A. and AmeriPath Texas, Inc., dated September 30, 1996, as amended January 16, 1997 (2)

10.22 Agreement for Professional Pathology Services between SmithKline Beecham Clinical Laboratories, Inc. and Derrick and Associates Pathology, P.A., dated April 1, 1992 (2)

10.23 Agreement for Medical Directorship between SmithKline Beecham Clinical Laboratories, Inc. and Derrick and Associates Pathology, P.A., dated April 1, 1992 (2)

10.24 Agreement for Professional Pathology Services between SmithKline Beecham Clinical Laboratories, Inc. and AmeriPath Florida, Inc., dated November 1, 1996 (2)

10.25 Share Exchange Agreement, dated as of February 15, 1996, by and among American Laboratory Associates, Inc., AmeriPath, Inc. and the holders of common and convertible preferred stock of American Laboratory Associates, Inc. (2)

10.26 Trust Agreement, dated as of October 15, 1996, between AmeriPath, Inc. and Beno Michel, as trustee (2)

10.27 Trust Agreement, dated as of September 30, 1996, between AmeriPath, Inc. and David R. Barron, M.D. as trustee (2)

10.28 Form of Nonqualified Stock Option Agreement (2)

10.29 Stock Purchase Agreement, dated as of October 15, 1996, by and among AmeriPath, Inc., Beno Michel, M.D., Inc. and Beno Michel, M.D. (2)

10.30 Stock Purchase Agreement, dated as of October 10, 1996, by and among AmeriPath, Inc., Drs. Seidenstein, Levine and Associates, Inc., Seidenstein, Levine Real Estate Partnership, Lawrence Seidenstein, M.D., Steven E. Levine, M.D. and David M. Reardon, M.D. (2)

10.31 Stock Issuance Agreement, dated as of June 26, 1996, among AmeriPath, Inc., The First National Bank of Boston, FSC Corp., NationsBank, N.A. (South) and Atlantic Equity Corporation (2)

10.32 Stock Issuance Agreement, dated as of August 29, 1996, among AmeriPath, Inc., The First National Bank of Boston, FSC Corp., NationsBank, N.A. (South) and Atlantic Equity Corporation (2)

10.33 Stock Issuance Agreement, dated as of November 4, 1996, among AmeriPath, Inc., The First National Bank of Boston and FSC Corp. (2)

10.34 Stock Purchase Agreement, dated August 21, 1997, by and among AmeriPath, Inc., J. Sloan Leonard, M.D., Joseph A. Sonnier, M.D., Van Q. Telford, M.D., William C. Burton, M.D., James Scot Milvenan, M.D.,

Leslie L. Walters, M.D., Thomas M. James, M.D., Stephen W. Aldred, M.D., John E. McDonald, M.D. and Barbara A. Shinn, M.D. (2)

10.35 Stock Purchase Agreement, dated August 15, 1997, by and among AmeriPath, Inc., Colab Incorporated Professional Corporation, Anatomical Pathology Services, P.C., Microdiagnostics, P.C. and the sellers set forth therein (2)

10.36 Lease effective June 1, 1995 by and between Dallas Pathology Leasing and Unipath, Ltd. (2)

10.37 Trust Agreement, dated August 29, 1997, between AmeriPath, Inc. and Jeffery A. Mossler, M.D. (2)

10.38 Management Agreement, by and between Colab, Inc. and AmeriPath Indianapolis, L.L.C., effective September 1, 1997 (2)

10.39 Management Agreement by and between AmeriPath Texas, Inc. and DFW 5.01, effective September 1, 1997 (2)

10.40 Form of Executive Retention Agreement dated August 12, 1999, between AmeriPath and each of James C. New, Alan Levin, M.D. and Robert P. Wynn. (6)

10.41 Letter Agreement dated November 1, 1999 between AmeriPath, Inc. and James C. New. (7)

10.42 Consulting and Non-competition Agreement dated November 1, 1999 between AmeriPath, Inc. and James C. New. (7)

10.43 Amended and Restated Credit Agreement dated as of December 16,1999, among AmeriPath, Inc., certain of its subsidiaries, BankBoston N.A. and certain other lenders (9)

10.44 Amendment No. 1, dated July 21, 2000, 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 (10)

10.45 Amendment No. 2, dated November 29, 2000, 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 (11)

10.46 Registration Rights Agreement, dated November 30, 2000, among the Company and PCA's Shareholders and Warrant Holders (11)

21.1 Subsidiaries of AmeriPath (11)

23.1 Independent Auditors' Consent of Deloitte & Touche LLP (3)

23.2 Independent Auditors' Consent of Ernst & Young LLP (3)

---

(1) Incorporated by reference and filed with the AmeriPath Form 8-K, dated February 13, 1998.

(2) Incorporated by reference to the exhibit referenced and filed with the AmeriPath Form S-1 (File No. 333-34265), effective October 21, 1997, and the AmeriPath Form 8-A (File No. 000-22313), filed September 8, 1997.

(3) Filed herewith.

(4) Incorporated by reference to the exhibit referenced and filed with AmeriPath Form 10-Q for the quarter ended June 30, 1998 dated August 14, 1998.

(5) Incorporated by reference to the Company's Proxy Statement for its 1999 Annual Meeting of Shareholders.

(6) Incorporated by reference to the exhibit referenced and filed with AmeriPath Form 10-Q for the quarter ended June 30, 1999 dated August 16, 1999.

(7) Incorporated by reference to the exhibit referenced and filed with AmeriPath Form 10-Q for the quarter ended September 30, 1999 dated November 15, 1999.

(8) Incorporated by reference to the exhibit referenced and filed with AmeriPath Form 8-K, dated April 8, 1999.

(9) Incorporated by reference to the exhibit referenced and filed with AmeriPath Annual Report on Form 10-K for the year ended December 31, 1999, dated March 27, 2000.

(10) Incorporated by reference to the exhibit referenced and filed with AmeriPath Form 8-K, dated July 21, 2000, filed on August 2, 2000.

(11) Previously filed.

(b) Reports on Form 8-K

A Current Report on Form 8-K, dated November 30, 2000, was filed by the Company with the Securities and Exchange Commission on December 8, 2000, reporting that on November 30, 2000, the Company completed and consummated the previously announced acquisition of 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 option plans. This transaction will be accounted for as a pooling of interests.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this amended Report to be signed on its behalf by the undersigned, thereunto duly authorized, in Riviera Beach, Florida, on August 8, 2001.

AMERIPATH, INC.

/s/ Gregory A. Marsh

Gregory A. Marsh,
VICE PRESIDENT, CHIEF FINANCIAL OFFICER AND SECRETARY

AMERIPATH, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE

	Page
Independent Auditors' Reports	F-2 to F-3
Consolidated Balance Sheets as of December 31, 1999 and 2000	F-4 to F-5
Consolidated Statements of Operations for the years ended December 31, 1998, 1999 and 2000	F-6
Consolidated Statements of Redeemable Preferred Stock and Common Stockholders' Equity for the years ended December 31, 1998, 1999 and 2000	F-7
Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1999 and 2000	F-8
Notes to Consolidated Financial Statements	F-9 to F-31

All schedules called for by Regulation S-X have been omitted because they are not applicable or because the required information is included in the financial statements or the notes thereto.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of AmeriPath, Inc.:

We have audited the consolidated balance sheets of AmeriPath, Inc. and subsidiaries (the "Company") as of December 31, 2000 and 1999, and the related consolidated statements of operations, redeemable preferred stock and common stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits. The consolidated financial statements give retroactive effect to the merger of AmeriPath, Inc. and subsidiaries and Pathology Consultants of America, Inc. (d/b/a "Inform DX"), which has been accounted for as a pooling of interests as described in Note 3 to the consolidated financial statements. We did not audit the balance sheet of Inform DX as of December 31, 1999, or the related statements of operations, stockholders' equity, and cash flows of Inform DX for the years ended December 31, 1999 and 1998, which statements reflect total assets of $28,786,000 as of December 31, 1999, and total revenues of $24,652,000 and $16,012,000 for the years ended December 31, 1999 and 1998, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Inform DX for 1999 and 1998, is based solely on the report of such other auditors.

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

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP
Miami, Florida

March 29, 2001

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Pathology Consultants of America, Inc. and Subsidiaries

We have audited the consolidated balance sheets of Pathology Consultants of America, Inc. and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pathology Consultants of America, Inc. and subsidiaries at December 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP
Nashville, Tennessee

March 24, 2000

F-3

AMERIPATH, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	December 31,	
	1999	2000
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,713	$ 2,418
Accounts receivable, net	57,788	70,939
Inventories	995	1,406
Deferred tax asset	5,405	8,593
Other current assets	2,468	2,853
Total current assets	68,369	86,209
PROPERTY AND EQUIPMENT, NET	16,540	23,580
OTHER ASSETS:		
Goodwill, net	143,383	177,263
Identifiable intangibles, net	246,394	268,627
Other	4,210	6,487
Total other assets	393,987	452,377
TOTAL ASSETS	$478,896	$562,166

See accompanying notes to consolidated financial statements.

