AMSURG

AMERICA'S SINGLE SPECIALTY SURGERY CENTER LEADER

2003 Annual Report

HIGH QUALITY HEALTHCARE

+

LOW OPERATING COSTS

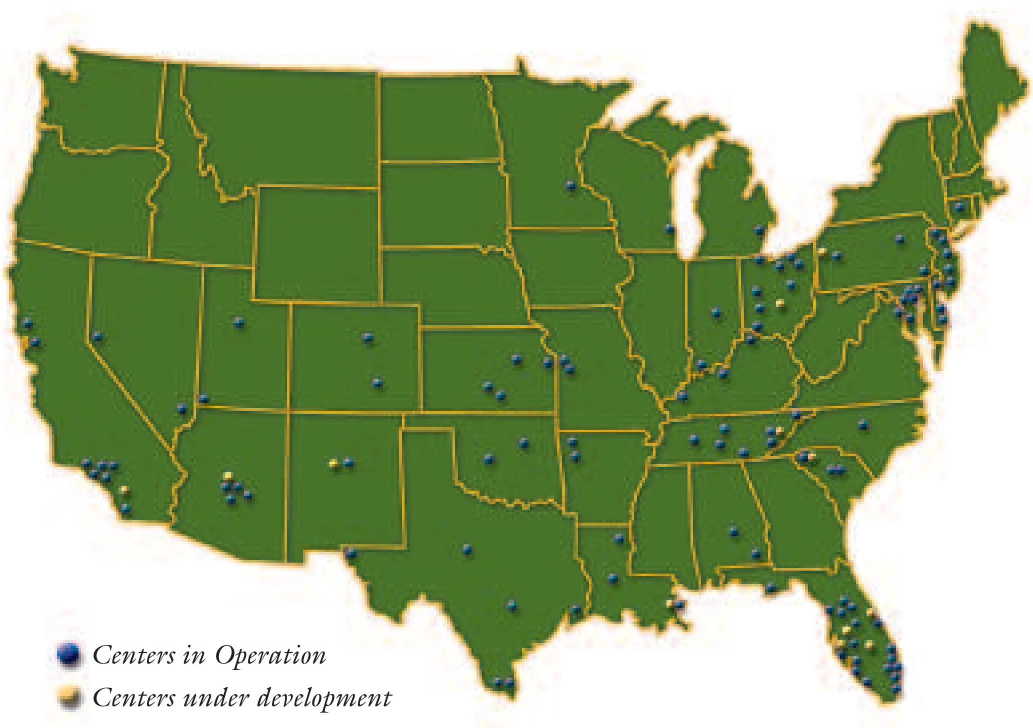
+

HIGH PATIENT/PHYSICIAN SATISFACTION

=

CONSISTENT PROFITABLE GROWTH

LOCATIONS AT DECEMBER 31, 2003



ALABAMA
Dothan
Montgomery

ARIZONA
Mesa
Peoria
Phoenix
Sun City

ARKANSAS
Fayetteville
Rogers

CALIFORNIA
Burbank
Glendale
Inglewood
La Jolla
Sebastopol
Tarzana
Torrance
Westlake

COLORADO
Denver
Pueblo

CONNECTICUT
Bloomfield

DELAWARE
Dover
Lewes
Newark

FLORIDA
Boca Raton
Cape Coral
Coral Gables
Crystal River
Ft. Lauderdale
Ft. Myers (3)
Hialeah
Inverness
Melbourne (3)
Miami
Mount Dora
Naples
Ocala
Panama City
Sarasota (2)
Tamarac
Winter Haven
Zephyrhills

INDIANA
Evansville
Indianapolis

KANSAS
Hutchinson
Shawnee
Topeka
Wichita

KENTUCKY
Crestview Hills
Louisville (2)
Paducah

LOUISIANA
Alexandria
New Orleans
West Monroe

MARYLAND
Baltimore
Bel Air
Chevy Chase
Columbia
Waldorf

MICHIGAN
Detroit

MINNESOTA
Minneapolis (3)

MISSOURI
Independence
Kansas City

NEVADA
Las Vegas (2)
Reno

NEW JERSEY
Egg Harbor
Florham Park
Lawrenceville
Oakhurst
Voorhees

NEW MEXICO
Santa Fe

NORTH CAROLINA
Greensboro

OHIO
Akron
Cincinnati
Cleveland
Lorain
Middletown
Sidney
Toledo
Willoughby

OKLAHOMA
Oklahoma City
Tulsa

PENNSYLVANIA
Hillmont
Kingston
Seneca

SOUTH CAROLINA
Clemson
Columbia (2)

TENNESSEE
Chattanooga
Columbia (2)
Jackson
Kingsport
Knoxville (2)
Maryville
Nashville (2)

TEXAS
Abilene (2)
Beaumont
El Paso
Harlingen
San Antonio
Weslaco

UTAH
Salt Lake City
St. George

Washington, D.C.

WISCONSIN
Milwaukee

There are centers under development at the following locations at December 31, 2003:

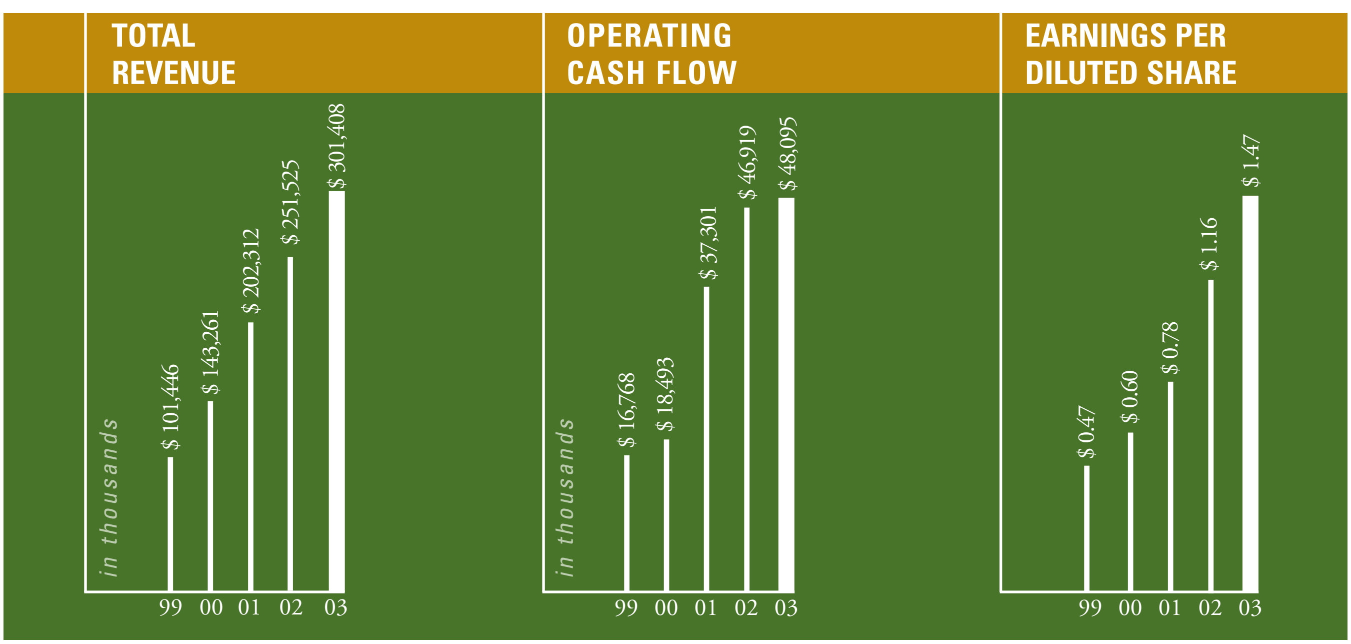
Sun City, Arizona
Temecula, California
Lakeland, Florida
Rockledge, Florida
Tampa, Florida
Sebring, Florida
New Orleans, Louisiana
Los Alamos, New Mexico
Columbus, Ohio
Johnstown, Pennsylvania
Greenville, South Carolina
Knoxville, Tennessee

COMPANY PROFILE

AmSurg Corp. develops, acquires and manages practice-based ambulatory surgery centers in partnership with surgical and other group physician practices. Headquartered in Nashville, Tennessee, AmSurg operated 116 ambulatory surgery centers at December 31, 2003. By focusing on the delivery of high quality, low cost surgery services that create high patient and physician satisfaction, AmSurg Corp. creates value for the three constituencies involved in every surgical procedure: the patient, the physician and the payor.

FINANCIAL HIGHLIGHTS

	For the Years Ended December 31,	
	2003	2002
	(In thousands, except per share and center data)	
Operating Results:		
Revenues	**$ 301,408**	$ 251,525
Net earnings	**30,126**	24,022
Earnings per share (diluted)	**$ 1.47**	$ 1.16
Weighted average common shares outstanding (diluted)	**20,444**	20,728
Financial Position at Year End:		
Cash and cash equivalents	**$ 14,258**	$ 13,320
Working capital	**46,009**	37,414
Total assets	**356,189**	299,814
Long-term debt	**53,137**	27,884
Minority interest	**36,796**	29,869
Shareholders' equity	**232,898**	216,364
Center Data:		
Centers at end of year	**116**	107
Procedures performed during year	**550,791**	471,155



Letter to Shareholders

Fellow Shareholder:

We are pleased to report that AmSurg expanded its long-term record of significant profitable growth with its financial results for 2003. While we cover the specifics of our 2003 performance below, we have two key messages we want to impart with this letter. The first is the historical consistency of our profitable growth, which reflects the success of our strategy of managing our business to produce high quality results and sustainable expansion. The predictability of our business model also enhances shareholder value. The second key message is the compelling opportunity we have to continue this growth in the years to come.

As illustrated on the cover of this annual report, the basic drivers of our business – high quality, low cost healthcare that produces high patient and physician satisfaction – are readily apparent. And, while we have continued to refine our business model through the years, the value proposition we provide our physician partners today is fundamentally the same as we did when AmSurg was founded 12 years ago. As one result of the power and simplicity of this value proposition, we have achieved record revenues and net earnings, as well as positive same-center revenue growth, for each of the 24 consecutive quarters that AmSurg has been a public company. We have also produced growth in revenues and improved net earnings every year since AmSurg was founded in 1992.

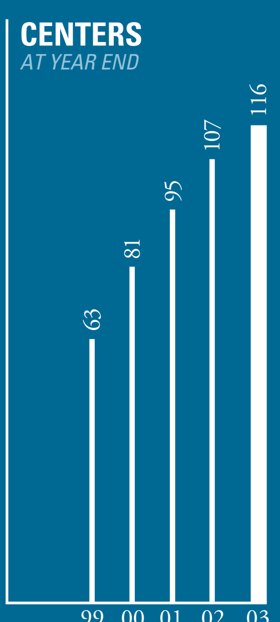
We are confident that AmSurg is well positioned to achieve continued profitable growth for the foreseeable future. After a review of 2003's highlights and our specific guidance for 2004, we will discuss the factors supporting this confidence.

