

AMERIPATH INC
Form 10-Q
May 13, 2005
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005

or

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

Commission File Number: 000-22313

AMERIPATH, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

65-0642485

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(State or Other Jurisdiction of

(I.R.S. Employer

Incorporation or Organization)

Identification No.)

7111 Fairway Drive, Suite 400

Palm Beach Gardens, Florida
(Address of Principal Executive Offices)

33418
(Zip Code)

(561) 712-6200

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Formal Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) Yes No

All of the voting and non-voting common equity of the Registrant is held by affiliates.

The number of shares of Common Stock of the Registrant outstanding as of May 13, 2005 was 100.

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AMERIPATH, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****AMERIPATH, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands)

	March 31, 2005	December 31, 2004
	<u>2005</u>	<u>2004</u>
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 16,172	\$ 20,980
Restricted cash	17,804	17,940
Accounts receivable, net	85,110	76,567
Inventories	2,379	2,335
Deferred tax assets, net	13,345	13,345
Other current assets	4,436	4,823
	<u>139,246</u>	<u>135,990</u>
PROPERTY AND EQUIPMENT, NET	<u>34,207</u>	<u>30,964</u>
OTHER ASSETS:		
Goodwill	598,953	591,819
Identifiable intangibles, net	177,109	179,903
Other	25,149	25,633
	<u>801,211</u>	<u>797,355</u>
TOTAL ASSETS	<u>\$ 974,664</u>	<u>\$ 964,309</u>
LIABILITIES AND STOCKHOLDER S EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 48,487	\$ 52,620
Accrued interest	18,560	9,456
Current portion of long-term debt	2,920	2,682
Other current liabilities	966	1,164
	<u>70,933</u>	<u>65,922</u>

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LONG-TERM LIABILITIES:		
Long-term debt	488,014	495,171
Other liabilities	32,890	29,220
Deferred tax liabilities, net	15,904	15,904
	<u> </u>	<u> </u>
Total long-term liabilities	536,808	540,295
	<u> </u>	<u> </u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDER'S EQUITY:		
Common stock, \$.01 par value, 100 shares issued and outstanding at March 31, 2005 and December 31, 2004	1	1
Additional paid-in capital	359,795	352,723
Retained earnings	7,127	5,368
	<u> </u>	<u> </u>
Total stockholder's equity	366,923	358,092
	<u> </u>	<u> </u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 974,664	\$ 964,309
	<u> </u>	<u> </u>

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

Table of Contents**AMERIPATH, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands)****(Unaudited)**

	Three Months Ended March 31,	
	2005	2004
NET REVENUES:		
Net patient service revenues	\$ 128,525	\$ 119,620
Net management service revenues	5,355	6,180
Net revenues	<u>133,880</u>	<u>125,800</u>
OPERATING COSTS AND EXPENSES:		
Costs of services:		
Net patient service revenues	70,189	62,734
Net management service revenues	3,311	3,959
Total costs of services	<u>73,500</u>	<u>66,693</u>
Selling, general and administrative expenses	25,190	24,272
Provision for doubtful accounts	17,636	17,353
Amortization expense	2,794	2,814
Asset impairment and related charges		586
Total operating costs and expenses	<u>119,120</u>	<u>111,718</u>
INCOME FROM OPERATIONS	<u>14,760</u>	<u>14,082</u>
OTHER INCOME (EXPENSES):		
Interest expense	(11,739)	(11,146)
Write-off of deferred financing costs		(3,488)
Gain on sale of managed practice	454	
Change in value of derivative	(620)	
Other income, net	104	70
Total other expenses, net	<u>(11,801)</u>	<u>(14,564)</u>
INCOME (LOSS) BEFORE INCOME TAXES	<u>2,959</u>	<u>(482)</u>
PROVISION (BENEFIT) FOR INCOME TAXES	<u>1,200</u>	<u>(178)</u>
NET INCOME (LOSS)	<u>\$ 1,759</u>	<u>\$ (304)</u>

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

Table of Contents**AMERIPATH, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(Unaudited)**