F-4

AMERIPATH, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	December 31,	
	1999	2000
LIABILITIES AND COMMON STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 21,337	$ 35,712
Due to managed practices	2,853	4,055
Current portion of long-term debt	698	808
Current portion of capital lease obligations	232	247
Accrued merger-related charges	275	3,165
Other current liabilities	518	1,407

Total current liabilities	25,913	45,394
LONG-TERM LIABILITIES:		
Revolving loan	165,800	197,216
Other notes payable, less current portion	73	197
Subordinated notes, less current portion	1,206	2,843
Capital lease obligations, less current portion	605	436
Accrued merger-related charges, less current portion	912	2,369
Other liabilities	148	--
Deferred tax liability	62,521	64,046
Total long-term liabilities	231,265	267,107
REDEEMABLE PREFERRED STOCK	15,504	--
COMMITMENTS AND CONTINGENCIES (Notes 3, 14 and 18)		
COMMON STOCKHOLDERS' EQUITY		
Common stock, $.01 par value, 30,000 shares authorized, 22,271 and 24,734 shares issued and outstanding at December 31, 1999 and 2000, respectively	223	247
Additional paid-in capital	156,111	188,050
Retained earnings	49,880	61,368
Total common stockholders' equity	206,214	249,665
TOTAL LIABILITIES AND COMMON STOCKHOLDERS' EQUITY	$478,896	$562,166

See accompanying notes to consolidated financial statements.

AMERIPATH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Years Ended December 31,		
	1998	1999	2000
NET REVENUE:			
Net patient service revenues	$177,304	$233,269	$308,365
Net management service revenues	16,012	24,163	21,729
Net revenue	193,316	257,432	330,094
OPERATING COSTS AND EXPENSES:			
COST OF SERVICES:			
Cost of services - patient service revenues	78,568	108,408	146,426

Cost of services - management service revenues	9,132	14,277	16,964
Cost of services	87,700	122,685	163,390
Selling, general and administrative expense	36,709	47,159	58,411
Provision for doubtful accounts	18,698	25,289	34,040
Amortization expense	9,615	12,827	16,172
Merger-related charges	--	--	6,209
Asset impairment and related charges	--	--	9,562
Total operating costs and expenses	152,722	207,960	287,784
INCOME FROM OPERATIONS	40,594	49,472	42,310
Interest expense	(8,560)	(9,573)	(15,376)
Other income, net	150	286	226
Income before income taxes	32,184	40,185	27,160
Provision for income taxes	13,941	17,474	14,068
NET INCOME	18,243	22,711	13,092
Induced conversion and accretion of redeemable preferred stock	(75)	(131)	(1,604)
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ 18,168	$ 22,580	$ 11,488
Basic Earnings Per Common Share:			
Basic weighted average shares outstanding	20,911	21,984	23,473
Basic earnings per common share	$ 0.87	$ 1.03	$ 0.49
Diluted Earnings Per Common Share:			
Diluted weighted average shares outstanding	21,610	22,516	24,237
Diluted earnings per common share	$ 0.84	$ 1.00	$ 0.47

See accompanying notes to consolidated financial statements.

AMERIPATH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF REDEEMABLE PREFERRED
STOCK AND COMMON STOCKHOLDERS' EQUITY
(IN THOUSANDS)

	Redeemable Preferred Stock	

	Common Stock Shares	Amount	S
BALANCE, DECEMBER 31, 1997	--	$ --	19
Stock issued in connection with acquisitions	--	--	1
Advance stock subscription issued to Affiliated Practices	--	--	
Exercise of options and warrants	--	--	
Tax benefit from stock options	--	--	
Issuance of Series A redeemable preferred stock	395	15,298	
Accretion of redeemable preferred stock	--	75	
Net income	--	--	
BALANCE, DECEMBER 31, 1998	395	15,373	21
Stock issued in connection with acquisitions	--	--	
Exercise of options and warrants	--	--	
Tax benefit from stock options	--	--	
Accretion of redeemable preferred stock	--	131	
Net income	--	--	
BALANCE, DECEMBER 31, 1999	395	15,504	22
Stock issued in connection with acquisitions	--	--	1
Exercise of options and warrants	--	--	
Tax benefit from stock options	--	--	
Accretion of redeemable preferred stock	--	65	
Redemption of preferred stock	(395)	(15,569)	
Lapse of warrant put option	--	--	
Net income	--	--	
BALANCE, DECEMBER 31, 2000	--	$ --	24

See accompanying notes to consolidated financial statements.

AMERIPATH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Years Ended D	
	1998	1999

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 18,243	$ 22,7
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	12,601	16,7
Miscellaneous amortization and other	220	
Deferred income taxes	(3,607)	(2,0
Provision for doubtful accounts	18,698	25,2
Asset impairment and related charges	--	
Accretion of put warrants	54	
Merger-related charges	--	
Changes in assets and liabilities (net of effects of acquisitions):		
Increase in accounts receivable	(27,577)	(31,7
Increase in inventories	(417)	(
(Increase) decrease in other current assets	(4,321)	2,3
Decrease (increase) in other assets	296	(7
Increase (decrease) in due to/from managed practices	2,744	(1,7
Increase in accounts payable and accrued expenses	3,545	1,6
Pooling merger-related charges paid	--	
Net cash flows provided by operating activities	20,479	32,6
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(4,393)	(8,7
Cash paid for acquisitions and acquisition costs, net of cash acquired	(60,472)	(51,6
Other merger-related charges paid	(1,779)	(1,7
Investment in Genomics Collaborative, Inc.	--	
Decrease in restricted cash	21	2
Payments of contingent notes	(7,789)	(17,4
Net cash flows used in investing activities	(74,412)	(79,3
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings under revolving loan	53,069	44,7
Principal payments on long-term debt and capital leases	(9,966)	(1,7
Debt issuance costs	(496)	(1,1
Net proceeds from sale of redeemable preferred stock	15,298	
Tax benefit from stock options	109	
Other	--	
Proceed from issuance of common stock under stock option plans and warrants	272	
Net cash flows provided by financing activities	58,286	41,9
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,353	(4,6
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,030	6,3
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 6,383	$ 1,7
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 8,034	$ 8,9
Income taxes	$ 17,833	$ 15,8

See accompanying notes to consolidated financial statements.

AMERIPATH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

1. Business and Organization

AmeriPath, Inc. ("AmeriPath" or the "Company") was incorporated in February 1996 to be the largest integrated physician group practice focused on anatomic pathology diagnostic services, based on an analysis of geographic breadth, number of physicians, number of hospital contracts, number of practices and net revenues. Since the first quarter of 1996, the Company has completed the acquisition of 49 physician practices located in twenty-one states. The Company's 425 pathologists provide medical diagnostic services in 42 outpatient laboratories owned and operated by the Company, and in 224 hospitals and associated outpatient surgery centers.

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 option plans. This transaction was accounted for as a pooling of interests. All prior years information has been restated to reflect the acquisition of Inform DX.

Anatomic and clinical pathology diagnostic services are provided under contractual arrangements with hospitals and in free-standing, independent laboratory settings. The contractual arrangements with hospitals vary, but essentially provide that, in exchange for physician representatives of the Company serving as the medical director of a hospital's anatomic and clinical laboratory operations, the Company is able to bill and collect the professional component of the charges for medical services rendered by the Company's pathologists. In some cases, the Company is also paid an annual fee for providing the medical director for the hospital's clinical laboratory. The Company also owns and operates outpatient pathology laboratories, for which it bills patients and third party payors, principally on a fee-for-service basis, covering both the professional and technical components of such services. In addition, the Company contracts directly with national clinical laboratories, principally on a fee-for-service basis.

The Company operates using either an ownership or employment model or a management or equity model. Under 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 (voting) interest or has a controlling financial interest in the pathology practice (the "Owned Practices").

Corporate practice of medicine restrictions generally prohibit corporate entities from employing or otherwise exercising control over physicians. In states that do not prohibit a for-profit corporation from employing physicians such as Florida, Alabama, Mississippi and Kentucky, AmeriPath operates its Owned Practices through Practice Subsidiaries, which are subsidiary corporations of AmeriPath that directly employ the physicians. In states that prohibit a for-profit corporation from employing physicians, such as Texas, Indiana, Ohio, North Carolina, Michigan, Wisconsin, New York and Pennsylvania, AmeriPath operates each Owned Practice through a Manager Subsidiary, which is a subsidiary of AmeriPath that has a long-term management agreement with the applicable PA

Contractor, which in turn employs the physicians. In many cases, several Practices are included within or organized under a single Practice Subsidiary or PA Contractor, as the case may be.

Owned Practices. Owned practices are operated through Manager and Practice Subsidiaries. The Manager and Practice Subsidiaries are wholly-owned subsidiaries of AmeriPath and the officers and directors of such companies are generally members of AmeriPath's executive management team. The financial statements of the Manager and Practice Subsidiaries are included in the consolidated financial statements of AmeriPath.