Strong earnings growth for 2003 establishes new record: AmSurg's net earnings per diluted share increased 27% for 2003 to a record $1.47 from $1.16 for 2002. Our net earnings for 2003 grew 25% to $30.1 million from $24.0 million for 2002.

2003 revenue expands 20%, powered by new centers and same-center procedure growth: The Company's revenues increased 20% for 2003 to $301.4 million from $251.5 million for 2002. This growth reflects the expansion of our base of centers in operation in 2003, through six center acquisitions and the opening of four de novo centers, as well as the closing of one center in connection with the expiration of its real estate lease. Contributing to our achievement of our acquisition target for 2003, two of the centers acquired during the year were large centers that each generate revenues at approximately three times the rate of our average center.

AmSurg's revenue growth also benefited from a 7% increase in same-center revenues for 2003, driven primarily by growth in procedures. After five consecutive years of double-digit expansion, our same-center revenue growth was below historical levels, primarily due to physician transition issues at several centers and a slowing in same-center procedure growth in the fourth quarter of 2003, consistent with the overall ambulatory surgery center industry.

Substantial cash flow from operations supports strong financial position: AmSurg continued to produce strong cash flow for 2003, enhancing its ability to fund its growth internally. Cash flow from operations totaled $48.1 million for 2003, which was 1.6 times net earnings for the year, compared with capital expenditures for acquisitions and de novo center development of $44.4 million. With cash and cash equivalents at the end of 2003 of $14.3 million, a ratio of long-term debt to total capital of 19% and a recent expansion in our credit facility to $125 million, we are well positioned to finance our anticipated growth for the next three to five years.



Ken P. McDonald
President and
Chief Executive Officer

Claire M. Gulmi
Senior Vice President,
Chief Financial Officer and
Secretary

Year-end 2003 center development pipeline improves earnings visibility: AmSurg had a record 20 new centers in its development pipeline at the end of 2003, including 12 centers under development and eight centers under letter of intent. Of the 12 centers under development, we expect seven centers to open in 2004, and the five remaining centers under development are all scheduled to open in the first quarter of 2005. In addition, three of the centers under letter of intent are for de novo centers.

The other five centers under letter of intent at the end of 2003 are for acquisitions. We have already completed one of these acquisitions in February 2004, which was a large orthopedic center. The other four centers under letter of intent at year-end will be purchased in a single transaction if a Certificate of Need approval is granted by the state in which they operate. We expect determination of this CON to occur in the third quarter of 2004. In February 2004, we entered into another letter of intent for a center acquisition. All six of these acquisitions, if completed, would constitute approximately 60% of our acquisition capital expenditure target for 2004.

2004 Guidance Represents Further Substantial Profitable Growth

The Company's earnings guidance for 2004 is primarily based on assumptions related to the expansion of its base of centers in operation and its growth in same-center revenues. With our current pipeline of centers under development and letter of intent, we expect to add a net 12 to 15 new de novo or acquired centers for 2004. This total includes the planned disposition of three existing centers during the first quarter of 2004, from which we expect a gain of $0.06 per diluted share. In addition, reflecting the softer procedure growth evidenced in the fourth quarter of 2003 and early 2004, we target same-center revenue growth for 2004 in a range of 4% to 7%.

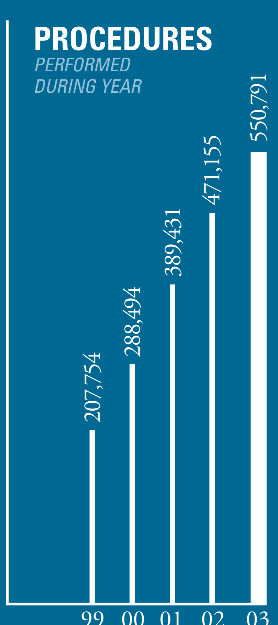
…we have the business model, the financial strength and the management depth to convert opportunity into bottom-line results for 2004 and beyond.

As a result of these and other assumptions, our guidance for earnings per diluted share for 2004 is in a range of $1.80 to $1.84, including the $0.06 gain related to the center dispositions planned in the first quarter. Adjusting for the three-for-two stock split that was effected on March 24, 2004, our 2004 earnings guidance is in a range of $1.20 to $1.23 per diluted share, including a $0.04 gain related to the center dispositions, compared with $0.98 per diluted share for 2003. We also expect revenues for 2004 to grow to a range of $350 million to $370 million, compared with $301 million for 2003.

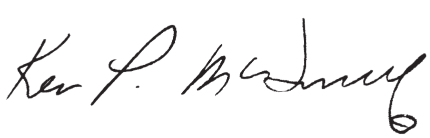
We believe AmSurg's prospects for long-term profitable growth beyond 2004 are supported by continued favorable long-term industry dynamics. For instance, the aging of the baby boom generation promises growing national demand for the types of procedures we provide, particularly in our GI and ophthalmology centers. There is also increasing momentum to differentiate physicians based on the quality of the care they provide. Surgeons and their support staff using AmSurg centers provide high quality care by constantly honing their skills through performing a narrow range of high-volume, lower risk procedures. Our physician partners can also control the other variables of their "physician profile" – cost and patient satisfaction - which drive increased market share and same-center procedure growth. Finally, even as technological advances further the migration of surgical procedures to less intensive venues such as our practice-based surgery centers, increasing healthcare costs continue to strengthen AmSurg's value proposition of high quality, low cost care.

Complementing the potential evident in favorable long-term industry dynamics, AmSurg remains the dominant provider in a large market. There is no other company approaching our size in the single-specialty surgery center market or with our expertise in developing, acquiring and growing single-specialty centers. Having identified approximately 3,000 potential opportunities to add de novo or acquired centers in our core surgical specialties, we are confident of our prospects for continued expansion for the foreseeable future.

AmSurg's results for 2003, as well as its longer-term record of profitable growth, demonstrate that we have the business model, the financial strength and the management depth to convert opportunity into bottom-line results for 2004 and beyond. As important, we also have disciplined and committed people throughout our Company that, with our physician partners, embrace this opportunity, as well. We thank them for their hard work and their dedication to the highest quality and ethics. We also thank you, our fellow shareholder, for your investment in AmSurg and the past and future support you provide.



Sincerely,



Ken P. McDonald
President and Chief Executive Officer

SELECTED FINANCIAL DATA

	Years Ended December 31,				
	2003	2002	2001	2000	1999
	(Dollars in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenues	**$ 301,408**	$ 251,525	$ 202,312	$ 143,261	$ 101,446
Operating expenses	**187,730**	159,202	135,023	96,114	69,428
Operating income	**113,678**	92,323	67,289	47,147	32,018
Minority interest	**61,927**	51,096	39,599	27,702	19,431
Interest and other expenses	**1,542**	1,190	2,844	4,703	1,122
Earnings before income taxes and cumulative effect of an accounting change	**50,209**	40,037	24,846	14,742	11,465
Income tax expense	**20,083**	16,015	9,941	5,676	4,414
Net earnings before cumulative effect of an accounting change	**30,126**	24,022	14,905	9,066	7,051
Cumulative effect of a change in the method in which pre-opening costs are recorded	**–**	–	–	–	(126)
Net earnings	**$ 30,126**	$ 24,022	$ 14,905	$ 9,066	$ 6,925
Basic earnings per common share:					
Net earnings before cumulative effect of an accounting change	**$ 1.50**	$ 1.18	$ 0.81	$ 0.62	$ 0.49
Net earnings	**$ 1.50**	$ 1.18	$ 0.81	$ 0.62	$ 0.48
Diluted earnings per common share:					
Net earnings before cumulative effect of an accounting change	**$ 1.47**	$ 1.16	$ 0.78	$ 0.60	$ 0.48
Net earnings	**$ 1.47**	$ 1.16	$ 0.78	$ 0.60	$ 0.47
Weighted average number of shares and share equivalents outstanding:					
Basic	**20,093**	20,390	18,428	14,594	14,429
Diluted	**20,444**	20,728	19,021	15,034	14,778
Operating and Other Financial Data:					
Centers at end of year	**116**	107	95	81	63
Procedures performed during year	**550,791**	471,155	389,431	288,494	207,754
Same-center revenue increase	**7%**	13%	10%	10%	10%
Cash flows provided by operating activities	**$ 48,095**	$ 46,919	$ 37,301	$ 18,493	$ 16,768
Cash flows used by investing activities	**(48,384)**	(43,832)	(64,685)	(44,004)	(32,567)
Cash flows provided by (used in) financing activities	**1,227**	(841)	30,770	23,676	19,252

	At December 31,				
	2003	2002	2001	2000	1999
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	**$ 14,258**	$ 13,320	$ 11,074	$ 7,688	$ 9,523
Working capital	**46,009**	37,414	34,909	26,589	21,029
Total assets	**356,189**	299,814	241,383	190,652	137,868
Long-term debt and other long-term obligations	**53,137**	27,884	12,685	71,832	34,901
Minority interest	**36,796**	29,869	25,047	21,063	17,358
Shareholders' equity	**232,898**	216,364	185,569	83,145	72,708

Forward-Looking Statements

This report contains certain forward-looking statements (all statements other than with respect to historical fact) within the meaning of the federal securities laws, which are intended to be covered by the safe harbors created thereby. Investors are cautioned that all forward-looking statements involve known and unknown risks and uncertainties including, without limitation, those described below, some of which are beyond our control. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate. Therefore, there can be no assurance that the forward-looking statements included in this report will prove to be accurate. Actual results could differ materially and adversely from those contemplated by any forward-looking statement. In light of the significant risks and uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. We undertake no obligation to publicly release any revisions to any forward-looking statements in this discussion to reflect events and circumstances occurring after the date hereof or to reflect unanticipated events.

Forward-looking statements and our liquidity, financial condition and results of operations may be affected by the following, as well as other unknown risks and uncertainties.

- our ability to enter into partnership or operating agreements for new practice-based ambulatory surgery centers;
- our ability to identify suitable acquisition candidates and negotiate and close acquisition transactions, including centers under letter of intent;
- our ability to obtain the necessary financing or capital on terms satisfactory to us to execute our expansion strategy;
- our ability to generate and manage growth;
- our ability to contract with managed care payors on terms satisfactory to us for our existing centers and our centers that are currently under development;
- our ability to obtain and retain appropriate licensing approvals for our existing centers and centers currently under development;
- our ability to minimize start-up losses of our development centers;
- the ability of our physician partners to recruit additional physicians to their practices;
- our ability to maintain favorable relations with our physician partners;
- changes in the medical staff at our centers;
- changes in the rate setting methodology, payment rates, payment policies and the list of covered surgical procedures for ambulatory surgery centers by the Centers for Medicare & Medicaid Services;
- the risk of legislative or regulatory changes that would establish uniform rates for outpatient surgical services, regardless of setting;
- risks associated with our status as a general partner of limited partnerships;
- our ability to maintain our technological capabilities in compliance with regulatory requirements;
- risks associated with the valuation and tax deductibility of goodwill;
- the risk of legislative or regulatory changes that would prohibit physician ownership in ambulatory surgery centers; and
- our ability to obtain the necessary financing to fund the purchase of our physician partners' minority interest in the event of a regulatory change that would require such a purchase.

