

NOVAMED INC  
Form 10-Q  
May 10, 2010  
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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### FORM 10-Q

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from        to

COMMISSION FILE NUMBER: 0-26625

**NOVAMED, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**36-4116193**  
(I.R.S. Employer Identification No.)

**333 West Wacker, Suite 1010, Chicago, IL 60606**

(Address of principal executive offices)

Registrant's telephone, including area code: **(312) 664-4100**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of May 3, 2010, there were outstanding 23,873,894 shares of the registrant's common stock, par value \$.01 per share.

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NOVAMED, INC.

FORM 10-Q FOR QUARTERLY PERIOD ENDED MARCH 31, 2010

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## Item 1. Interim Condensed Consolidated Financial Statements (unaudited)

**NOVAMED, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Dollars in thousands, except per share data)

	March 31, 2010 (unaudited)	December 31, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents, including \$1,865 and \$2,562 of restricted cash, respectively	\$ 5,195	\$ 3,884
Accounts receivable, net of allowances of \$21,010 and \$26,597, respectively	20,333	19,177
Notes and amounts due from related parties	473	473
Inventory	2,518	2,479
Prepaid expenses and deposits	1,481	1,662
Current tax assets	2,986	2,725
Total current assets	32,986	30,400
Property and equipment, net	17,643	18,714
Goodwill	193,957	193,957
Other intangible assets, net	3,414	3,499
Other assets, net	1,221	1,397
Total assets	\$ 249,221	\$ 247,967
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 11,664	\$ 9,549
Accrued expenses	5,091	5,488
Current maturities of long-term debt	7,608	8,217
Total current liabilities	24,363	23,254
Long-term debt, net of current maturities	39,576	42,713
Convertible subordinated debt, net of unamortized debt discount of \$12,199 and \$13,431, respectively	62,801	61,569
Other long-term liabilities	286	301
Deferred income tax liabilities	15,374	14,118
Commitments and contingencies		
Stockholders' equity:		
NovaMed, Inc. stockholders' equity:		
Series E Junior Participating Preferred Stock, \$0.01 par value, 1,912,000 shares authorized, none outstanding at March 31, 2010 and December 31, 2009, respectively		
Common stock, \$0.01 par value, 81,761,465 shares authorized, 30,887,214 and 30,333,518 shares issued at March 31, 2010 and December 31, 2009, respectively	299	299
Additional paid-in-capital	113,606	113,362
Accumulated deficit	(2,314)	(3,650)

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Accumulated other comprehensive loss	(30)	(40)
Treasury stock, at cost, 7,193,737 and 7,186,243 shares at March 31, 2010 and December 31, 2009, respectively	(18,972)	(18,943)
Total NovaMed, Inc. stockholders' equity	92,589	91,028
Noncontrolling interests	14,232	14,984
Total stockholders' equity	106,821	106,012
Total liabilities and stockholders' equity	\$ 249,221	\$ 247,967

The notes to the interim condensed consolidated financial statements are an integral part of these statements.

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## NOVAMED, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share data; unaudited)

	Three months ended March 31,	
	2010	2009
Net revenue:		
Surgical facilities	\$ 30,553	\$ 31,891
Product sales and other	6,502	6,403
Total net revenue	37,055	38,294
Operating expenses:		
Salaries, wages and benefits	11,844	12,018
Cost of sales and medical supplies	8,602	8,574
Selling, general and administrative	7,095	6,944
Depreciation and amortization	1,398	1,425
Total operating expenses	28,939	28,961
Operating income	8,116	9,333
Interest (income) expense, net	2,279	2,184
Other (income) expense, net	20	12
Income before income taxes	5,817	7,137
Income tax provision	872	1,106
Income from continuing operations	4,945	6,031
Income from discontinued operations		
Net income	4,945	6,031
Net income attributable to noncontrolling interests	3,609	4,302
Net income attributable to NovaMed, Inc.	\$ 1,336	\$ 1,729
Amounts attributable to NovaMed, Inc.:		
Income from continuing operations	\$ 1,336	\$ 1,729
Income from discontinued operations		
Net income attributable to NovaMed, Inc.	\$ 1,336	\$ 1,729
Basic earnings per common share attributable to NovaMed, Inc.:		
Income from continuing operations	\$ 0.06	\$ 0.08
Income from discontinued operations		
Net income	\$ 0.06	\$ 0.08
Diluted earnings per common share attributable to NovaMed, Inc.:		
Income from continuing operations	\$ 0.06	\$ 0.08
Income from discontinued operations		
Net income	\$ 0.06	\$ 0.08
Weighted average common shares outstanding	22,885	22,560
Dilutive effect of stock options and restricted stock	617	464
Diluted weighted average common shares outstanding	23,502	23,024

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The notes to the interim condensed consolidated financial statements are an integral part of these statements

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**NOVAMED, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**

(Dollars in thousands, unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total NovaMed, Inc. Stockholders Equity	Noncontrolling Interests
<b>Balance, December 31, 2009</b>	\$ 299	\$ 113,362	\$ (3,650)	\$ (40)	\$ (18,943)	\$ 91,028	\$ 14,984
Net income			1,336			1,336	3,609
Unrealized gain on interest rate swaps				10		10	5
Total comprehensive income						1,346	3,614
Shares issued - employee stock purchase plan		47				47	
Stock options exercised, net		(49)				(49)	
Restricted stock activity					(29)	(29)	
Stock-based compensation expense		425				425	
Distributions to noncontrolling interests							(4,328)
Other noncontrolling interests activity		(179)				(179)	(38)
<b>Balance, March 31, 2010</b>	\$ 299	\$ 113,606	\$ (2,314)	\$ (30)	\$ (18,972)	\$ 92,589	\$ 14,232

The notes to the interim condensed consolidated financial statements

are an integral part of these statements.