Ownership and Management of the PA Contractors. The PA Contractors are entities which have contractual relationships with the Company but are not owned directly by AmeriPath. These entities can be a professional corporation or professional association, as permitted and defined in various state statutes. The PA Contractors operating in North Carolina, Wisconsin, New York, Michigan and Pennsylvania are owned by physicians affiliated with AmeriPath. To the extent permitted by law, the officers and directors of the PA Contractors are members of AmeriPath's executive management team. However, in

states where law prohibits such non-licensed physician personnel from serving as an officer or director of a PA Contractor, eligible affiliated physicians serve in such positions. The affiliated physicians who own PA Contractors have entered into agreements with AmeriPath that generally (i) prohibit such affiliated physicians from transferring their ownership interests in the PA Contractor, except in very limited circumstances and (ii) require such affiliated physicians to transfer their ownership in the PA Contractor to designees of AmeriPath upon the occurrence of specified events.

The PA Contractors in Ohio and Indiana are owned by trusts. The beneficiary of such trusts is AmeriPath and the Trustees of such trusts are affiliated physicians. The PA Contractors operating in Texas are organized as not-for-profit 5.01(a) corporations. The sole member of the not-for-profit PA Contractors in Texas is AmeriPath.

Each PA Contractor is party to a long-term management agreement with one of the Company's Manager Subsidiaries. Under the terms of these management agreements, AmeriPath generally provides all non-medical and administrative support services to the practices including accounting and financial reporting, human resources, payroll, billing, and employee benefits administration. In addition, the management agreements give the Manager Subsidiaries certain rights with respect to the management of the non-medical operations of the PA Contractors. The management agreements require the PA Contractors to pay a management fee to the applicable Manager Subsidiaries. The fee structure is different for each Practice based upon various factors, including applicable law, and includes fees based on a percentage of earnings, performance-based fees, and flat fees that are adjusted from time to time.

In accordance with Emerging Issues Task Force 97-2:"Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Agreements" ("EITF 97-2"), the financial statements of the PA Contractors are included in the consolidated financial statements of AmeriPath since AmeriPath has a controlling interest in the PA Contractor.

Managed Practices. The term Managed Practices refers to AmeriPath's operation and management of pathology practices under long-term service agreements with affiliated physician groups. Generally, the Company acquires the practice's assets, and the physician groups maintain their separate corporate or

partnership entities and enter into employment and noncompete agreements with the practicing physicians. Costs of obtaining service agreements are amortized using the straight-line method over 25 years.

Service agreements represent the exclusive right to operate the Company's practices in affiliation with the related physician groups during the term of the agreements. Pursuant to the service agreements, the Company provides the physician groups with equipment, supplies, support personnel, and management and financial advisory services. Physician groups are responsible for the recruitment and hiring of physicians and all other personnel who provide pathological services, and for all issues related to the professional, clinical and ethical aspects of the practice. As part of the service agreements, physician groups are required to maintain medical malpractice insurance which names the Company as an additional insured. The Company is also required to maintain general liability insurance and name the physician groups as additional insureds. Upon termination of the service agreements, the respective physician groups are required to obtain continuing liability insurance coverage under either a "tail policy" or a "prior acts policy."

The management services fees charged under the service agreements are based on a predetermined percentage of net operating income of the Managed Practices. Management service revenue is recognized by the Company at the time physician service revenue is recorded by the physician group. The Company also participates to varying degrees in non-physician revenues generated from ancillary services offered through the laboratories. The Company charges a capital fee for the use of depreciable assets owned by the Company and recognizes revenue for all practice expenses that are paid on behalf of the practices. Practice expenses exclude the salaries and benefits of the physicians.

2. Summary of Significant Accounting Policies

A summary of significant accounting policies followed by the Company are as follows:

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of AmeriPath, Inc., its wholly-owned subsidiaries, and companies in which the Company has the controlling financial interest by means other than the direct record ownership of

voting stock, as discussed in Note 1. Intercompany accounts and transactions have been eliminated. The Company does not consolidate the affiliated physician groups it manages as it does not have operating control as defined in EITF 97-2.

Accounting Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States ("generally accepted accounting principles") requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Because of the inherent uncertainties in this process, actual results could differ from those estimates. Such estimates include the recoverability of intangible assets and the collectibility of receivables.

Fair Value of Financial Instruments

The Company's financial instruments consist mainly of cash and cash equivalents,

accounts receivable, due to/from physician groups, accounts payable and the credit facility. The carrying amounts of the Company's cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term nature of these instruments. Approximately $92,000 of the credit facility bears interest at a variable market rate, and thus has a carrying amount that approximates fair value. The remaining $105,000 of the credit facility was subject to interest rate swaps as described in Note 13. The estimated fair value of the interest rate swaps, which is the amount necessary to unwind the swap, was approximately $1,100 and ($4,968) as of December 31, 1999 and 2000, respectively. The estimated fair value of the Company's interest rate swaps was obtained from outside sources.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid instruments with maturities at the time of purchase of three months or less. Included in cash and cash equivalents at December 31, 2000 was $818 of restricted cash used as collateral under certain letters of credit.

Inventories

Inventories, consisting primarily of laboratory supplies, are stated at the lower of cost, determined on a first-in-first-out basis, or market.

Property and Equipment

Property and equipment are stated at cost. Routine maintenance and repairs are charged to expense as incurred, while cost of betterments and renewals are capitalized.

Depreciation and amortization are calculated on a straight-line basis and accelerated methods, over the estimated useful lives of the respective assets which lives range from 3 to 7 years. Leasehold improvements are amortized over the shorter of the term of the related lease, including renewal options, or the useful life of the asset.

Intangible Assets

The allocation of the purchase price of the 2000 acquisitions is 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 final information, management believes that adjustments, if any, will not be material in relation to the consolidated financial statements.

Identifiable intangible assets include hospital contracts, physician referral lists and laboratory contracts acquired in connection with acquisitions. Such assets are recorded at fair value on the date of acquisition as determined by management and are being amortized over the estimated periods to be benefited, ranging from 10 to 40 years. In determining these lives the Company considered each practice's operating history, contract renewals, stability of physician referral lists and industry statistics.

Goodwill relates to the excess of cost over the fair value of net assets of the businesses acquired. The amortization periods for goodwill were determined by the Company with consideration given to the lives assigned to the identifiable intangibles, the

reputation of the practice, the length of the practice's operating history, and the potential of the market in which the acquired practice is located.

Amortization is calculated on a straight line basis over periods ranging from 10 to 35 years.

Management assesses on an ongoing basis if there has been an impairment in the carrying value of its intangible assets. If the undiscounted future cash flows over the remaining amortization period of the respective intangible asset indicates that the value assigned to the intangible asset may not be recoverable, the carrying value of the respective intangible asset will be reduced. The amount of any such impairment would be determined by comparing anticipated discounted future cash flows from acquired businesses with the carrying value of the related assets. In performing this analysis, management considers such factors as current results, trends and future prospects, in addition to other relevant factors.

The Company has entered into a management service agreement with each of the physician groups of the Managed Practices for a period up to 40 years. Upon the Company's acquisition of the practice's assets, the physician groups maintain their separate corporate or partnership entities and enter into employment and noncompete agreements with the practicing physicians. Costs of obtaining these management service agreements are amortized using the straight-line method over 25 years.

Deferred Debt Issuance Costs

The Company incurred costs in connection with bank financing. These costs have been capitalized and are being amortized on a straight-line basis, which approximates the interest method, over the five year term. Such amounts are included in other assets in the consolidated balance sheet.

Revenue Recognition

The Company recognizes net patient service revenue at the time services are performed. Unbilled receivables are recorded for services rendered during, but billed subsequent to, the reporting period. Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors and others for services rendered. Revenue under certain third-party payor agreements is subject to audit and retroactive adjustments. 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.

Unbilled receivables for the Owned Practices, net of allowances, as of December 31, 1999 and 2000 amounted to approximately $5,200 and $8,600, respectively.

Net management service revenue reported by the Company represents net physician group revenue less amounts retained by physician groups. The amounts retained by physician groups represent amounts paid to the physicians pursuant to the management service agreements between the Company and the physician groups. 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 groups. The provision for bad debts represents management's estimate of potential credit issues associated with amounts due from patients, commercial insurers, and other third-party payors.

Income Taxes

The Company's provision for income taxes includes federal and state income taxes currently payable and changes in deferred tax assets and liabilities, excluding the establishment of deferred tax assets and liabilities related to acquisitions. Deferred income taxes are accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes and represent the estimated future tax effects resulting from temporary differences between financial and tax reporting bases of assets and liabilities. In addition, future tax benefits, such as net operating loss ("NOL") carryforwards, are required to be recognized to the extent that realization of such benefits is more likely than not. A valuation allowance is established for those benefits that do not meet the more likely than not criteria. A valuation allowance has been established for $3,548 of the net deferred tax assets at December 31, 2000 due to the uncertainty regarding the Company's ability to utilize the acquired net operating loss carryforwards of Inform DX due to Internal Revenue Code limitations.