	Three Months	Three Months
	Ended	Ended
	March 31, 2005	March 31, 2004
	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 1,759	\$ (304)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	2,499	2,210
Amortization	3,222	3,413
Loss on disposal of assets	88	10
Asset impairment and related charges		586
Gain on sale of managed practice	(454)	
Change in value of derivative	620	
Provision for doubtful accounts	17,636	17,353
Write-off of deferred financing costs		3,488
Changes in assets and liabilities (net of effects of acquisitions):		
Increase in accounts receivable	(26,426)	(20,974)
Increase in inventories	(58)	(283)
Decrease in other current assets	387	1,556
Increase in other assets	(200)	(3,260)
Increase in accrued interest	9,104	11,295
(Decrease) increase in accounts payable and accrued expenses	(322)	3,113
	<u> </u>	<u> </u>
Net cash provided by operating activities	7,855	18,203
	<u> </u>	<u> </u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property and equipment	(5,318)	(2,663)
Cash paid for acquisitions and acquisition costs, net of cash acquired	212	(496)
Decrease (increase) in restricted cash	136	(1,261)
Payments of contingent notes	(7,295)	(7,927)
	<u> </u>	<u> </u>
Net cash used in investing activities	(12,265)	(12,347)
	<u> </u>	<u> </u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Debt issuance costs	(27)	
Net payments on long-term debt and capital leases	(142)	(763)
Payments under revolver facility	(7,000)	
Payments under term loan facility	(300)	(88,312)
Contingent note proceeds	7,071	7,927
Proceeds from sale of senior subordinated notes		79,500
	<u> </u>	<u> </u>

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Net cash used in financing activities	(398)	(1,648)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,808)	4,208
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	20,980	23,536
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 16,172	\$ 27,744
SUPPLEMENTAL NON-CASH TRANSACTIONS:		
Property and equipment acquired pursuant to capital leases	\$ 522	

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

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AMERIPATH, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(in thousands, unless otherwise indicated)

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements, which include the accounts of AmeriPath, Inc. and its subsidiaries (collectively, AmeriPath or the Company), have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial reporting and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, such interim financial statements contain all adjustments (consisting of normal recurring items) considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows for the interim periods presented. The results of operations and cash flows for any interim period are not necessarily indicative of results that may be expected for the full year.

The accompanying unaudited interim financial statements should be read in conjunction with the audited consolidated financial statements, and the notes thereto, included in the Company's Form 10-K for the year ended December 31, 2004 and filed with the Securities and Exchange Commission (SEC) on March 18, 2005.

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

Note 2 The March 2003 Transaction

On December 8, 2002, Amy Holding Company and its wholly-owned subsidiary, Amy Acquisition Corp., entered into a merger agreement with AmeriPath, pursuant to which Amy Acquisition Corp. merged with and into AmeriPath, with AmeriPath continuing as the surviving corporation (the March 2003 Transaction). Amy Holding Company and Amy Acquisition Corp. are Delaware corporations formed at the direction of Welsh, Carson, Anderson & Stowe IX, L.P. (WCAS). The March 2003 Transaction was approved by the then Company's stockholders and subsequently consummated on March 27, 2003. As a result of the March 2003 Transaction, AmeriPath became a wholly-owned subsidiary of Amy Holding Company, which was renamed AmeriPath Holdings, Inc. (Holdings).

The March 2003 Transaction was accounted for under the purchase method of accounting prescribed in Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, (SFAS No. 141), with intangible assets recorded in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, (SFAS No. 142). In accordance with the provisions of SFAS No. 142, no amortization of indefinite-lived intangible assets or goodwill is recorded.

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As permitted under current guidance, any amounts recorded or incurred (such as goodwill or debt) by our parent as a result of the March 2003 Transaction can be pushed down and recorded on our financial statements. The following table summarizes the final allocation of the March 2003 Transaction based upon a valuation completed by an independent third-party valuation firm during September 2003.

Cash and equity contributed by WCAS	\$ 319,667
Total liabilities assumed	587,801
Fair value of assets acquired	(676,458)
	<hr/>
Excess purchase price (goodwill)	\$ 231,010
	<hr/>

In addition, Holdings issued to WCAS Capital Partners III, L.P., an investment fund affiliated with WCAS, \$67.0 million in principal amount of Holdings' senior subordinated notes and an agreed-upon number of shares of its common stock, for an aggregate purchase price of \$67.0 million. The proceeds from this transaction were deposited into a Holdings company cash collateral account, which cash, subject to some exceptions, will be contributed to the Company from time to time to fund up to \$67.0 million of future payments under the Company's contingent notes relating to acquisitions consummated prior to the March 2003 Transaction. As of March 31, 2005, approximately \$35.9 million of the \$67.0 million has been contributed to the Company to fund contingent note payments. The lenders under the Company's Credit Facility have a first-priority security interest in all funds held in such cash collateral account.

Note 3 Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. Statement 123(R) supersedes APB

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. SFAS 123(R) is effective for annual periods beginning after June 15, 2005. The Company expects to adopt SFAS 123(R) effective January 1, 2006, but has not yet determined if it will use the modified prospective method or one of the modify