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**NOVAMED, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Dollars in thousands; unaudited)

	Three Months Ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 4,945	\$ 6,031
Adjustments to reconcile net income to net cash provided by operations		
Depreciation and amortization	1,398	1,425
Deferred income taxes	869	982
Stock-based compensation expense	425	534
Amortization of subordinated debt fees	161	160
Non-cash subordinated debt interest	1,101	1,008
Changes in operating assets and liabilities, net of effects of purchase transactions		
Accounts receivable	(1,156)	(1,525)
Inventory	(39)	(56)
Other current assets	158	300
Accounts payable and accrued expenses	1,624	(6)
Other noncurrent assets	237	66
Net cash provided by operating activities	9,723	8,919
Cash flows from investing activities:		
Payments for acquisitions, net		(12)
Proceeds from sale of noncontrolling interests		290
Purchases of property and equipment	(234)	(1,484)
Other	(61)	5
Net cash used in investing activities	(295)	(1,201)
Cash flows from financing activities:		
Borrowings under revolving line of credit	12,200	15,400
Payments under revolving line of credit	(14,400)	(15,900)
Distributions to noncontrolling interests	(4,328)	(4,693)
Repurchase of common stock		(1,126)
Proceeds from the issuance of common stock	57	32
Payments of other debt, debt issuance fees and capital lease obligations	(1,646)	(826)
Net cash used in financing activities	(8,117)	(7,113)
Net increase in cash and cash equivalents	1,311	605
Cash and cash equivalents, beginning of period	3,884	4,875
Cash and cash equivalents, end of period	\$ 5,195	\$ 5,480

The notes to the interim condensed consolidated financial statements are an integral part of these statements.

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**NOVAMED, INC. AND SUBSIDIARIES**

**NOTES TO THE INTERIM**

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2010**

**(Dollars in thousands, except per share data; unaudited)**

1. GENERAL

*Basis of Presentation:*

The information contained in the interim consolidated financial statements and notes is condensed from that which would appear in the annual consolidated financial statements. Accordingly, the interim condensed consolidated financial statements included herein should be read in conjunction with the consolidated financial statements as of and for the year ended December 31, 2009, filed by NovaMed, Inc. (the Company) with the Securities and Exchange Commission on Form 10-K. The unaudited interim condensed consolidated financial statements as of March 31, 2010 and for the three months ended March 31, 2010 and 2009, include all normal recurring adjustments which management considers necessary for a fair presentation. The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the entire fiscal year.

*Recently Adopted Accounting Pronouncements:*

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures* (Topic 820), Improving Disclosures about Fair Value Measurements (ASU No. 2010-06). ASU No. 2010-06 requires new disclosures about significant transfers in and out of Level 1 and Level 2 fair value measurements and the reasons for such transfers and in the reconciliation for Level 3 fair value measurements disclose separately information about purchases, sales, issuances and settlements. The Company adopted the provisions of ASU No. 2010-06 on January 1, 2010, except for disclosures about purchases, sales, issuances and settlements in the reconciliation for Level 3 fair value measurements. Those disclosures will be effective for financial statements issued for fiscal years beginning after December 15, 2010. The adoption of this standard did not impact the Company's consolidated financial statements.

2. STATEMENT OF CASH FLOWS - SUPPLEMENTAL

*Supplemental cash information:*

	Three months ended March 31,			
	2010		2009	
Interest paid	\$	680	\$	865
Income taxes paid		97		156

*Non cash investing and financing activities:*

During the first three months of 2010, the Company obtained equipment by entering into capital leases for \$100.

### 3. INVENTORY

Inventory consists primarily of surgical supplies used in connection with the operation of the Company's ambulatory surgery centers (ASCs) and optical products such as eyeglass frames, optical lenses and contact lenses. Inventory is valued at the lower of cost or market, with cost determined using the first-in, first-out (FIFO) method. The Company routinely reviews its inventory for obsolete, slow moving or otherwise impaired inventory and records a related expense in the period if such impairment is known and quantifiable.