Segment Reporting

The Financial Accounting Standards Board ("FASB") issued SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information effective for fiscal years beginning after December 15, 1997. The Company has two reportable segments, Owned Practices and Managed Practices, based upon management reporting and the consolidated reporting structure.

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 generally accepted accounting principles 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. Upon adoption of SFAS 133 in the first fiscal quarter of 2001, these activities will be recognized on the Consolidated Balance Sheet. The Company's adoption of SFAS 133 will not have a material effect on the Company's earnings. The adoption of SFAS 133 will result in the reduction of other comprehensive income of approximately $5,000.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2000 presentation and/or to reflect the merger with Inform DX accounted for as a pooling-of-interests.

3. Merger and Acquisitions

Acquired Practices: Pooling method

On November 30, 2000, the Company completed a merger transaction with Inform DX that was accounted for as a pooling-of-interests transaction. The Company issued 2.6 million Common Shares to Inform DX stockholders and Inform DX's outstanding stock options were converted into options to purchase approximately 170,000 common shares of AmeriPath. The historical consolidated financial statements for periods prior to the consummation of the combination are restated as though the companies had been combined during such periods.

The table below presents a reconciliation of total revenue and net income available for Common Shares as reported in the accompanying consolidated financial statements with those previously reported by the Company.

	AmeriPath	Inform DX	Comb Adjus
Eleven months ended November 30, 2000			
Total revenue	$269,865	$34,329	
Net income (loss)	$ 20,514	$(6,250)	
Year ended December 31, 1999			
Total revenue	$232,753	$24,652	$
Net income (loss)	$ 22,969	$ (31)	$
Year ended December 31, 1998			
Total revenue	$177,304	$16,012	
Net income (loss)	$ 18,639	$ (683)	$

(A) The provision for income taxes has been adjusted by $357 and $(212) in 1999 and 1998, respectively, to reflect the recordation of acquired net operating loss carry forwards, related valuation allowances and other various timing differences of Inform DX in accordance with SFAS No. 109. In addition, certain reclassifications totaling $27 were made to conform to the current year presentation.

Acquired Practices: Purchase method

During 2000, the Company acquired nine anatomic pathology practices, including the two practices acquired by Inform DX. The total consideration paid by the Company in connection with these acquisitions included cash of $32,457, 1,532,000 shares of common stock (aggregate value of $12,180 based upon amounts recorded on the Company's consolidated financial statements) and subordinated debt of $2,794. In addition, the Company issued additional purchase price consideration in the form of contingent notes. During 1999, the Company acquired eleven anatomic pathology practices, including one by Inform DX. The total consideration paid by the Company in connection with these acquisitions included cash of $51,746, 486,796 shares of common stock (aggregate value of $2,954 based upon amounts recorded on the Company's consolidated financial statements) and subordinated debt of $848. In addition, the Company issued additional purchase price consideration in the form of contingent notes. During the year ended December 31, 2000, the Company made contingent note payments of $26,645 and other purchase price adjustments of approximately $2,876 in connection with certain post-closing adjustments and acquisition costs. During the year ended December 31, 1999, the Company issued an additional 23,930 shares of common stock, valued at $195, and made contingent note payments of $17,440 and other purchase price adjustments of $2,965 in connection with certain post-closing adjustments and acquisition costs.

The following table sets forth the aggregate purchase price allocation for the 1999 and 2000 acquisitions, including the amortization periods for identifiable intangible assets and goodwill ($ in 000's):

	1999	200
Number of acquisitions	11	
Cash paid	$ 51,746	$ 32,45
Common Stock issued	3,149	12,18
Sub-debt	848	2,79
Total consideration	$ 55,743	$ 47,43
Allocation of purchase price:		
Tangible assets	$ 7,468	$ 17,01
Goodwill (10-25 years)	20,860	12,04
Hospital contracts (25 years)	39,710	21,33
Physician referral lists (18-25 years)	3,603	14,23
Laboratory contracts (10 years)	3,104	-
Total assets acquired	$ 74,745	$ 64,63
Liabilities assumed less sub-debt	$(19,002)	$(17,20
Total purchase price	$ 55,743	$ 47,43

The acquisitions have been accounted for using the purchase method of accounting, except for the Inform DX acquisition. The aggregate consideration

paid, and to be paid, is based on a number of factors, including each practice's demographics, size, local prominence, position in the marketplace and historical cash flows from operations. Assessment of these and other factors, including uncertainties regarding the health care environment, resulted in the sellers of each of the practices and the Company being unable to reach agreement on the final purchase price. The Company agreed to pay a minimum purchase price and to pay additional purchase price consideration to the sellers of the practices in proportion to their respective ownership interest in each practice. The additional payments are contingent upon the achievement of stipulated levels of operating earnings (as defined) by each of the practices over periods of three to five years from the date of the acquisition as set forth in the respective agreements, and are not contingent on the continued employment of the sellers of the practices. In certain cases, the payments are contingent upon other factors such as the retention of certain hospital contracts for periods ranging from three to five years. The amount of the payments cannot be determined until the achievement of the operating earnings levels or other factors during the terms of the respective agreements. If the maximum specified levels of operating earnings for each practice are achieved, the Company would make aggregate maximum payments, including principal and interest, of approximately $198,359 over the next three to five years. At the mid-point level, the aggregate principal and interest would be approximately $89,695 over the next three to five years. A lesser amount or no payments at all would be made if the mid-point levels of operating earnings specified in each agreement are not met. Through December 31, 2000, the Company made contingent note payments aggregating $53,398, which represent 63% of the maximum contingent payments that were available for payment under these contingent note agreements. Additional payments are accounted for as additional purchase price, which increases the recorded goodwill.

The accompanying consolidated financial statements include the results of operations of the acquisitions from the date acquired through December 31, 2000. The following unaudited pro forma information presents the consolidated results of the Company's operations and the results of operations of the 1999 and 2000 acquisitions for the years ended December 31, 1999 and 2000 after giving effect to amortization of goodwill and identifiable intangible assets, interest expense on long-term 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, 1999. Such unaudited pro forma information is based on historical financial information with respect to the 1999 and 2000 acquisitions and does not include operational or other changes which might have been effected by the Company.

The unaudited pro forma information for the years ended December 31, 1999 and 2000 presented below is for illustrative information purposes only and is not necessarily indicative of results which would have been achieved or results which may be achieved in the future:

	Pro Forma December 31,	
	1999	2000
Net revenue	$321,703	$357,638
Net income attributable to common stock	$ 27,900	$ 15,849
Net income per share (diluted)	$ 1.09	$ 0.62

4. Accounts Receivable

Accounts receivable are recorded at net realizable value. The allowance for contractual and other adjustments and uncollectible accounts is based on historical experience and judgments about future events. Accordingly, the actual amounts experienced could vary significantly from the recorded allowances. For Managed Practices, terms of the service agreements require the Company to purchase receivables generated by the physician groups on a monthly basis. Such amounts are recorded net of contractual allowances and estimated bad debts. For Managed Practices, accounts receivable are a function of the net physician group revenue rather than the net revenue of the Company.

Accounts receivable consisted of the following:	December 31, 1999	2000
Gross accounts receivable	$130,791	$166,873
Less: Allowance for contractual and other adjustments	(47,047)	(54,840)
Allowance for uncollectible accounts	(25,956)	(41,094)
Accounts receivable, net	$ 57,788	$ 70,939

The following table represents the rollforward of the allowances for contractual adjustments and uncollectible accounts:

	Years Ended 1998	199
Beginning allowances for contractual adjustments and uncollectible accounts	$ 26,522	$ 62,
Provision for contractual adjustments	80,664	128,
Provision for doubtful accounts	18,698	25,
Managed Practice contractual adjustments and bad debt expense	31,429	41,
Write-offs and other adjustments	(94,801)	(185,
Ending allowance for contractual adjustments and uncollectible accounts	$ 62,512	$ 73,

The Company grants credit without collateral to individual patients, most of whom are insured under third party payor agreements. The estimated mix of receivables from patients and third-party payors are as follows:

	December 31,

	1999	2000
Government programs	18.8%	17.8
Third-party payors	53.7	53.3
Private pay patients	22.5	23.8
Other	5.0	5.1
	100.0%	100.0

5. Net Revenue

Net patient service revenue consisted of the following:	Years Ended December 31, 1998	1999	2000
Gross revenue	$257,968	$ 361,854	$ 482,238
Less contractual and other adjustments	(80,664)	(128,585)	(173,873
Net patient service revenue	$177,304	$ 233,269	$ 308,365

Net management service revenue consisted of the following:

	Years Ended December 31, 1998	1999	2000
Gross physician group revenue	$ 61,694	$ 85,379	$ 86,203
Contractual adjustments and bad debt expense	(31,429)	(41,712)	(44,849
Net physician group revenue	30,265	43,667	41,354
Less amounts retained by physician groups	(14,253)	(19,504)	(19,625
Net management service revenue	$ 16,012	$ 24,163	$ 21,729

A significant portion of the Company's net revenue is generated by the hospital-based practices through contracts with 168, 207 and 224 hospitals as of December 31, 1998, 1999 and 2000, respectively. HCA - The Healthcare Company ("HCA") owned 29,

27 and 27 of these hospitals as of December 31, 1998, 1999 and 2000, respectively. For the years ended December 31, 1998, 1999 and 2000, approximately 17%, 15%, and 13%, respectively of net patient service revenue was generated directly from contracts with hospitals owned by HCA. 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. Although the Company, through its acquisitions, has had relationships with these hospitals and national labs for extended periods of time, the termination of one or more of these contracts could have a material adverse effect on the Company's financial position and results of operations. The Company from time to time evaluates the carrying values of identified intangibles and goodwill and the related useful lives assigned to such assets. See Note 8 for additional information related to the impairment of certain hospital contracts.