Overview

We develop, acquire and operate practice-based ambulatory surgery centers in partnership with physician practice groups. As of December 31, 2003, we owned a majority interest (51% or greater) in 116 surgery centers.

The following table presents the changes in the number of surgery centers in operation, under development and under letter of intent for the years ended December 31, 2003, 2002 and 2001. A center is deemed to be under development when a limited partnership or limited liability company has been formed with the physician group partner to develop the center.

	2003	2002	2001
Centers in operation, beginning of the year	**107**	95	81
New center acquisitions placed in operation	**6**	10	15
New development centers placed in operation	**4**	2	1
Centers disposed [(1)]	**(1)**	–	(2)
Centers in operation, end of the year	**116**	107	95
Centers under development, end of the year	**12**	9	5
Development centers awaiting CON approval, end of year	–	2	1
Average number of centers in operation, during year	**109**	98	89
Centers under letter of intent, end of year	**8**	6	1

[(1)] *In 2003, we closed a center upon the expiration of its real estate lease. This center operated in conjunction with a center that will continue in operation and is owned by the same limited liability company. In 2001, we sold our interests in two surgery centers for their approximate book value.*

Of the surgery centers in operation as of December 31, 2003, 66 centers perform gastrointestinal endoscopy procedures, 41 centers perform ophthalmology surgery procedures, four centers perform orthopedic procedures and five centers perform procedures in more than one specialty. The other partner or member in each limited partnership or limited liability company is generally an entity owned by physicians who perform procedures at the center. We intend to expand primarily through the development and acquisition of additional practice-based ambulatory surgery centers in targeted surgical specialties and through future same-center growth. Our growth targets for 2004 include the acquisition or development of a net 12 to 15 additional surgery centers and the achievement of same-center revenue growth of 4% to 7%.

While we generally own 51% of the entities that own the surgery centers, and up to 67% in certain instances, our consolidated statements of operations include 100% of the results of operations of the entities, reduced by the minority partners' share of the net earnings or loss of the surgery center entities.

Sources of Revenues

Substantially all of our revenues are derived from facility fees charged for surgical procedures performed in our surgery centers. This fee varies depending on the procedure, but usually includes all charges for operating room usage, special equipment usage, supplies, recovery room usage, nursing staff and medications. Facility fees do not include the charges of the patient's surgeon, anesthesiologist or other attending physicians, which are billed directly by the physicians. Our revenues are recorded net of estimated contractual adjustments from third-party medical service payors.

Practice-based ambulatory surgery centers, such as those in which we own a majority interest, depend upon third-party reimbursement programs, including governmental and private insurance programs, to pay for services rendered to patients. The amount of payment a surgery center receives for its services may be adversely affected by market and cost factors, as well as other factors over which we have no control, including Medicare and Medicaid regulations and the cost containment and utilization decisions of third-party payors. We derived approximately 40%, 40% and 38% of our revenues in the years ended December 31, 2003, 2002 and 2001, respectively, from governmental healthcare programs, primarily Medicare. The Medicare program currently pays ambulatory surgery centers in accordance with predetermined fee schedules. On October 1, 2003 and October 1, 2002, our surgery centers received a 2% and 3% price increase, respectively, from Medicare. However, in 2004 we anticipate our surgery centers will receive a 2% price decrease from Medicare effective April 1, 2004.

Critical Accounting Policies

Our accounting policies are described in note 1 of the consolidated financial statements. We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We consider the following policies to be most critical in understanding the judgments that are involved in preparing our financial statements and the uncertainties that could impact our results of operations, financial condition and cash flows.

Principles of Consolidation. The consolidated financial statements include the accounts of AmSurg and our subsidiaries and the majority owned limited partnerships and limited liability companies in which we are the general partner or majority member. Consolidation of such limited partnerships and limited liability companies is necessary, as we have 51% or more of the financial interest, are the general partner or majority member with all the duties, rights and responsibilities thereof and are responsible for the day-to-day management of the limited partnership or limited liability company, and have control of the entities. The limited partner or minority member responsibilities are to supervise the delivery of medical services, with their rights being restricted to those that protect their financial interests, such as approval of the acquisition of significant assets or the incurrence of debt which they, as physician limited partners or members, are required to guarantee on a pro rata basis based upon their respective ownership interests. Intercompany profits, transactions and balances have been eliminated.

We operate in one reportable business segment, the ownership and operation of ambulatory surgery centers.

Revenue Recognition. Center revenues consist of billing for the use of the centers' facilities, or facility fees, directly to the patient or third-party payor, and in limited instances, billing for anesthesia services. Such revenues are recognized when the related surgical procedures are performed. Revenues exclude any amounts billed for physicians' surgical services, which are billed separately by the physicians to the patient or third-party payor.

Allowance for Contractual Adjustments and Bad Debt Expense. Our revenues are recorded net of estimated contractual adjustments from third-party medical service payors, which we estimate based on historical trends of the surgery centers' cash collections and contractual write-offs, accounts receivable agings, established fee schedules, contracts with payors and procedure statistics. In addition, we must estimate allowances for bad debt expense using similar information and analysis. While we believe that our allowances for contractual adjustments and bad debt expense are adequate, if the actual contractual adjustments and write-offs are in excess of our estimates, our results of operations may be overstated. At December 31, 2003 and 2002, net accounts receivable reflected allowances for contractual adjustments of $32.4 million and $25.5 million, respectively, and allowances for bad debt expense of $5.0 million and $4.0 million, respectively.

Goodwill. In July 2001, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 141, *"Business Combinations,"* and SFAS No. 142, *"Goodwill and Other Intangible Assets."* The provisions of SFAS No. 141 require all business combinations to be accounted for by the purchase method. SFAS No. 142 requires that, upon adoption, amortization of goodwill and indefinite life intangible assets will cease and instead, the carrying value of goodwill and indefinite life intangible assets will be evaluated for impairment at least on an annual basis; impairment of carrying value will be evaluated more frequently if certain indicators are encountered. Identifiable intangible assets with a determinable useful life will continue to be amortized over that period and reviewed for impairment. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001, except for goodwill and intangible assets acquired after June 30, 2001, which were subject immediately to the nonamortization provisions of this statement.

We fully adopted SFAS No. 142 on January 1, 2002, and accordingly, ceased to amortize goodwill, which previously had been amortized over 25 years. SFAS No. 142 requires that goodwill be tested at the reporting unit level, defined as an operating segment or one level below an operating segment (referred to as a component), with the fair value of the reporting unit being compared to its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired. We have determined that we have one operating as well as one reportable segment. Our centers each qualify as components of that operating segment and have similar economic characteristics, and therefore, should be aggregated and deemed a single reporting unit. We completed the transitional goodwill impairment test and have determined that no potential impairment exists. We completed our annual impairment test as required by SFAS 142 as of December 31, 2003, and have determined that it is not necessary to recognize impairment in our goodwill.

Purchase Price Allocation. We allocate the respective purchase price of our acquisitions in accordance with SFAS No. 141. The allocation of purchase price involves first, determining the fair value of net tangible and identifiable intangible assets acquired. Secondly, the excess amount of purchase price is to be allocated to unidentifiable intangible assets (goodwill). A significant portion of each surgery center's purchase price historically has been allocated to goodwill due to the nature of the businesses acquired, the pricing and structure of our acquisitions and the absence of other factors indicating any significant value which could be attributable to separately identifiable intangible assets. Our resulting goodwill, in accordance with SFAS No. 142 as described above, is no longer amortized, but will be tested for impairment at least annually.

Results of Operations

Our revenues are directly related to the number of procedures our surgery centers perform. Our overall growth in procedure volume is impacted directly by the increase in the number of surgery centers in operation and the growth in procedure volume at existing centers. We increase our number of surgery centers through both acquisitions and developments. Procedure growth at any existing center may result from additional contracts entered into with third-party payors, increased market share of the associated medical practice of our physician partners, new physician partners and/or scheduling and operating efficiencies gained at the surgery center. A significant measurement of how much our revenues grow from year to year for existing centers is our same-center revenue percentage. We define our same-center group each year as those centers which contain full year-to-date operations in both comparable reporting periods. In 2003, we had 94 centers in our same-center group and they had revenue growth of 7%. While historically our quarter to quarter and year to year same-center revenue percentages have varied from 3% to 14%, we believe that our same-center revenues in 2004 will range between 4% and 7%. This projected growth rate reflects the anticipated 2% reimbursement decrease from Medicare in April 2004 (see "—Sources of Revenues") as well as reduced same-center procedure growth rates experienced in our industry during recent quarters. Our same-center group in 2004 will be comprised of 103 centers, which constitutes approximately 88% of our total base of centers.

Expenses directly related to such procedures include clinical and administrative salaries and benefits, supply cost and other variable expenses such as linen cost, repair and maintenance of equipment, billing fees and bad debt expense. The majority of our corporate salary and benefits cost is associated directly with the number of centers we own and manage and tends to grow in proportion to the growth of our centers in operation. Our centers and corporate offices also incur costs that are more fixed in nature, such as lease expense, legal fees, property taxes, utilities and depreciation and amortization.

Surgery center profits are allocated to our minority partners in proportion to their individual ownership percentages and reflected in the aggregate as minority interest. Our interest expense results primarily from our borrowings used to fund acquisition and development activity, as well as interest incurred on capital leases.

We file a consolidated federal income tax return and numerous state income tax returns with varying tax rates. Our income tax expense reflects the blending of these rates.

The following table shows certain statement of earnings items expressed as a percentage of revenues for the years ended December 31, 2003, 2002 and 2001:

	2003	2002	2001
Revenues	**100.0%**	100.0%	100.0%
Operating expenses:			
Salaries and benefits	**26.1**	26.4	26.8
Supply cost	**11.7**	11.9	11.8
Other operating expenses	**20.7**	21.0	21.0
Depreciation and amortization	**3.8**	4.0	7.1
Total operating expenses	**62.3**	63.3	66.7
Operating income	**37.7**	36.7	33.3
Minority interest	**20.5**	20.3	19.6
Interest expense, net of interest income	**0.5**	0.5	1.4
Earnings before income taxes	**16.7**	15.9	12.3
Income tax expense	**6.7**	6.3	4.9
Net earnings	**10.0%**	9.6%	7.4%

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Revenues increased $49.9 million, or 20%, to $301.4 million in 2003 from $251.5 million in 2002, primarily due to the following three factors:

- Nine additional surgery centers in operation at year end, with an average number of centers in operation throughout the year of 109 in 2003 compared to 98 in 2002, primarily resulting from acquisitions;
- Same-center revenue growth of 7%, resulting primarily from procedure growth (94 centers included in the same-center group); and
- Modest price increases from Medicare and private payors in 2003 over 2002.