6. Property and Equipment

Property and equipment consisted of the following:	Estimated Useful Life (Years)	December 3 1999	
Laboratory, office and data processing equipment	3-7	$ 19,336	$
Construction in progress		2,693	
Leasehold improvements	5-10	3,510	
Furniture and fixtures	3-7	2,070	
Mobile laboratory units	3	175	
Automotive vehicles	3-5	1,058	
		28,842	
Less accumulated depreciation		(12,302)	(
Property and equipment, net		$ 16,540	$

Depreciation expense was $2,669, $3,554 and $4,748 for the years ended December 31, 1998, 1999 and 2000, respectively.

7. Intangible assets

Intangible assets and the related accumulated amortization and amortization periods are as follows:

	December 31,		Amortization Periods (Years)	
	1999	2000	Range	Weighted Average
Hospital contracts	$193,899	$211,738	25-40	32.3
Physician client lists	54,893	71,447	10-30	20.7
Laboratory contracts	7,317	4,543	10	10.0
Management agreements	11,022	11,214	25	25.0
	267,131	298,942		
Accumulated amortization	(20,737)	(30,315)		
Balance, net	$246,394	$268,627		
Goodwill	$153,749	$193,231	10-35	30.5

Accumulated amortization	(10,366)	(15,968)
Balance, net	$143,383	$177,263

In determining the useful lives of the identifiable intangible assets, the Company considered each practice's operating history, contract renewals, stability of physician referral lists and industry statistics.

The amortization periods for goodwill were determined by the Company with consideration given to the lives assigned to the identifiable intangibles, the reputation of the practice, the length of the practice's operating history, and the potential of the market in which the acquired practice is located.

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

8. Asset Impairments and Related Charges

During the second quarter ended June 30, 2000, the Company recorded a pre-tax non-cash charge of approximately $4,700, and related cash charges of approximately $545 in connection with the impairment of intangible assets at an acquired practice in Cleveland, Ohio. The Company had provided services at four hospitals and an ambulatory care facility owned by Primary Health Systems ("PHS"), a regional hospital network in Cleveland, Ohio. During the first quarter of 2000, PHS began implementing a plan of reorganization filed under Chapter 11 with the U.S. Bankruptcy Court for the District of Delaware, and closed one hospital. During the second quarter, the bankruptcy court approved the sale of two hospitals and the ambulatory care facility to local purchasers in the Cleveland area. The Company's contracts with these two hospitals and the ambulatory care facility were not accepted by the purchasers, who have elected to employ their own pathologists. One hospital has not been sold and continues to do business with the Company. As a result, the Company determined, using the discounted cash flow method, that the intangible assets, including goodwill, had no remaining fair value. Therefore, the Company wrote off the unamortized intangible asset balance. In addition, the Company recorded approximately $545 of related charges for potentially uncollectible accounts receivable, employee termination costs and legal fees.

During the fourth quarter of 2000, the Company recorded a pre-tax non-cash charge of approximately $4,300 related to the impairment of certain intangible assets. Of this charge, $3,300 related to Quest Diagnostics' ("Quest") termination of its contract with the Company in South Florida, effective December 31, 2000. The Company believes that some portion of this work may be transferred by Quest to other practices owned by the Company and the Company is implementing a marketing strategy to retain and provide services directly to these customers in South Florida. In addition, during the fourth quarter, a hospital in South Florida where the Company had the pathology contract, requested proposals for its pathology services, and the Company was unsuccessful in retaining this contract. Based upon the remaining projected cash flow from this hospital network, the Company determined that the intangible assets were impaired and recorded a pre-tax non-cash charge of approximately $1,000.

9. Investment 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 $1,000 investment in Genomics Collaborative, Inc ("GCI") for which it received 333,333 shares of Series D Preferred Stock, par value $0.01. The GCI Series D Preferred Stock is convertible into one share of common stock and 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 December 31, 2000, 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 December 31, 2000, there were no unrealized gains or losses associated with this investment.

10. Due to Managed Practices

In accordance with the terms of the management service agreements, the owners of the managed practices are entitled to a predetermined percentage of the net operating income of their managed practice ("physician group retainage"). The amount of the liability is calculated monthly and is to be paid by the fifteenth day of the following month. The monthly payment amount is comprised of either the net revenues or the cash collected from revenues during the month less any practice expenses and management fees charged by the Company. The amounts owed to the owners of the Managed Practices were $4,055 and $2,853 as of December 31, 2000 and 1999, respectively.

11. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following:	December 31, 1999	200
Accounts payable	$ 4,830	$12,
Accrued compensation	7,978	12,
Accrued acquisition costs	1,739	2,
Accrued interest	828	1,
Income taxes payable	942	1,
Other accrued expenses	5,020	5,
	$21,337	$35,

12. 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 fourth quarter of 2000, the Company recorded merger-related costs totaling $6,200 ($5,102, net of tax). As part of the business restructuring, the Company is closing certain facilities. In 1999, the Company paid $1,741 of costs in connection with the May

1998 American Pathology Resource, Inc. ("APR") acquisition. Payments were for various exit costs associated with the disposal of certain operations of APR and the shutdown of the APR corporate office.

The following is a reconciliation of the activity for the years ended December 31, 2000 and 1999 with respect to the merger-related reserves. The balance sheet charges relate to acquisitions accounted for under the purchase method of accounting, with the offset resulting in additional goodwill. Statement of operations charges relate to the acquisition of Inform DX, which was accounted for under the pooling of interests method of accounting.

	Balance December 31, 1999	Balance Sheet Charges	Statement of Operations Charges	Pay
Transaction costs	--	$1,160	$4,348	$(3
Employee termination costs	78	1,200	1,861	(1
Lease commitments	394	1,974	--	
Other exit costs	715	--	--	
Total	1,187	$4,334	$6,209	$(6
Less: portion included in current liabilities	(275)			
Total included in other liabilities	$ 912			

	Balance December 31, 1998	Balance Sheet Charges	Statement of Operations Charges	P
Employee termination costs	$ 414	$ (8)	--	$
Lease Commitments	1,851	(740)	--	
Other exit costs	1,518	(107)	--	
Total	3,783	$(855)	--	$(
Less: portion included in current liabilities	(860)			
Total included in other liabilities	$2,923			

In addition, the Company plans to continue its consolidation efforts related to

its acquisition of Inform DX during the first half of 2001. As a result, the Company expects to incur additional costs of $7,300 during this period. Of this amount, approximately $5,400 is for employee-related costs, $1,100 is for the consolidation of the Company's facilities in New York and eastern Pennsylvania, and $800 is for other transaction costs related to the Inform DX acquisition.

13. Long-term Debt

Long-term debt consisted of the following:	December 31, 1999	December 31, 2000
Revolving loan	$163,300	$197,216
Revolving line of credit	2,500	--
Note payable	73	210
Capital leases	837	683
Subordinated notes issued and assumed in connection with acquisitions, payable in varying amounts through 2005, with interest at rates of 6.5% and 9.5%	1,904	3,638
	$168,614	$201,747
Less current portion	(930)	(1,055)
Long-term debt, net of current portion	$167,684	$200,692

At December 31, 2000 maturities of long-term debt were as follows:

2001	$ 1,055
2002	430
2003	355
2004	197,488
2005	2,419
Total	$201,747

The Company has a revolving line of credit (the "Credit Facility") with a syndicate of banks led by Fleet National Bank, formerly Bank Boston, N.A. as lender and agent. On April 28, 1998, the Company amended its Credit Facility. The amended facility provided for borrowings of up to $200,000 in the form of a revolving loan that may be used for working capital purposes (in an amount limited to 75% of the Company's net accounts receivable, as reflected on the Company's quarterly consolidated balance sheet) and to fund acquisitions to the extent not otherwise used for working capital purposes.

On December 16, 1999, the Company amended its Credit Facility. The amended facility provides for borrowings of up to $230,000 in the form of a revolving loan that may be used for working capital purposes and to fund acquisitions to the extent

not otherwise used for working capital purposes. The Company must comply with certain requirements as defined in the credit agreement to utilize the Credit Facility to fund acquisitions.