The additional surgery centers in operation and same-center procedure growth resulted in a 17% increase in procedure volume in 2003 over 2002. In order to appropriately staff our surgery centers for these additional procedures, as well as provide appropriate corporate management for the additional centers in operation, salaries and benefits increased proportionately by 19% to $78.7 million in 2003 from $66.3 million in 2002.

Supply cost was $35.2 million in 2003, an increase of $5.1 million, or 17%, over supply cost in 2002. This increase was commensurate with the additional procedure volume. We also experienced modest cost savings due to favorable supply and drug buying programs in 2003.

Other operating expenses increased $9.6 million, or 18%, to $62.4 million in 2003 from 2002, primarily as a result of the additional surgery centers in operation and additional corporate overhead.

Depreciation and amortization expense increased $1.5 million, or 15%, in 2003 from 2002, primarily as a result of the additional surgery centers in operation.

We anticipate further increases in operating expenses in 2004, primarily due to additional start-up centers and acquired centers expected to be placed in operation, as well as insurance cost and scheduled property rent increases at our existing centers. Typically, a start-up center will incur start-up losses while under development and during its initial months of operations and will experience lower revenues and operating margins than an established center until its case load grows to a more optimal operating level, which generally is expected to occur within the 12 months after a center opens. At December 31, 2003, we had 12 centers under development and four centers that had been open for less than one year.

Operating income margin increased by 1%, which is primarily the result of the leverage we achieve from having a high but consistent fixed cost component from year to year at each center. Because each incremental procedure generates only a variable cost component, same-center procedure growth generally contributes to operating income at a rate higher than the average operating income margin of the center.

Minority interest in earnings in 2003 increased $10.8 million, or 21%, from 2002, primarily as a result of minority partners' interest in earnings at surgery centers recently added to operations and from increased same-center profitability. As a percentage of revenues, minority interest increased due to the fact that all of the acquired and developed centers in 2003 have a 49% minority ownership, which continues to dilute the impact on minority interest of those existing centers that have less than 49% minority ownership.

Interest expense increased $0.4 million in 2003, or 30%, from 2002 primarily due to additional long-term debt outstanding during 2003 resulting primarily from acquisition activity and our stock repurchase program (see – "Liquidity and Capital Resources").

We recognized income tax expense of $20.1 million in 2003 compared to $16.0 million in 2002. Our effective tax rate in 2003 and 2002 was 40.0% of earnings before income taxes and differed from the federal statutory income tax rate of 35%, primarily due to the impact of state income taxes. Because we continue to deduct goodwill amortization for tax purposes, a larger portion of our overall income tax expense is considered deferred income taxes, which results in a continuing increase in our deferred tax liability, which would only be due in part or in whole upon the disposition of a portion or all of our surgery centers.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Revenues increased $49.2 million, or 24%, to $251.5 million in 2002 from $202.3 million in 2001, primarily due to the following two factors:

- 12 additional surgery centers in operation at year end, primarily resulting from acquisitions, with an average number of centers in operation throughout the year of 98 in 2002 compared to 89 in 2001; and
- Procedure growth resulting in 13% same-center revenue growth (79 centers included in the same-center group).

The additional surgery centers in operation and same-center procedure growth resulted in a 21% increase in procedure volume in 2002 over 2001. In order to appropriately staff our surgery centers for these additional procedures, as well as provide appropriate corporate management for the additional centers in operation, salaries and benefits increased proportionately by 22% to $66.3 million in 2002 from $54.2 million in 2001.

Supply cost was $30.1 million in 2002, an increase of $6.2 million, or 26%, over supply cost in 2001. This increase resulted primarily from additional procedure volume.

Other operating expenses increased $10.2 million to $52.8 million, or 24%, in 2002 from 2001, primarily as a result of the additional surgery centers in operation and additional corporate overhead.

Depreciation and amortization expense decreased $4.4 million, or 31%, in 2002 from 2001, primarily due to the non-amortization of goodwill starting in 2002 as a result of our adoption of SFAS No. 142 (see note 1(f) to the consolidated financial statements and "– Critical Accounting Policies – Goodwill").

Operating income margin increased by 3.4%, which is primarily the result of the elimination of goodwill as described above, as well as the leverage we achieve from having a high but consistent fixed cost component from year to year at each center.

Minority interest in earnings in 2002 increased $11.5 million, or 29%, from 2001, primarily as a result of minority partners' interest in earnings at surgery centers recently added to operations and from increased same-center profitability. As a percentage of revenues, minority interest increased due to the fact that our minority partners participate in the increased profitability of our centers. Additionally, all of the acquired and developed centers in 2002 have a 49% minority ownership, which diluted the impact on minority interest of those existing centers that have less than 49% minority ownership.

Interest expense decreased $1.7 million in 2002, or 58%, from 2001. Prior to April 2001, our debt level had grown to approximately $92.5 million, primarily due to acquisition-related borrowings. However, net proceeds from our public offering, as further discussed in "- Liquidity and Capital Resources," were used to repay a significant portion of our outstanding debt. Additionally, we experienced lower interest rates in 2002 than in 2001.

We recognized income tax expense of $16.0 million in 2002 compared to $9.9 million in 2001. Our effective tax rate in 2002 and 2001 was 40.0% of earnings before income taxes and differed from the federal statutory income tax rate of 35%, primarily due to the impact of state income taxes. Because we continue to deduct goodwill amortization for tax purposes, a larger portion of our overall income tax expense is considered deferred income taxes, which results in a continuing increase in our deferred tax liability, which would only be due in part or in whole upon the disposition of a portion or all of our surgery centers.

Liquidity and Capital Resources

At December 31, 2003, we had working capital of $46.0 million compared to $37.4 million at December 31, 2002. Operating activities for 2003 generated $48.1 million in cash flow from operations compared to $46.9 million in 2002. The increase in operating cash flow activity resulted primarily from an additional $6.1 million in net earnings, resulting primarily from additional centers in operation and growth in same-center revenue, offset by increases in our accounts receivable and income taxes paid. Between December 31, 2001 and 2002, we experienced a significant reduction in our average days in accounts receivable from 47 to 40, which contributed to additional operating cash flow in 2002. At December 31, 2003, our days in accounts receivable was 41, consistent with days in accounts receivable at December 31, 2002. Operating cash flow in 2002 also contained an additional $1.0 million tax benefit from the exercise of stock options over the tax benefit from the exercise of stock options received in 2003. Cash and cash equivalents at December 31, 2003 and 2002 were $14.3 million and $13.3 million, respectively.

During 2003, we had total capital expenditures of $56.8 million, which included:

- $36.1 million for acquisitions of interests in practice-based ambulatory surgery centers, including $8.2 million in notes payable, which were repaid in 2004;
- $12.4 million for new or replacement property at existing surgery centers; and
- $8.3 for new start-up surgery centers.

Our cash flow from operations was enough to fund our acquisition cash obligations and development activity, and we received approximately $1.6 million from capital contributions of our minority partners to fund their proportionate share of development activity. At December 31, 2003, we and our limited partnerships and limited liability companies had unfunded construction and equipment purchase commitments for centers under development or under renovation of approximately $2.2 million, which we intend to fund through additional borrowings of long-term debt, operating cash flow and capital contributions by minority partners.

During 2003, we had net borrowings on long-term debt of $16.1 million. At December 31, 2003, we had $42.2 million outstanding under our revolving credit facility, which, as amended in March 2004, permits us to borrow up to $125.0 million to finance our acquisition and development projects and stock repurchase program at a rate equal to, at our option, the prime rate or LIBOR plus a spread of 1.00% to 2.25%, depending upon borrowing levels. The loan agreement also provides for a fee of 0.375% to 0.50% of unused commitments. The loan agreement prohibits the payment of dividends and contains covenants relating to the ratio of debt to net worth, operating performance and minimum net worth. We were in compliance in all material respects with all covenants at December 31, 2003. Borrowings under the credit facility are due in March 2008 and are secured primarily by a pledge of the stock of our subsidiaries that serve as the general partners of our limited partnerships and our membership interests in the limited liability companies. We incurred approximately $501,000 in deferred financing fees during 2003, primarily associated with our credit facility.

During 2003, we received approximately $5.2 million from the exercise of options and issuance of common stock under our employee stock option plans. The tax benefit received from the exercise of those options was approximately $2.4 million.

In January 2003, our Board of Directors authorized a stock repurchase program that allows us to purchase up to $25.0 million of our common stock through August 2004. We currently have purchased and retired 845,200 shares of our common stock at an aggregate purchase price of $21.2 million under this program, which was funded primarily through borrowings under our credit facility.

The following schedule summarizes all of our contractual obligations by period as of December 31, 2003 (in thousands):

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt [1]	$ 54,420	$ 1,334	$ 1,246	$ 50,920	$ 920
Capital lease obligations	593	542	51	–	–
Operating leases	74,083	13,856	22,669	15,018	22,540
Construction in progress commitments	2,187	2,187	–	–	–
Other long-term obligations [2]	1,253	–	1,253	–	–
Total contractual cash obligations	$ 132,536	$ 17,919	$ 25,219	$ 65,938	$ 23,460

[1] Our long-term debt may increase based on acquisition activity expected to occur in the future and our stock repurchase program for up to $25.0 million of our outstanding shares of common stock. We may use our operating cash flow to repay existing long-term debt under our credit facility prior to its maturity date.

[2] Other long-term obligations consist of purchase price commitments that are contingent upon certain events.

In addition, as of December 31, 2003, we have available under our revolving credit facility $57.8 million for acquisition borrowings. Our credit facility matures on March 4, 2008.

Foregoing any significant adverse impact on our future operating results, we believe that our operating cash flow and borrowing capacity will provide us with adequate liquidity for the next three to five years to conduct our business and further implement our growth strategy.

Recent Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, *"Accounting for Asset Retirement Obligations."* SFAS No. 143 addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement is effective for fiscal years beginning after June 15, 2002. SFAS No. 143 establishes accounting standards for recognition and measurement of liability for an asset retirement obligation and the associated retirement costs. This statement applies to all entities and to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. The implementation of SFAS No. 143 did not have a material effect on our consolidated financial position or consolidated results of operations.

In July 2002, the FASB issued SFAS No. 146, *"Accounting for Costs Associated with Exit or Disposal Activities."* The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operations, plant closings, or other exit or disposal activities. The provisions of this statement are effective for exit or disposal activities initiated after December 31, 2002, of which we had none.

In November 2002, the FASB issued Interpretation No., or FIN 45, *"Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34."* The interpretation requires that upon issuance of a guarantee, the entity must recognize a liability for the fair value of the obligation it assumes under that obligation. The initial recognition and measurement provisions of FIN 45 are applicable to guarantees issued or modified after December 31, 2002. The adoption of FIN 45 did not have a material effect on our consolidated financial position or consolidated results of operations.

In December 2003, the FASB issued FIN 46 (revised 2003), *"Consolidation of Variable Interest Entities."* This interpretation, which replaces FIN 46, addresses consolidation by business enterprises of variable interest entities ("VIE") when certain characteristics are present. This interpretation applies immediately to VIE's created after December 31, 2003, and to VIE's in which an enterprise obtains an interest after that date. Interests held in VIE's created on or before December 31, 2003 are not subject to the provisions of this interpretation until the end of the first reporting period after March 15, 2004 unless the VIE meets the definition of a special-purpose entity as defined by this statement. This interpretation must be applied for special purpose entities as of the first reporting period subsequent to December 15, 2003. As of December 31, 2003, we did not have any entities that are considered to be special purpose entities. We do not believe that the adoption of the remaining portion of this interpretation will have a material effect on our consolidated financial position or consolidated results of operations.

In May 2003, the FASB issued SFAS No. 150, *"Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity."* This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first fiscal quarter beginning after June 15, 2003, except for certain provisions of the statement for which the FASB deferred implementation indefinitely. SFAS No. 150 is to be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before May 31, 2003 and still existing at the beginning of the fiscal quarter of adoption. Restatement is not permitted. The adoption of this statement's effective portions did not have a material effect on our consolidated financial position or consolidated results of operations.

Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risk from exposure to changes in interest rates based on our financing, investing and cash management activities. We utilize a balanced mix of maturities along with both fixed-rate and variable-rate debt to manage our exposures to changes in interest rates. Our debt instruments are primarily indexed to the prime rate or LIBOR. Although there can be no assurances that interest rates will not change significantly, we do not expect changes in interest rates to have a material effect on income or cash flows in 2004.

The table below provides information as of December 31, 2003 and 2002 about our long-term debt obligations based on maturity dates that are sensitive to changes in interest rates, including principal cash flows and related weighted average interest rates by expected maturity dates (in thousands, except percentage data):

	Years Ended December 31,							Fair Value at December 31,
	2004	2005	2006	2007	2008	Thereafter	Total	2003
Fixed rate	$ 1,446	$ 641	$ 471	$ 438	–	–	$ 2,996	$ 3,089
Average interest rate	6.3%	6.5%	6.7%	6.9%	–	–		
Variable rate	$ 430	$ 141	$ 44	$ 46	$ 50,436	$ 920	$ 52,017	$ 52,017
Average interest rate	4.4%	4.5%	4.5%	4.5%	3.0%	4.5%		

	Years Ended December 31,							Fair Value at December 31,
	2003	2004	2005	2006	2007	2008	Total	2002
Fixed rate	$ 1,908	$ 1,026	$ 405	$ 283	$ 301	$ 18	$ 3,941	$ 4,072
Average interest rate	7.4%	7.4%	6.8%	7.8%	8.0%	6.0%		
Variable rate	$ 499	$ 370	$ 143	$ 44	$ 47	$25,247	$ 26,350	$ 26,350
Average interest rate	5.0%	4.9%	4.5%	4.5%	4.5%	3.0%		

The difference in maturities of long-term obligations and overall increase in total borrowings principally resulted from our borrowings associated with our stock repurchase program. The average interest rates on these borrowings at December 31, 2003 decreased as compared to December 31, 2002 due to an overall decrease in market rates and repayment of debt at higher average interest rates.

CONSOLIDATED BALANCE SHEETS

	December 31, 2003	December 31, 2002
	(Dollars in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 14,258	$ 13,320
Accounts receivable, net of allowance of $4,956 and $3,986, respectively	36,172	29,597
Supplies inventory	4,292	3,762
Deferred income taxes (note 8)	1,092	797
Prepaid and other current assets	7,349	5,688
Total current assets	63,163	53,164
Long-term receivables and deposits (note 2)	2,592	2,969
Property and equipment, net (notes 3, 5 and 6)	60,710	48,862
Intangible assets, net (notes 2 and 4)	229,724	194,819
Total assets	$ 356,189	$ 299,814
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt (note 5)	$ 1,876	$ 2,407
Accounts payable	8,187	5,203
Accrued salaries and benefits	4,892	6,188
Other accrued liabilities	1,466	1,368
Current income taxes payable	733	584
Total current liabilities	17,154	15,750
Long-term debt (notes 2 and 5)	53,137	27,884
Deferred income taxes (note 8)	16,204	9,947
Minority interest	36,796	29,869
Commitments and contingencies (notes 2, 5, 6, 9 and 11)		
Preferred stock, no par value, 5,000,000 shares authorized, no shares issued or outstanding (note 7)	–	–
Shareholders' equity:		
Common stock, no par value, 39,800,000 shares authorized, 20,072,472 and 20,548,235 shares outstanding, respectively (note 7)	144,993	158,585
Retained earnings	87,905	57,779
Total shareholders' equity	232,898	216,364
Total liabilities and shareholders' equity	$ 356,189	$ 299,814

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS

	Years Ended December 31,		
	2003	2002	2001
	(In thousands, except earnings per share)		
Revenues	**$ 301,408**	$ 251,525	$ 202,312
Operating expenses:			
Salaries and benefits (note 9)	**78,659**	66,332	54,190
Supply cost	**35,195**	30,060	23,835
Other operating expenses (note 9)	**62,383**	52,815	42,572
Depreciation and amortization	**11,493**	9,995	14,426
Total operating expenses	**187,730**	159,202	135,023
Operating income	**113,678**	92,323	67,289
Minority interest	**61,927**	51,096	39,599
Interest expense, net of interest income of $187, $227 and $216, respectively	**1,542**	1,190	2,844
Earnings before income taxes	**50,209**	40,037	24,846
Income tax expense (note 8)	**20,083**	16,015	9,941
Net earnings	**$ 30,126**	$ 24,022	$ 14,905
Earnings per common share (note 7):			
Basic	**$ 1.50**	$ 1.18	$ 0.81
Diluted	**$ 1.47**	$ 1.16	$ 0.78
Weighted average number of shares and share equivalents outstanding (note 7):			
Basic	**20,093**	20,390	18,428
Diluted	**20,444**	20,728	19,021

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Years Ended December 31, 2003, 2002 and 2001 (In thousands)			
	Common Stock		Retained	
	Shares	Amount	Earnings	Total
Balance December 31, 2000	14,739	$ 64,293	$ 18,852	$ 83,145
Issuance of common stock	4,528	76,661	–	76,661
Stock options exercised	850	3,264	–	3,264
Tax benefit related to exercise of stock options	–	7,594	–	7,594
Net earnings	–	–	14,905	14,905
Balance December 31, 2001	20,117	151,812	33,757	185,569
Issuance of common stock	2	66	–	66
Stock options exercised	429	3,218	–	3,218
Tax benefit related to exercise of stock options	–	3,489	–	3,489
Net earnings	–	–	24,022	24,022
Balance December 31, 2002	20,548	158,585	57,779	216,364
Issuance of common stock	**2**	**68**	**–**	**68**
Repurchase and retirement of common stock	**(845)**	**(21,243)**	**–**	**(21,243)**
Stock options exercised	**367**	**5,178**	**–**	**5,178**
Tax benefit related to exercise of stock options	**–**	**2,405**	**–**	**2,405**
Net earnings	**–**	**–**	**30,126**	**30,126**
Balance December 31, 2003	**20,072**	**$ 144,993**	**$ 87,905**	**$ 232,898**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2003	2002	2001
		(In thousands)	
Cash flows from operating activities:			
Net earnings	**$ 30,126**	$ 24,022	$ 14,905
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Minority interest	**61,927**	51,096	39,599
Distributions to minority partners	**(57,911)**	(49,468)	(38,560)
Depreciation and amortization	**11,493**	9,995	14,426
Deferred income taxes	**5,962**	4,704	1,409
Increase (decrease) in cash and cash equivalents, net of effects of acquisitions and dispositions, due to changes in:			
Accounts receivable, net	**(5,816)**	(575)	(782)
Supplies inventory	**(355)**	(58)	(22)
Prepaid and other current assets	**(1,361)**	447	(2,894)
Accounts payable	**2,933**	727	1,647
Accrued expenses and other liabilities	**1,299**	5,757	7,445
Other, net	**(202)**	272	128
Net cash flows provided by operating activities	**48,095**	46,919	37,301
Cash flows from investing activities:			
Acquisition of interest in surgery centers	**(27,909)**	(29,443)	(57,589)
Acquisition of property and equipment	**(20,696)**	(14,489)	(7,007)
(Increase) decrease in long-term receivables	**221**	100	(89)
Net cash flows used in investing activities	**(48,384)**	(43,832)	(64,685)
Cash flows from financing activities:			
Proceeds from long-term borrowings	**78,741**	27,497	44,861
Repayment on long-term borrowings	**(62,592)**	(33,098)	(96,805)
Net proceeds from issuance of common stock	**5,178**	3,284	79,925
Repurchase of common stock	**(21,243)**	–	–
Proceeds from capital contributions by minority partners	**1,644**	1,491	2,807
Financing cost incurred	**(501)**	(15)	(18)
Net cash flows provided by (used in) financing activities	**1,227**	(841)	30,770
Net increase in cash and cash equivalents	**938**	2,246	3,386
Cash and cash equivalents, beginning of year	**13,320**	11,074	7,688
Cash and cash equivalents, end of year	**$ 14,258**	$ 13,320	$ 11,074

See accompanying notes to the consolidated financial statements.

1. Summary of Significant Accounting Policies

a. Principles of Consolidation

AmSurg Corp. (the "Company"), through its wholly owned subsidiaries, owns majority interests, primarily 51% and up to 67% in certain instances, in limited partnerships and limited liability companies ("LLCs") which own and operate practice-based ambulatory surgery centers ("centers"). The Company also has majority ownership interests in other limited partnerships and LLCs formed to develop additional centers. The consolidated financial statements include the accounts of the Company and its subsidiaries and the majority owned limited partnerships and LLCs in which the Company is the general partner or majority member. Consolidation of such limited partnerships and LLCs is necessary as the Company has 51% or more of the financial interest, is the general partner or majority member with all the duties, rights and responsibilities thereof and is responsible for the day-to-day management of the limited partnership or LLC, and has control of the entities. The limited partner or minority member responsibilities are to supervise the delivery of medical services, with their rights being restricted to those that protect their financial interests, such as approval of the acquisition of significant assets or the incurrence of debt which they, as physician limited partners or members, are required to guarantee on a pro rata basis based upon their respective ownership interests. Intercompany profits, transactions and balances have been eliminated. All subsidiaries and minority owners are herein referred to as partnerships and partners, respectively.