On July 21, 2000, the Company amended its Credit Facility dated December 16, 1999 ("Amendment No. 1"). Amendment No. 1 allowed for the Company to be in compliance with the Credit Facility by excluding non-cash charges totaling approximately $5,200 from the calculation of the Company's consolidated operating cash flow covenant through March 31, 2001. These charges relate to the impairment of assets and related charges at an acquired practice in Cleveland, Ohio as more fully discussed in Note 8 to the financial statements. The amendment was obtained to cure a potential default that otherwise would likely have occurred under the operating cash flow covenant contained in the Credit Facility. In addition, Amendment No. 2 (i) increased the Company's operating cash flow requirements under the facility for the trailing twelve months ending December 31, 2002 and thereafter; (ii) requires that a minimum of 10% of the purchase price of future acquisitions greater than $5,000 be in the form of the Company's capital stock, and (iii) allowed for an investment of up to $3,000 in Genomics Collaborative, Inc. The amendment is not expected to have a material adverse effect on the Company's operations or strategies.

On November 29, 2000, the Company amended its Credit Facility dated December 16, 1999 ("Amendment No. 2"). Amendment No. 2 allowed for the Company to be in compliance with the Credit Facility by excluding from the covenant calculations cash and non-cash charges totaling approximately $17,500. These exclusions were comprised of a one time cash transaction and restructuring charges of up to $7,500 in connection with the acquisition of Inform DX, and nonrecurring non-cash charges of up to $10,000, including charges resulting from an increase in the accounts receivable reserve in connection with the acquisition of Inform DX, and potential asset impairment charges relating to good will and other intangibles of not more than $5,000. In addition, Amendment No. 2 (i) decreased the Company's operating cash flow requirements under the facility for the trailing twelve months ending December 31, 2001, and increased them thereafter; (ii) increased the amount of allowable Capital Lease Obligations to $3,000; and (iii) decreased the levels of acquisition purchase price used in the documentation requirements of the lenders. The amendment was obtained to cure a potential default for the year ended December 31, 2000 that otherwise would likely have occurred under the operating cash flow covenant contained in the Credit Facility.

There is the potential of $5,400 of charges in excess of the $17,500 allowed in Amendment No. 2 which results from the formalization of the Inform DX integration plans, and are expected to result in further synergies. These additional charges could have caused the Company to be in technical default of one or more of its covenants under its Credit Facility at the end of the first quarter of 2001. On March 29, 2001, the Company and its lenders executed an amendment ("Amendment No. 3") which excludes an additional $5,400, or $28,300, 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 $10,000. 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.

All outstanding advances under the Credit Facility are due and payable on December 16, 2004. Interest is payable monthly at variable rates which are

based, at the Company's option, on the Agents' base rate (9.5% at December 31, 2000) or the Eurodollar rate plus a premium that is based on the Company's quarterly ratio of total debt to cash flow. The amended Credit Facility also requires a commitment fee to be paid quarterly equal to 0.50% of the annualized unused portion of the total commitment. The Company has used a portion of the funds available under the amended Credit Facility to refinance previously outstanding indebtedness, to fund acquisitions and for working capital purposes. The Company intends to use the remaining availability for its acquisition program and working capital.

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	7.604%	24	10/07/02
$30.0	7.612%	36	10/06/03
$30.0	7.626%	48	10/05/04

The amended Credit Facility contains covenants which, among other things, require the Company to maintain certain financial operating ratios and impose certain limitations or prohibitions on the Company with respect to the incidence, guaranty or assumption of indebtedness, the payment of dividends, cash distributions, new debt issuance, sale of assets, leasing commitments and annual capital expenditures, and contains provisions which preclude mergers and acquisitions under certain circumstances. All of the Company's assets are pledged as collateral under the Credit Facility. The Company believes that it is in compliance with all of the covenants at December 31, 2000.

On February 2, 1998, the Company entered into a revolving line of credit agreement with Nations Bank providing available borrowings up to $5,000 that may be used for general corporate purposes including working capital and the funding of cash for acquisitions or affiliations with pathology practices. This revolving line of credit was increased to $9,000 in September 2000. The balance of this revolving line of credit was paid in full on December 1, 2000.

Note Payable to Bank

In October 1999, the Company assumed a long-term obligation pursuant to a promissory note agreement with a bank in connection with the Columbus Pathology Associates acquisition. The obligation is evidenced by an installment note bearing interest at fixed rate of 9.75% and maturing in 2004. The note is secured by certain assets of the acquired practice.

Letters of Credit

As of December 31, 2000, the Company had letters of credit outstanding totaling $1,186. The letters of credit secure payments under certain operating leases and expire at various dates in 2001 and 2002. Some of the letters of credit

automatically decline in value over various lease terms. The letters of credit have annual fees averaging 1.7%.

14. Lease Commitments

The Company leases various office and laboratory space, and certain equipment pursuant to operating lease agreements. The following information includes the related party leases discussed in Note 19. Future minimum lease commitments consisted of the following at December 31, 2000:

2001	$ 4,203
2002	3,915
2003	3,265
2004	2,121
2005	2,003
Thereafter	4,690
	$20,197

In addition, certain owners of the Managed Practices are lessees of various equipment, auto and facility operating leases that are used in the operations of the business. Future payments under these leases are $4,412 of which the Company is responsible for their corresponding share as defined in the management service agreements. The Company's obligations, based upon their management fee percentage, are $705. In the event of termination of a management service agreement, any related lease obligations are also terminated or assumed by the Managed Practice.

The Company has entered into certain noncancelable subleases that reduce its total commitments under operating leases by $186.

Owned Practices' rent expense under operating leases for the years ended December 31, 1998, 1999 and 2000 was $1,687, $2,228 and $4,104 respectively.

15. Option Plan

The Company's 1996 Stock Option Plan (the "Option Plan") provides for the grant of options to purchase shares of common stock to key employees and others. The plan provides that the option price shall not be less than the fair market value of the shares on the date of the grant. All options granted under the Option Plan have 10 year terms and vest and become exercisable at the rate of 20% a year, following the date of grant. As part of the Inform DX acquisition, the Company assumed additional two option plans ("Additional Plans"). Options granted under the Additional Plans have varying exercisable rates.

The Company's Director Option Plan provides for the grant of options to purchase shares of common stock to Directors who are not employees of the Company. All options granted under the Director Option Plan have 10 year terms and are exercisable during the period specified in the agreement evidencing the grant of such Director Option. At December 31, 2000, 35,000 options have been granted under the Director Option Plan.

At December 31, 2000, 2,232,000 shares of common stock are reserved for issuance pursuant to options granted under the Option Plan, the Director Option Plan and the Additional Plans.

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and the related

interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options approximates the fair value of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted-average assumptions for 1998, 1999 and 2000:

	1998	1999	2000
Risk free interest rate	6.5%	6.5%	6.5%
Dividend yield	--	--	--
Volatility factors	107.0%	120.0%	137.0%
Weighted average life (years)	4.1	4.1	4.2

Using the Black-Scholes Option Pricing Model, the estimated weighted-average fair value per option granted in 1998, 1999 and 2000 were $10.65, $6.28 and $6.92 respectively

The pro forma net income per common share assuming the amortization of the estimated fair values over the option vesting period and diluted earnings per common share, had the fair value method of accounting for stock options been used, would have been as follows:

	1998	1999	2000
Pro forma net income attributable to common shareholders	$16,754	$19,612	$8,018
Pro forma diluted earnings per common share	$ 0.78	$ 0.87	$ 0.33

The Black-Scholes Option Pricing Model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different than those of traded options, and because changes in the assumptions can materially affect the fair value estimate, in management's opinion, the existing models may not necessarily provide a reliable single measure of the fair value of its employee stock options.