The Company operates in one reportable business segment, the ownership and operation of ambulatory surgery centers.

b. Cash and Cash Equivalents

Cash and cash equivalents are comprised principally of demand deposits at banks and other highly liquid short-term investments with maturities of less than three months when purchased.

c. Supplies Inventory

Supplies inventory consists of medical and drug supplies and is recorded at cost on a first-in, first-out basis.

d. Prepaid and Other Current Assets

Prepaid and other current assets are comprised of prepaid expenses and other receivables.

e. Property and Equipment

Property and equipment are stated at cost. Equipment held under capital leases is stated at the present value of minimum lease payments at the inception of the related leases. Depreciation for buildings and improvements is recognized under the straight-line method over 20 years, or for leasehold improvements, over the remaining term of the lease plus renewal options. Depreciation for movable equipment is recognized over useful lives of three to ten years.

f. Intangible Assets

Goodwill

In July 2001, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, *"Business Combinations,"* and SFAS No. 142, *"Goodwill and Other Intangible Assets."* The provisions of SFAS No. 141 require all business combinations to be accounted for by the purchase method. SFAS No. 142 requires that, upon adoption, amortization of goodwill and indefinite life intangible assets will cease and instead, the carrying value of goodwill and indefinite life intangible assets will be evaluated for impairment at least on an annual basis; impairment of carrying value will be evaluated more frequently if certain indicators are encountered. Identifiable intangible assets with a determinable useful life will continue to be amortized over that period and reviewed for impairment. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001, except for goodwill and intangible assets acquired after June 30, 2001, which were subject immediately to the nonamortization provisions of this statement.

The Company fully adopted SFAS No. 142 on January 1, 2002, and accordingly, ceased to amortize goodwill, which previously had been amortized over 25 years. SFAS No. 142 requires that goodwill be tested at the reporting unit level, defined as an operating segment or one level below an operating segment (referred to as a component), with the fair value of the reporting unit being compared to its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired. Management has determined that the Company has one operating as well as one reportable segment. The Company's centers each qualify as components of that operating segment and have similar economic characteristics, and therefore, should be aggregated and deemed a single reporting unit. The Company completed the transitional goodwill impairment test and determined that no potential impairment exists. As a result, the Company has recognized no transitional impairment loss in fiscal year 2002 in connection with the adoption of SFAS No. 142. The Company completed its annual impairment test as required by SFAS No. 142 as of December 31, 2003, and has determined that it is not necessary to recognize impairment on goodwill.

As required by SFAS No. 142, the results for periods prior to its adoption have not been restated. The following presents net earnings and earnings per share as reported in the years ended December 31, 2003 and 2002 and reconciles the reported net earnings per share to that which would have resulted had SFAS No. 142 been applied to the year ended December 31, 2001 *(in thousands, except earnings per share)*:

	2003	2002	2001
Net earnings:			
As reported	**$ 30,126**	$ 24,022	$ 14,905
Goodwill amortization, net of income tax expense	**–**	–	3,413
As adjusted	**$ 30,126**	$ 24,022	$ 18,318
Basic earnings per share:			
As reported	**$ 1.50**	$ 1.18	$ 0.81
As adjusted	**$ 1.50**	$ 1.18	$ 0.99
Diluted earnings per share:			
As reported	**$ 1.47**	$ 1.16	$ 0.78
As adjusted	**$ 1.47**	$ 1.16	$ 0.96

Other Intangible Assets

Other intangible assets consist primarily of deferred financing costs of the Company and non-compete agreements, which are amortized over the term of the related debt as interest expense and the contractual term (five years) of the non-compete agreements as amortization expense, respectively.

g. Revenue Recognition

Center revenues consist of billing for the use of the centers' facilities (the "facility fee") directly to the patient or third-party payor, and in limited instances, billing for anesthesia services. Such revenues are recognized when the related surgical procedures are performed. Revenues exclude any amounts billed for physicians' surgical services, which are billed separately by the physicians to the patient or third-party payor.

Revenues from centers are recognized on the date of service, net of estimated contractual adjustments from third-party medical service payors including Medicare and Medicaid (see note 1 (l)). During the years ended December 31, 2003, 2002 and 2001, approximately 40%, 40%, and 38%, respectively, of the Company's revenues were derived from the provision of services to patients covered under Medicare and Medicaid. Concentration of credit risk with respect to other payors is limited due to the large number of such payors.

h. Income Taxes

The Company files a consolidated federal income tax return. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

i. Earnings Per Share

Basic earnings per share is computed by dividing net earnings available to common shareholders by the combined weighted average number of common shares, while diluted earnings per share is computed by dividing net earnings available to common shareholders by the weighted average number of such common shares and dilutive share equivalents.

j. Stock-Based Compensation

The Company accounts for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, *"Accounting for Stock Issued to Employees,"* and related interpretations. Compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. No stock-based employee compensation cost is reflected in net earnings for the years ended December 31, 2003, 2002 and 2001. Pro forma earnings per share, as if the fair value of all stock-based awards on the date of grant are recognized over the vesting period by applying the Black-Scholes option pricing model, is presented below *(dollars in thousands, except per share amounts):*

	2003	2002	2001
Applied assumptions:			
Weighted average fair value of options at the date of grant	**$ 6.24**	$ 6.94	$ 15.23
Dividends	–	–	–
Expected life of options	**4**	4	7
Forfeiture rate	**15.0%**	15.0%	3.0%
Average risk-free interest rate	**3.0%**	4.1%	4.8%
Volatility rate	**43.0%**	46.0%	66.0%
Net earnings available to common shareholders:			
As reported	**$ 30,126**	$ 24,022	$ 14,905
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	**(3,070)**	(3,263)	(4,238)
Pro forma	**$ 27,056**	$ 20,759	$ 10,667
Basic earnings per share available to common shareholders:			
As reported	**$ 1.50**	$ 1.18	$ 0.81
Pro forma	**$ 1.35**	$ 1.02	$ 0.58
Diluted earnings per share available to common shareholders:			
As reported	**$ 1.47**	$ 1.16	$ 0.78
Pro forma	**$ 1.32**	$ 1.00	$ 0.56

k. Fair Value of Financial Instruments

Cash and cash equivalents, receivables and payables are reflected in the financial statements at cost, which approximates fair value. The fair value of fixed-rate long-term debt, with a carrying value of $2,996,000, is $3,089,000. Management believes that the carrying amounts of variable-rate long-term debt approximate market value, because it believes the terms of its borrowings approximate terms which it would incur currently.

l. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The determination of contractual and bad debt allowances constitutes a significant estimate. Some of the factors considered by management in determining the amount of allowances to establish are the historical trends of the centers' cash collections and contractual and bad debt write-offs, accounts receivable agings, established fee schedules, contracts with payors and procedure statistics. Accordingly, net accounts receivable at December 31, 2003 and 2002, reflect allowances for contractual adjustments of $32,447,000 and $25,451,000, respectively, and allowance for bad debt expense of $4,956,000 and $3,986,000, respectively.

m. Recent Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, *"Accounting for Asset Retirement Obligations."* SFAS No. 143 addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement is effective for fiscal years beginning after June 15, 2002. SFAS No. 143 establishes accounting standards for recognition and measurement of liability for an asset retirement obligation and the associated retirement costs. This statement applies to all entities and to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. The implementation of SFAS No. 143 did not have a material effect on the Company's consolidated financial position or consolidated results of operations.

In July 2002, the FASB issued SFAS No. 146, *"Accounting for Costs Associated with Exit or Disposal Activities."* The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operations, plant closings, or other exit or disposal activities. The provisions of this statement are effective for exit or disposal activities initiated after December 31, 2002, of which the Company had none.

In November 2002, the FASB issued Interpretation No. ("FIN") 45, *"Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34."* The interpretation requires that upon issuance of a guarantee, the entity must recognize a liability for the fair value of the obligation it assumes under that obligation. The initial recognition and measurement provisions of FIN 45 are applicable to guarantees issued or modified after December 31, 2002. The adoption of FIN 45 did not have a material effect on the Company's consolidated financial position or consolidated results of operations.

In December 2003, the FASB issued FIN 46 (revised 2003), *"Consolidation of Variable Interest Entities."* This interpretation, which replaces FIN 46, addresses consolidation by business enterprises of variable interest entities ("VIE") when certain characteristics are present. This interpretation applies immediately to VIE's created after December 31, 2003, and to VIE's in which an enterprise obtains an interest after that date. Interests held in VIE's created on or before December 31, 2003 are not subject to the provisions of this interpretation until the end of the first reporting period after March 15, 2004 unless the VIE meets the definition of a special-purpose entity as defined by this statement. This interpretation must be applied for special purpose entities as of the first reporting period subsequent to December 15, 2003. As of December 31, 2003, the Company does not have any entities that are considered to be special purpose entities. The Company does not believe that the adoption of the remaining portion of this interpretation will have a material effect on the Company's consolidated financial position or consolidated results of operations.

In May 2003, the FASB issued SFAS No. 150, *"Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity."* This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This statement is effective for financial instruments entered into or modified after

May 31, 2003, and otherwise is effective at the beginning of the first fiscal quarter beginning after June 15, 2003, except for certain provisions of the statement for which the FASB deferred implementation indefinitely. SFAS No. 150 is to be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before May 31, 2003 and still existing at the beginning of the fiscal quarter of adoption. Restatement is not permitted. The adoption of this statement's effective portions did not have a material effect on the Company's consolidated financial position or consolidated results of operations.

n. Reclassifications

Certain prior year amounts have been reclassified to conform to the 2003 presentation.

2. Acquisitions and Dispositions

a. Acquisitions

The Company, through wholly owned subsidiaries and in separate transactions, acquired a majority interest in six, ten and fifteen practice-based surgery centers during 2003, 2002 and 2001, respectively. Consideration paid for the acquired interests consisted of cash and notes payable at rates ranging from 2.6% in 2003 to 4.3% in 2002, due within 30 days from issuance. Total acquisition price and cost in 2003, 2002 and 2001 was $36,097,000, $49,018,000 and $47,113,000, respectively, of which the Company assigned $34,727,000, $47,161,000 and $43,929,000, respectively, to goodwill. Such amounts in 2002 included an aggregate of $8,403,000 in contingent purchase price payments associated with prior year acquisitions, primarily related to a discontinuance of a proposed rule to update reimbursement by Medicare as discussed below. The goodwill is expected to be fully deductible for tax purposes. At December 31, 2003 and 2002, the Company had notes payable associated with then recent acquisitions of $8,188,000 and $19,575,000, respectively. All notes payable outstanding as of December 31, 2003 and 2002 were funded in January 2004 and 2003, respectively, through long-term borrowings under the Company's credit facility (see note 5). All acquisitions were accounted for as purchases, and the accompanying consolidated financial statements include the results of their operations from the dates of acquisition.

In May 2002, the Department of Health and Human Services ("DHHS") listed as a "discontinued action" the June 12, 1998 proposed rule that would update the rate setting methodology, payment rates, payment policies and the list of covered surgical procedures for ambulatory surgery centers. If implemented, the proposed rule would have reduced the rates paid for certain ambulatory surgery center procedures reimbursed by Medicare, including a number of endoscopy and ophthalmology procedures performed at the Company's centers. Upon the announcement of the discontinuance of this proposed rule, the Company paid purchase price commitments of $7,742,000 that were contingent on certain outcomes or resolutions of DHHS's proposed rule. Such amounts are included in the acquisition transaction amounts above.

b. Pro Forma Information

The unaudited consolidated pro forma results for the years ended December 31, 2003 and 2002, assuming all 2003 and 2002 acquisitions had been consummated on January 1, 2002, are as follows *(in thousands, except per share data):*

	2003	2002
Revenues	**$ 313,220**	$ 291,554
Net earnings	**31,427**	27,846
Earnings per common share:		
Basic	**$ 1.56**	$ 1.37
Diluted	**1.54**	1.34
Weighted average number of shares and share equivalents:		
Basic	**20,093**	20,390
Diluted	**20,444**	20,728

3. Property and Equipment

Property and equipment at December 31, 2003 and 2002 are as follows *(in thousands):*

	2003	2002
Land and improvements	$ 450	$ 549
Building and improvements	37,095	30,705
Movable equipment	63,419	52,928
Construction in progress	5,640	1,502
	106,604	85,684
Less accumulated depreciation	45,894	36,822
Property and equipment, net	$ 60,710	$ 48,862

At December 31, 2003, the Company and its partnerships had unfunded construction and equipment purchases of approximately $2,187,000 in order to complete construction in progress. Depreciation expense for the years ended December 31, 2003, 2002 and 2001 was $11,293,000, $9,795,000 and $8,687,000, respectively.

4. Intangible Assets

Amortizable intangible assets at December 31, 2003 and 2002 consist of the following *(in thousands):*

	2003			2002		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Deferred financing cost	$ 1,525	$ 1,002	$ 523	$ 1,026	$ 881	$ 145
Agreements not to compete	1,000	450	550	1,000	250	750
Total amortizable intangible assets	$ 2,525	$ 1,452	$ 1,073	$ 2,026	$ 1,131	$ 895

Amortization of intangible assets (including goodwill in 2001) for the years ended December 31, 2003, 2002 and 2001 was $323,000, $529,000 and $6,066,000, respectively. Estimated amortization of intangible assets for the five years subsequent to December 31, 2003 are $326,000, $326,000, $276,000, $125,000 and $20,000.

The changes in the carrying amount of goodwill for the years ended December 31, 2003 and 2002 are as follows *(in thousands):*

	2003	2002
Balance, beginning of year	$ 193,924	$ 146,763
Goodwill acquired during year	34,727	47,161
Balance, end of year	$ 228,651	$ 193,924

5. Long-term Debt

Long-term debt at December 31, 2003 and 2002 is comprised of the following *(in thousands)*:

	2003	2002
Notes payable at 2.6% (see note 2)	$ 8,188	$ 19,575
$100 million credit agreement at prime or LIBOR plus a spread of 1.5% to 2.25% (average rate of 2.7% at December 31, 2003), due March 2008	42,200	4,700
Other debt at an average rate of 5.6%, due through June 2022	4,032	4,358
Capitalized lease arrangements at an average rate of 7.3%, due through July 2006 (see note 6)	593	1,658
	55,013	30,291
Less current portion	1,876	2,407
Long-term debt	$ 53,137	$ 27,884

The borrowings under the credit facility are guaranteed by the wholly owned subsidiaries of the Company, and in some instances, the underlying assets of certain developed centers. The credit agreement permits the Company to borrow up to $100,000,000 to finance the Company's acquisition and development projects and stock repurchase program at prime rate or LIBOR plus a spread of 1.50% to 2.25% or a combination thereof, provides for a fee of 0.50% of unused commitments, prohibits the payment of dividends and contains covenants relating to the ratio of debt to net worth, operating performance and minimum net worth. The Company was in compliance in all material respects with all covenants at December 31, 2003.

Certain partnerships included in the Company's consolidated financial statements have loans with local lending institutions which are collateralized by certain assets of the centers with a book value of approximately $4,091,000. The Company and the partners have guaranteed payment of the loans in proportion to the relative partnership interests.

Principal payments required on long-term debt in the five years subsequent to December 31, 2003 are $1,876,000, $782,000, $515,000, $484,000, $50,436,000 and $920,000. These maturities reflect the funding of notes payable in January 2004 with borrowings under the credit facility.

6. Leases

The Company has entered into various building and equipment operating leases and equipment capital leases for its surgery centers in operation and under development and for office space, expiring at various dates through 2017. Future minimum lease payments at December 31, 2003 are as follows *(in thousands):*

Year Ended December 31,	Capitalized Equipment Leases	Operating Leases
2004	$ 566	$ 13,856
2005	53	12,361
2006	1	10,308
2007	–	8,350
2008	–	6,668
Thereafter	–	22,540
Total minimum rentals	620	$ 74,083
Less amounts representing interest at rates ranging from 5.8% to 10.5%	27	
Capital lease obligations	$ 593	

At December 31, 2003, equipment with a cost of approximately $2,878,000 and accumulated depreciation of approximately $1,240,000 was held under capital lease. The Company and the partners have guaranteed payment of certain of these leases. Rental expense for operating leases for the years ended December 31, 2003, 2002, and 2001 was approximately $14,501,000, $11,323,000 and $9,757,000, respectively (see note 9).

7. Shareholders' Equity

a. Common Stock

In January 2003, the Company's Board of Directors authorized a stock repurchase program which allows the Company to purchase up to $25,000,000 of its common stock through August 2004. As of December 31, 2003, the Company had purchased and retired 845,200 shares of the Company's common stock at an aggregate purchase price of $21,243,000 under this program, which was funded primarily through borrowings under its credit facility.

In April 2001, the Company completed a public offering of 4,526,000 shares of Class A Common Stock, for net proceeds of approximately $76,600,000 to the Company. Net proceeds from the offering were used to repay borrowings under the Company's revolving credit facility.

In July 2001, after receiving shareholder approval, the Company reclassified its Class A and Class B Common Stock into one class of common stock, having the rights of the Class A Common Stock. The Class A and Class B shares were reclassified into one class of common stock using a one-to-one conversion ratio, resulting in no increase in the Company's total number of shares or book value of common stock outstanding.

b. Shareholder Rights Plan

In 1999, the Company's Board of Directors adopted a shareholder rights plan and declared a distribution of one stock purchase right for each outstanding share of the Company's common stock to shareholders of record on December 16, 1999 and for each share of common stock issued thereafter. Each right initially entitles its holder to purchase one one-hundredth of a share of Series C Junior Participating Preferred Stock, at $48, subject to adjustment. With certain exceptions, each right will become exercisable only when a person or group acquires, or commences a tender or exchange offer for, 20% or more of the Company's outstanding common stock. Rights will also become exercisable in the event of certain mergers or asset sales involving more than 50% of the Company's assets or earning power. Upon becoming exercisable, each right will allow the holder (other than the person or group whose actions triggered the exercisability of the rights), under specified circumstances, to buy either securities of the Company or securities of the acquiring company (depending on the form of the transaction) having a value of twice the then current exercise price of the rights. The rights expire on December 2, 2009.

c. Earnings per Share

The following is a reconciliation of the numerator and denominators of basic and diluted earnings per share *(in thousands, except per share amounts):*

	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
For the year ended December 31, 2003:			
Basic earnings per share:			
Net earnings	**$ 30,126**	**20,093**	**$ 1.50**
Effect of dilutive securities options	**–**	**351**	
Diluted earnings per share:			
Net earnings	**$ 30,126**	**20,444**	**$ 1.47**
For the year ended December 31, 2002:			
Basic earnings per share:			
Net earnings	$ 24,022	20,390	$ 1.18
Effect of dilutive securities options	–	338	
Diluted earnings per share:			
Net earnings	$ 24,022	20,728	$ 1.16
For the year ended December 31, 2001:			
Basic earnings per share:			
Net earnings	$ 14,905	18,428	$ 0.81
Effect of dilutive securities options	–	593	
Diluted earnings per share:			
Net earnings	$ 14,905	19,021	$ 0.78

d. Stock Options

The Company has two stock option plans under which it has granted non-qualified options to purchase shares of common stock to employees and outside directors. Options are granted at market value on the date of the grant and vest ratably over four years. Options have a term of 10 years from the date of grant. At December 31, 2003, 5,217,333 shares were authorized for grant under the two stock option plans and 1,289,434 shares were available for future option grants. Stock option activity for the three years ended December 31, 2003 is summarized below:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2000	1,825,879	$ 5.40
Options granted	793,759	23.90
Options exercised	(849,915)	3.84
Options terminated	(115,961)	14.91
Outstanding at December 31, 2001	1,653,762	14.41
Options granted	502,378	24.95
Options exercised	(429,219)	7.50
Options terminated	(84,680)	20.56
Outstanding at December 31, 2002	1,642,241	19.13
Options granted	**750,720**	**22.97**
Options exercised	**(367,073)**	**14.09**
Options terminated	**(45,589)**	**23.51**
Outstanding at December 31, 2003	**1,980,299**	**$ 21.41**

The following table summarizes information concerning outstanding and exercisable options at December 31, 2003:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (Yrs.)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 3.09 - $ 8.00	255,653	5.5	$ 6.88	196,804	$ 6.92
8.01 - 16.00	10,982	4.2	9.12	10,982	9.12
16.01 - 24.00	908,476	8.7	22.13	262,995	22.10
24.01 - 32.00	786,855	7.8	25.20	281,854	24.76
32.01 - 38.00	18,333	9.8	33.84	–	–
$ 3.09 - $38.00	1,980,299	7.9	$ 21.41	752,635	$ 18.94

8. Income Taxes

Total income tax expense for the years ended December 31, 2003, 2002 and 2001 was allocated as follows *(in thousands)*:

	2003	2002	2001
Income from operations	**$ 20,083**	$ 16,015	$ 9,941
Shareholders' equity, for compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	**(2,405)**	(3,489)	(7,594)
Total income tax expense	**$ 17,678**	$ 12,526	$ 2,347

Income tax expense from operations for the years ended December 31, 2003, 2002 and 2001 is comprised of the following *(in thousands):*

	2003	2002	2001
Current:			
Federal	**$ 11,786**	$ 9,337	$ 6,848
State	**2,335**	1,974	1,684
Deferred	**5,962**	4,704	1,409
Income tax expense	**$ 20,083**	$ 16,015	$ 9,941

Income tax expense from operations for the years ended December 31, 2003, 2002 and 2001 differed from the amount computed by applying the U.S. Federal income tax rate of 35% to earnings before income taxes as a result of the following *(in thousands):*

	2003	2002	2001
Statutory Federal income tax	**$ 17,573**	$ 14,013	$ 8,696
State income taxes, net of Federal income tax benefit	**2,392**	1,811	1,010
Increase (decrease) in valuation allowance	**68**	135	114
Adjustment to beginning-of-the-year net deferred tax liability to reflect 35% U.S. Federal income tax rate	**–**	–	73
Other	**50**	56	48
Income tax expense	**$ 20,083**	$ 16,015	$ 9,941

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2003 and 2002 are as follows *(in thousands):*

	2003	2002
Deferred tax assets:		
Allowance for uncollectible accounts	**$ 1,080**	$ 906
Accrued liabilities and other	**585**	160
State net operating losses	**650**	582
Gross deferred tax assets	**2,315**	1,648
Valuation allowance	**(650)**	(582)
Net deferred tax assets	**1,665**	1,066
Deferred tax liabilities:		
Property and equipment, principally due to difference in depreciation	**1,307**	624
Goodwill, principally due to differences in amortization	**15,094**	9,323
Prepaid expenses	**376**	269
Gross deferred tax liabilities	**16,777**	10,216
Net deferred tax liabilities	**$ 15,112**	$ 9,150

The net deferred tax liability at December 31, 2003 and 2002, is recorded as follows *(in thousands):*

	2003	2002
Current deferred income tax assets	**$ 1,092**	$ 797
Noncurrent deferred income tax liability	**16,204**	9,947
Net deferred tax liability	**$ 15,112**	$ 9,150

The Company has provided a valuation allowance on its gross deferred tax asset primarily related to state net operating losses to the extent that management does not believe that it is more likely than not that such asset will be realized.