A summary of the status of the option plans as of and for the changes during each of the three years in the period ended December 31, 2000 is presented below:

	Number of Shares	Option Price Per Share		
		Low	High	Weighted
Outstanding December 31, 1997	1,215,142	$ 1.11	$16.75	$ 5.78
Granted in 1998	254,050	14.06	14.06	14.06
Granted in 1998	2,000	16.13	16.13	16.13
Granted in 1998	1,000	11.38	11.38	11.38
Granted in 1998	8,971	3.74	3.74	3.74
Granted in 1998	1,461	6.22	6.22	6.22
Granted in 1998	4,017	11.20	11.20	11.20
Granted in 1998	201	18.67	18.67	18.67
Granted in 1998	12,974	40.46	40.46	40.46
Cancelled in 1998	(12,900)	8.33	16.75	11.45
Exercised in 1998	(27,560)	8.33	10.00	8.98
Outstanding December 31, 1998	1,459,356	1.11	40.46	7.46
Granted in 1999	26,000	9.31	9.31	9.31
Granted in 1999	259,500	7.63	7.63	7.63
Granted in 1999	5,000	9.56	9.56	9.56
Granted in 1999	2,000	9.16	9.16	9.16
Granted in 1999	2,000	9.06	9.06	9.06
Granted in 1999	9,000	7.75	7.75	7.75
Granted in 1999	49,727	15.56	15.56	15.56
Granted in 1999	3,736	40.46	40.46	40.46
Cancelled in 1999	(41,800)	10.00	16.75	10.58
Exercised in 1999	(8,000)	1.11	1.11	1.11
Outstanding December 31, 1999	1,766,519	1.11	40.46	7.76
Granted in 2000	50,000	8.13	8.13	8.13
Granted in 2000	356,000	7.63	7.63	7.63
Granted in 2000	17,000	16.88	16.88	16.88
Granted in 2000	73,703	41.58	41.58	41.58
Cancelled in 2000	(42,250)	7.63	14.06	9.64
Exercised in 2000	(260,521)	1.11	15.56	5.96
Outstanding December 31, 2000	1,960,451	$ 1.11	$41.58	$ 9.30

The following table summarizes the information about options outstanding at December 31, 2000:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 1.11	123,600	3.6	$ 1.11	123,600	$ 1.11
$ 1.67	360,011	5.1	$ 1.67	288,009	$ 1.67

$ 3.74	11,702	7.1	$ 3.74	9,891	$ 3.74
$ 6.22	1,461	7.3	$ 6.22	1,461	$ 6.22
$ 7.63	583,500	8.9	$ 7.63	40,800	$ 7.63
$ 7.75	9,000	8.9	$ 7.75	1,800	$ 7.75
$ 8.13	50,000	9.0	$ 8.13	--	--
$ 8.33	111,720	5.5	$ 8.33	69,600	$ 8.33
$ 9.06	2,000	8.9	$ 9.06	400	$ 9.06
$ 9.31	26,000	8.2	$ 9.31	5,200	$ 9.31
$ 9.56	4,000	8.6	$ 9.56	--	--
$10.00	236,200	6.5	$10.00	128,800	$10.00
$11.20	4,017	7.4	$11.20	2,411	$11.20
$11.65	600	7.5	$11.65	--	--
$14.06	228,280	7.4	$14.06	91,000	$14.06
$15.56	49,246	8.9	$15.56	23,420	$15.56
$16.13	2,000	7.4	$16.13	800	$16.13
$16.63	6,000	6.9	$16.63	3,600	$16.63
$16.75	43,500	6.9	$16.63	26,100	$16.63
$16.88	17,000	9.8	$16.88	--	--
$18.68	201	7.5	$18.68	201	$18.68
$40.46	16,710	7.8	$40.46	11,658	$40.46
$41.58	73,703	8.5	$41.58	73,703	$41.58
$1.11 - $41.58	1,960,451	7.1	$ 9.30	902,454	$ 9.56

As of December 31, 1998 and 1999 exercisable options were 499,845 and 860,366, respectively.

Warrants to purchase 38,867 and 16,226 shares of common stock were outstanding at December 31, 1999 and 2000, respectively, at exercise prices ranging from $0.01 to $0.30 per share. These warrants were issued in conjunction with certain indebtedness incurred by the Company. Holders of warrants do not have voting rights or any other rights as a shareholder of the Company.

In connection with indebtedness issued by the Company in 1997 (the "Junior Notes"), the Company issued warrants to purchase 16,066 shares of the Company's common stock to the holders of the Junior Notes. For each $10 Junior Note, the holder was issued a warrant to purchase 161 shares of common stock at $0.01 per share (the "Junior Warrants"). The Junior Warrants expire on December 24, 2002. A value of approximately $58 was allocated to these warrants which was included in deferred financing costs and additional paid-in capital in the accompanying consolidated financial statements.

16. Redeemable Preferred Stock

This footnote describes the transactions regarding Inform DX's Series A Redeemable Preferred Stock (the "Preferred Stock"). All share amounts have been converted using the conversion ratio for the pooling transaction.

In 1998, Inform DX issued 395,471 shares of Preferred Stock at $40.46 per share. The Preferred Stock was convertible into common stock at the option of the holder. The conversion rate for the Preferred Stock was one share of common stock per share of Preferred Stock. The Preferred Stock was redeemable after May 20, 2003 at $40.46 per share. Net proceeds from the Preferred Stock sale were approximately $15,298 and were used to repay long-term obligations of the Inform DX and certain indebtedness assumed, including accrued interest. Proceeds received in excess of retired indebtedness were used to provide general working capital and funding for Company acquisitions.

Offering costs and expenses of approximately $702 were recorded against the aggregate preference value of the Preferred Stock and were being accreted over five years. Accretion for the period ended December 31, 2000 and 1999 was approximately $65 and $131 respectively.

The Preferred Stock voted on an as converted basis with the holders of Inform DX's common stock. The Preferred Stock contained a liquidation preference over all other classes of Inform DX's capital stock. Furthermore, holders of the Preferred Stock may have elected to treat certain transactions as liquidation events. Subject to certain conditions, the Preferred Stock also contained anti-dilution and preemptive rights. Each holder of shares of the Preferred Stock was entitled to receive, when and as declared by the Board of Directors, if at all, dividends on a parity with each holder of shares of common stock.

On June 30, 2000, Inform DX acquired Pathsource, Inc. in a stock for stock transaction accounted for as a purchase business combination. In connection with this acquisition, Inform DX provided for an induced conversion of the Preferred Stock. The induced conversion resulted in the issuance of 642,640 shares of common stock. Inform DX estimated, based on a third party valuation, the fair market value of its common stock at June 30, 2000 to be $6.22 per share. Based on this valuation, Inform DX recorded a charge for the induced conversion of approximately $1,500, or $6.22 per share times the additional common shares issued of 247,169.

17. Employee Benefit Plans

Effective July 1, 1997, the Company consolidated its previous 401(k) plans into a new qualified 401(k) retirement plan (the "401(k) Plan") covering substantially all eligible employees as defined in the 401(k) plan. The new 401 (k) Plan requires employer matching contributions equal to 50% (25% prior to July 1, 2000) of the employees' contributions up to a maximum of one thousand dollars per employee. The Company expensed matching contributions aggregating $379, $451 and $648 to the new plan in 1998, 1999 and 2000, respectively. Also, in connection with acquisitions, the Company assumes the obligations under certain defined contribution plans which cover substantially all eligible employees of the acquired practices. The Company has not made any contributions from the dates of acquisition through December 31, 2000.

During 1999, the Company introduced a Supplemental Employee Retirement Plan ("SERP") which covers only selected employees. The SERP is a non-qualified deferred compensation plan which was established to aid in the retention of the non-selling physicians and other key employees. In 1999, the eligible participants were allowed to defer up to ten thousand dollars of compensation and/or eligible bonuses. If the subscription to the plan fell below an established deferral range, the participating individuals were allowed to defer additional funds. The Company may also make discretionary contributions to the SERP. Employee and employer contributions to the SERP for the years ended December 31, 1999 and 2000, were $428 and $20, and $484 and $76, respectively.

The Company also sponsors certain defined contribution plans for substantially all employees of the former Inform DX who are at least 21 years old, have been employed by the Company for at least one year and have completed 1,000 hours of service. These plans include a 401(k)/profit sharing plan and a money purchase pension plan. Under the 401(k)/profit sharing plan, employees may contribute up to 15% of their qualifying salary on a pre-tax basis, subject to Federal income tax limitations. In 1998, the Company matched 100% of the employee contributions up to 3% of employee contributions. In addition, the Company contributed 0.5% of qualifying compensation as a profit sharing distribution and 3% of qualifying compensation to the money purchase pension plan.

In 1999, the Company matched 100% of the first 3% of employee contributions and 50% of employee contributions between 3% and 5%. The amount expensed under all plans for Company contributions was approximately $536 and $765 in 1999 and 2000, respectively.

18. Commitments and Contingencies

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.

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, 1999, 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 will 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.

Internal Revenue Service Examination -- The Internal Revenue Service (the "IRS") conducted an examination of the Company's federal income tax returns for the tax years ended December 31, 1996 and 1997 and concluded during 2000 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, noncompetitive provisions and salary benefits continuation.

19. Related Party Transactions

Operating Leases -- The Company leases laboratory and administrative facilities used in the operations of eight practices from entities beneficially owned by some of the Company's common stockholders. The terms of the leases expire from 2000 to 2003 and some contain options to renew for additional periods. Lease payments made under leases with related parties were $478, $644 and $1,140 in 1998, 1999 and 2000, respectively.