9. Related Party Transactions

The Company leases space for certain surgery centers from its physician partners affiliated with its centers at rates the Company believes approximate fair market value. Payments on these leases were approximately $8,285,000, $6,968,000 and $5,937,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

The Company reimburses certain of its partners for salaries and benefits related to time spent by employees of their practices on activities of the centers. Total reimbursement of such salary and benefit costs totaled approximately $32,788,000, $23,512,000 and $21,114,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

The Company receives capitated reimbursement at one of its centers from a non-physician minority partner associated with the center. Total capitated revenue received was approximately $1,317,000, $1,320,000 and $1,337,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

The Company believes that the foregoing transactions are in its best interests. It is the Company's policy that all transactions by the Company with officers, directors, five percent shareholders and their affiliates be entered into only if such transactions are on terms no less favorable to the Company than could be obtained from unaffiliated third parties, are reasonably expected to benefit the Company and are approved by a majority of the disinterested independent members of the Company's Board of Directors.

10. Employee Benefit Programs

As of January 1, 1999, the Company adopted the AmSurg 401(k) Plan and Trust. This plan is a defined contribution plan covering substantially all employees of AmSurg Corp. and provides for voluntary contributions by these employees, subject to certain limits. Company contributions are based on specified percentages of employee compensation. The Company funds contributions as accrued. The Company's contributions for the years ended December 31, 2003, 2002 and 2001 were approximately $110,000, $94,000 and $81,000, respectively, and vest incrementally over four years.

As of January 1, 2000, the Company adopted the Supplemental Executive Retirement Savings Plan. This plan is a defined contribution plan covering all officers of the Company and provides for voluntary contributions up to 5% of employee annual compensation. Company contributions are at the discretion of the Compensation Committee of the Board of Directors and vest incrementally over four years. The employee and employer contributions are placed in a Rabbi Trust. Employer contributions to this plan for the years ended December 31, 2003, 2002 and 2001 were approximately $217,000, $446,000 and $387,000, respectively.

11. Commitments and Contingencies

The Company and its partnerships are insured with respect to medical malpractice risk on a claims-made basis. The Company also maintains insurance for general liability, director and officer liability and property. Certain policies are subject to deductibles. In addition to the insurance coverage provided, the Company indemnifies certain officers and directors for actions taken on behalf of the Company and its partnerships. Management is not aware of any claims against it or its partnerships which would have a material financial impact.

The Company's wholly owned subsidiaries, as general partners in the partnerships, are responsible for all debts incurred but unpaid by the partnership. As manager of the operations of the partnership, the Company has the ability to limit its potential liabilities by curtailing operations or taking other operating actions.

In the event of a change in current law, which would prohibit the physicians' current form of ownership in the partnerships, the Company is obligated to purchase the physicians' interests in the partnerships. The purchase price to be paid in such event is determined by a predefined formula, as specified in the partnership agreements.

A purchase price of $1,300,000 related to a prior year acquisition remains contingent at December 31, 2003, and is not currently reflected in the Company's financial statements. The Company expects to fund this obligation, if it becomes due, with borrowings under its revolving credit facility or from operating cash flow.

12. Supplemental Cash Flow Information

Supplemental cash flow information for the years ended December 31, 2003, 2002 and 2001 is as follows *(in thousands):*

	2003	2002	2001
Cash paid during the year for:			
Interest	**$ 1,589**	$ 1,071	$ 3,171
Income taxes, net of refunds	**11,567**	5,983	3,350
Noncash investing and financing activities:			
Capital lease obligations incurred to acquire equipment	**3**	107	1,440
Notes received for sale of a partnership interest	**–**	–	1,119
Effect of acquisitions:			
Assets acquired, net of cash	**38,202**	51,805	50,296
Liabilities assumed	**(2,105)**	(2,787)	(3,183)
Notes payable and other obligations	**(8,188)**	(19,575)	10,476
Payment for assets acquired	**$ 27,909**	$ 29,443	$ 57,589

13. Subsequent Events

In February 2004, the Company, through a wholly owned subsidiary, acquired a majority interest in a physician practice-based surgery center for approximately $8,500,000.

In two separate transactions in February and March 2004, the Company sold its interests in three physician practice-based surgery centers and recognized an aggregate gain of approximately $2,100,000. The operating results and gain associated with the dispositions of these centers will be reported as discontinued operations in the Company's consolidated statement of earnings beginning in the first quarter of 2004.

In February 2004, the Company's Board of Directors approved a 3-for-2 stock split to be effected in the form of a 50% stock dividend. The new shares are to be distributed on March 24, 2004 to shareholders of record at the close of business on March 8, 2004.

In March 2004, the Company amended its credit agreement to, among other things, increase the borrowing capacity on its credit facility from $100,000,000 to $125,000,000.

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
AmSurg Corp.
Nashville, Tennessee

We have audited the accompanying consolidated balance sheets of AmSurg Corp. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of earnings, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. 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 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 provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of AmSurg Corp. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1(f) to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, *"Goodwill and Other Intangible Assets,"* which resulted in the Company changing the method in which it accounts for goodwill and other intangible assets.

Deloitte & Touche LLP

Nashville, Tennessee
March 2, 2004, except for Note 13,
as to which the date is March 12, 2004

SHAREHOLDER INFORMATION

Common Stock and Dividend Information

At March 12, 2004 there were approximately 13,000 holders of our common stock, including 115 shareholders of record. We have never declared or paid a cash dividend on our common stock. We intend to retain our earnings to finance the growth and development of our business and do not expect to declare or pay any cash dividends in the foreseeable future. The declaration of dividends is within the discretion of our Board of Directors, which will review this dividend policy from time to time. Presently, the declaration of dividends is prohibited by a covenant in our credit facility with lending institutions.

Quarterly Earnings and Market Price Data

The following table presents certain quarterly statement of earnings data for the years ended December 31, 2002 and 2003 and the high and low prices per share for our common stock, which trades under the symbol "AMSG" on the Nasdaq National Market. The quarterly statement of earnings data set forth below was derived from our unaudited financial statements and includes all adjustments, consisting of normal recurring adjustments, which we consider necessary for a fair presentation thereof. Results of operations for any particular quarter are not necessarily indicative of results of operations for a full year or predictive of future periods.

	2002				**2003**			
	Q1	Q2	Q3	Q4	**Q1**	**Q2**	**Q3**	**Q4**
	(In thousands, except per share data)							
Revenues	$58,290	$ 61,713	$ 63,280	$ 68,242	**$71,060**	**$74,247**	**$75,573**	**$ 80,528**
Earnings before income taxes	8,954	9,813	10,369	10,901	**11,670**	**12,229**	**12,552**	**13,758**
Net earnings	5,372	5,888	6,221	6,541	**7,003**	**7,337**	**7,531**	**8,255**
Diluted earnings per common share [(1)]	$ 0.26	$ 0.28	$ 0.30	$ 0.31	**$ 0.34**	**$ 0.36**	**$ 0.37**	**$ 0.40**
Market prices per share: [(1)]								
High	$ 27.87	$ 32.70	$ 33.85	$ 32.44	**$ 26.62**	**$ 30.85**	**$ 34.30**	**$ 40.05**
Low	$ 22.06	$ 25.71	$ 23.10	$ 18.80	**$ 18.03**	**$ 22.87**	**$ 26.98**	**$ 31.73**

[(1)] *Does not reflect a 3-for-2 stock split effected on March 24, 2004.*

Corporate Office

AmSurg Corp.
20 Burton Hills Boulevard
Nashville, Tennessee 37215
615/665-1283

Form 10-K/Investor Contact

A copy of the AmSurg Corp. Annual Report on Form 10-K for Fiscal 2003 (without exhibits) filed with the Securities and Exchange Commission is available from the Company at no charge. These requests and other investor contacts should be directed to Claire M. Gulmi, Senior Vice President, Chief Financial Officer and Secretary, at the Company's corporate office.

Annual Shareholders' Meeting

The annual meeting of shareholders will be held on Thursday, May 20, 2004, at 9:00 a.m. in the Founder's Room at the Nashville City Club, 30th Floor, 201 4th Avenue North, Nashville, Tennessee.

Registrar and Transfer Agent

SunTrust Bank, Atlanta
Corporate Trust Department
58 Edgewood Avenue, Room 225 Annex
Atlanta, Georgia 30303
800/568-3476

DIRECTORS AND OFFICERS

Ken P. McDonald
President, Chief Executive Officer
and Director

Thomas G.Cigarran [1]
Chairman;
Chairman and former President and
Chief Executive Officer,
American Healthways, Inc.,
healthcare services

James A. Deal [2][3]
Director;
Chairman and
Chief Executive Officer,
Geriatrix,
healthcare services

Steven I. Geringer [1], [3]
Director;
Former President and
Chief Executive Officer,
PCS Health Systems, Inc.,
pharmaceutical services

Debora A. Guthrie [2][3]
Director;
President and Chief Executive Officer
of the general partner of Capitol Health
Partners, L.P.,
healthcare venture capital

Henry D. Herr [2]
Director;
Former Executive Vice President of Finance and
Administration and Chief Financial Officer,
American Healthways, Inc.,
healthcare services

Bergein F. Overholt, M.D.
Director;
President,
Gastrointestinal Associates, P.C.
physician

Claire M. Gulmi
Senior Vice President,
Chief Financial Officer and Secretary

Royce D. Harrell
Senior Vice President,
Corporate Services

David L. Manning
Senior Vice President,
Development

Dennis J. Zamojski
Senior Vice President,
Operations

(1) Nominating and Corporate Governance Committee
(2) Audit Committee
(3) Compensation Committee

Executive Officers

David L. Manning,
Ken P. McDonald,
Dennis J. Zamojski,
Claire M. Gulmi,
Royce D. Harrell

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