20. Income Taxes

The provision for income taxes for the years ended December 31, 1998, 1999 and 2000 consists of the following:

	Year ended December 31,		
	1998	1999	2000
Current:			
Federal	$15,177	$17,465	$20,958
State	2,371	2,015	2,227
Total current provision	17,548	19,480	23,185
Deferred:			
Federal	(3,234)	(1,799)	(8,242)
State	(373)	(207)	(85)
Total deferred benefit	(3,607)	(2,006)	(9,117)
Total provision for income taxes	$13,941	$17,474	$14,068

The effective tax rate on income before income taxes is reconciled to the statutory federal income tax rate as follows:

	Year ended December 31,		
	1998	1999	2000
Statutory federal rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	4.0	4.0	3.7

Non-deductible items, primarily amortization of goodwill	2.8	3.3	8.6
Non-deductible items, merger-related charges	0.0	0.0	4.8
Other	1.5	1.2	(0.3)
	43.3%	43.5%	51.8%

The following is a summary of the deferred income tax assets and liabilities as of December 31, 1999 and 2000:

	December 31,	
	1999	2000
Deferred tax assets (short term):		
Allowance for doubtful accounts	$ 6,093	$ 8,479
Accrued liabilities	884	1,499
Deferred tax assets (short term)	6,977	9,978
Deferred tax liabilities (short term):		
481 (a) adjustment	(1,571)	(1,385)
Other	(1)	--
Deferred tax liabilities (short term)	(1,572)	(1,385)
Net short term deferred tax assets	5,405	8,593
Deferred tax assets (long-term):		
Net operating loss	5,105	6,955
Other	--	1,255
Deferred tax assets (long-term)	5,105	8,210
Less: valuation allowance	(3,004)	(3,548)
Net deferred tax assets (long-term)	2,101	4,662
Deferred tax liabilities (long-term):		
Change from cash to accrual basis of accounting by the acquisitions	(1,355)	(1,178)
Intangible assets acquired	(62,837)	(67,059)
Property and equipment	(430)	(471)
Deferred tax liabilities (long-term)	(64,622)	(68,708)
Net long-term deferred tax liability	(62,521)	(64,046)
Net deferred tax assets / (liabilities)	$(57,116)	$(55,453)

21. Earnings Per Share

Earnings per share are computed and presented in accordance with SFAS No. 128, Earnings Per Share. Basic earnings per share excludes dilution and is computed by dividing income or loss attributable to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other

contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The effects of Redeemable Preferred Stock are calculated using the as if converted method and the effects of stock options are calculated using the treasury stock method.

	Years en	
	1998	
Earnings Per Common Share:		
Net income attributable to common shareholders	$18,168	$
Basic earnings per common share	$ 0.87	$
Diluted earnings per common share	$ 0.84	$
Basic weighted average shares outstanding	20,911	
Effect of dilutive stock options and contingent shares	699	
Diluted weighted average shares outstanding	21,610	

Options to purchase 333,405 shares, 774,590 shares and 453,818 shares of common stock which were outstanding at December 31, 1998, 1999 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 years ended December 31, 1998 and 1999 because their effect would be anti-dilutive. Warrants to purchase shares of 41,116 and 38,867 for the years December 31, 1998 and 1999, respectively, were excluded from the calculation of diluted earnings per share because their effect would be anti-dilutive.

22. Supplemental Cash Flow Information

The following supplemental information presents the non-cash impact on the balance sheet of assets acquired and liabilities assumed in connection with acquisitions consummated during the years ended December 31, 1998, 1999 and 2000:

	Years Ended December		
	1998	1999	
Assets acquired	$ 98,263	$ 74,745	$
Liabilities assumed	(24,543)	(19,850)	
Common stock issued	(16,226)	(3,149)	
Cash paid for acquisitions	57,494	51,746	
Less cash acquired	(789)	(1,541)	

Net cash paid for acquisitions	56,705	50,205	
Costs related to completed and pending acquisitions	3,767	1,438	
Cash paid for acquisitions and acquisition costs, net of cash acquired	$ 60,472	$ 51,643	$

As more fully discussed in Note 16 to the consolidated financial statements, in connection with the PathSource, Inc. acquisition, Inform DX provided for an induced conversion of the Preferred Stock. The induced conversion resulted in the issuance of 642,640 shares of common stock. Inform DX estimated, based on a third party valuation, the fair market value of its common stock at June 30, 2000 to be $6.22 per share. Based on this valuation, Inform DX recorded a non-cash charge for the induced conversion of approximately $1,500, or $6.22 per share times the additional common shares issued of 247,169.

23. Preferred Share Purchase Rights Plan

On April 8, 1999, the Board of Directors of the Company adopted a Preferred Share Purchase Rights Plan (the "Rights Plan") and, in connection therewith, declared a dividend distribution of one preferred share purchase right ("Right") on each outstanding share of the Company's common stock to shareholders of record at the close of business on April 19, 1999. The Rights will expire on April 8, 2009. The adoption of the Rights Plan and the distribution of the Rights is not dilutive, does not affect reported earnings per share, and is not taxable to shareholders.

Subject to the terms of the Rights Plan, each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of the Company's Series A Junior Participating Preferred Stock (the "Preferred Shares"). Each Right has an initial exercise price of $45.00 for one one-thousandth of a Preferred Share (subject to adjustment). The Rights will be exercisable only if a person or group acquires 15% or more of the Company's common stock or announces a tender or exchange offer the consummation of which would result in ownership by a person or group of 15% or more of the common stock. Upon any such occurrence, each Right will entitle its holder (other than such person or group of affiliated or associated persons) to purchase, at the Right's then current exercise price, a number of the Company's common shares having a market value of twice such price.

24. 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 intangible, merger-related charges, asset impairment and 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 business segments and corporate.

Owned	1998	1999	
Net patient service revenue	$177,304	$233,269	$
Operating income	60,282	73,676	
Segment assets	108,941	139,791	
Managed			
Net management service revenue	$ 16,012	$ 24,163	$
Operating income (loss)	2,731	4,299	
Segment assets	14,622	15,533	
Corporate			
Operating (expense)	$(12,804)	$(15,676)	$
Segment assets	292,763	351,138	
Elimination of Intercompany Accounts	(25,913)	(27,566)	

25. Subsequent Events

Contingent Note Payments -- Subsequent to December 31, 2000, the Company paid approximately $17,590 on contingent notes issued in connection with acquisitions.

26. Quarterly Results of Operations (unaudited)

The following table presents certain unaudited quarterly financial data for each of the quarters in the years ended December 31, 1999 and 2000. This information has been prepared on the same basis as the Consolidated Financial Statements and includes, in the opinion of the Company, all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the quarterly results when read in conjunction with the Consolidated Financial Statements and related Notes thereto. The operating results for any quarter are not necessarily indicative of results for any future period or for the full year. Adjustments have been

made to the quarterly financial statements to reflect the acquisition of Inform DX, which was accounted for as a pooling of interest, as more further described in Note 3, Mergers and Acquisitions. These adjustments are reflected in all line items below and for all quarters presented except the fourth quarter of 2000.

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	1999 Calendar Quarters				20	
	First	Second	Third	Fourth	First	S
Net patient service revenue	$52,336	$55,406	$59,866	$65,661	$68,888	
Management service revenue	5,581	6,053	6,209	6,320	6,155	
Net revenue	57,917	61,459	66,075	71,981	75,043	
Operating costs and expenses:						

Cost of services	26,950	28,377	31,638	35,720	36,950
Selling, general and administrative expense	11,140	11,295	12,190	12,534	13,141
Provision for doubtful accounts	5,963	6,578	6,005	6,743	7,103
Amortization expense	2,757	2,947	3,420	3,703	3,837
Merger-related charges (1)	--	--	--	--	--
Asset impairment and related charges (2)	--	--	--	--	--
Total	46,810	49,197	53,253	58,700	61,031
Income from operations	11,107	12,262	12,822	13,281	14,012
Interest expense	(1,973)	(2,175)	(2,580)	(2,845)	(3,418)
Other income (expense), net	55	47	95	89	63
Income (loss) before income taxes	9,189	10,134	10,337	10,525	10,657
Provision for income taxes	4,057	4,394	4,540	4,483	4,559
Net income	5,132	5,740	5,797	6,042	6,098
Induced conversion and accretion of redeemable preferred stock	(33)	(33)	(33)	(32)	(34)
Net income attributable to common stockholders	$ 5,099	$ 5,707	$ 5,764	$ 6,010	$ 6,064
Per share data:					
Basic earnings per common share	$ .23	$ .26	$ .26	$ .27	$. 27
Diluted earnings per common share	$ .23	$ .26	$ .25	$ .26	$. 27

(1) In connection with the Inform DX merger, the Company recorded $6,209 of costs as they related to transaction fees, change in control payments and various exit costs associated with the consolidation of certain operations.

(2) In connection with the loss of two hospital contracts and an ambulatory care facility contract in Cleveland, Ohio, the Company recorded a non-recurring charge of $5,245 in the second quarter of 2000. In connection with Quest Diagnostics termination of its contract in South Florida and the loss of a renewable contract with a hospital in South Florida, the Company recorded a non-recurring charge of $4,317 in the fourth quarter of 2000. The charge was based upon the remaining projected cash flows from these contracts in which the Company determined that the intangible assets that were recorded from acquisitions in these areas had been impaired.

Certain reclassifications have been made to the quarterly consolidated statements of operations to conform to the annual presentations.

Exhibit Index

Exhibit No.	Description
23.1	Independent Auditors' Consent of Deloitte & Touche LLP
23.2	Independent Auditors' Consent of Ernst & Young LLP