Balances as of:

	March 31,		December 31,	
	2010		2009	
Surgical supplies	\$	1,801	\$	1,782
Optical products		673		645
Other		44		52
Total inventory	\$	2,518	\$	2,479

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## NOVAMED, INC. AND SUBSIDIARIES

## NOTES TO THE INTERIM

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(Dollars in thousands, except per share data; unaudited)

## 4. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill balances by reportable segment are summarized in the table below:

	Goodwill					
	Surgical Facilities	Product Sales	Other	Total	Other Intangibles	
Balance December 31, 2009	\$ 182,930	\$ 10,086	\$ 941	\$ 193,957	\$ 3,499	
Acquisitions						
Other						
Amortization					(85)	
Balance March 31, 2010	\$ 182,930	\$ 10,086	\$ 941	\$ 193,957	\$ 3,414	

## 5. ACQUISITIONS AND DIVESTITURES

The Company generally acquires majority equity interests in ASCs through the purchase method of accounting. The results of operations are included in the consolidated financial statements of the Company from the date of acquisition. During the first three months of 2010 and 2009, the Company did not make any acquisitions.

## 6. CONVERTIBLE SENIOR SUBORDINATED NOTES AND REVOLVING CREDIT FACILITY

*Convertible Senior Subordinated Notes*

In June 2007, the Company issued \$75,000 aggregate principal amount of 1.0% convertible senior subordinated notes due June 15, 2012 (the Convertible Notes). At March 31, 2010, the Company had \$62,801 in convertible subordinated debt outstanding, net of unamortized debt discount. As of March 31, 2010, the fair value of the \$75,000 Convertible Notes was approximately \$63,398, based on the level 2 valuation hierarchy under ASC 820. For further discussion about the Convertible Notes, see Note 11 in the Notes to Consolidated Financial Statements in

the Company's Annual Report filed on Form 10-K on March 16, 2010.

*Credit Facility*

Effective August 31, 2009, the Company amended its credit facility, decreasing the maximum commitment available under the facility from \$125,000 to \$80,000, consisting of a \$50,000 revolving credit facility and a \$30,000 term loan facility. The expiration date of the credit facility was extended to December 15, 2011, however, if the Company has repaid or refinanced its Convertible Notes prior to this date, the expiration date will be extended to August 31, 2012. The maximum commitment available under the revolving credit facility is \$50,000 or the maximum allowed under the calculated ratio limitations. The \$30,000 term loan facility requires quarterly repayments of \$1,000 commencing December 31, 2009, increasing to \$1,250 and \$1,500 commencing December 31, 2010 and December 31, 2011, respectively. The amended credit agreement also includes an option allowing the Company to increase the maximum commitment available under the revolving credit facility to \$95,000 under certain conditions. At March 31, 2010, the Company had approximately \$39,200 of potential borrowing availability under its revolving credit facility. Interest on borrowings under the facility is payable at an annual rate equal to the Company's lender's published base rate plus the applicable borrowing margin ranging from 0.75% to 3.00% or LIBOR plus a range from 2.75% to 5.00%, varying depending upon the calculated ratios and the Company's ability to meet other financial covenants. In addition, a fee ranging from 0.25% to 0.50% is charged on the unused portion of the revolver commitment. The maximum borrowing availability and applicable interest rates under the credit facility are calculated based on a ratio of total indebtedness to earnings before interest, taxes, depreciation and amortization, all as more fully defined in the Company's credit agreement. The credit agreement continues to contain customary covenants that include limitations on indebtedness, liens, capital expenditures, acquisitions, investments and share repurchases, as well as restrictions on the payment of dividends; however, many of these limitations were changed by the amendment. Under the terms of the credit agreement, the Company was subject to a maximum total leverage ratio of 5.00 times initially, which decreased to 4.75 times for the quarter ending December 31, 2009, and will further decrease to 4.25 times for the quarter

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**(Dollars in thousands, except per share data; unaudited)**

ending December 31, 2010 and 4.00 times for the quarter ending December 31, 2011 and thereafter. The Company is also subject to a maximum senior leverage ratio of 2.50 times initially, which will decrease to 2.25 times for the quarter ending December 31, 2010 and thereafter. The Company is required to obtain the consent of its lenders for any acquisition exceeding \$25,000 individually and \$40,000 for all acquisitions consummated during the term of the credit agreement. The credit facility is collateralized by certain assets of the Company.

At March 31, 2010, the Company had \$10,000 of borrowings outstanding under its revolving credit facility and \$28,000 of borrowings outstanding under its term loan facility with a weighted average interest rate of 4.8% and was in compliance with all of its credit agreement covenants. The weighted average interest rate on credit line borrowings during the three months ended March 31, 2010 was 4.9%. In addition, the Company paid a fee ranging from 0.25% to 0.50% on the unused portion of the revolver commitment.

During 2008, the Company's Orlando (formerly Altamonte Springs), Florida ASC, of which it owns a 70% interest, entered into a \$3,300 installment note which matures on December 31, 2015. Interest is payable on the outstanding principal balance at the lender's one month LIBOR rate, designated or published on the first day of each month, plus 2.5%. This note financed the cost of relocating this ASC from Altamonte Springs, Florida to Orlando, Florida, which was completed in January 2009. As of March 31, 2010, there was \$2,711 outstanding under this note.

Effective August 1, 2006, NovaMed Eye Surgery Center of New Albany, LLC, of which the Company owns a 67.5% majority interest, entered into a \$4,000 installment note which matures on August 1, 2013. Interest is payable at the lender's one month LIBOR rate, designated or published on the first of each month, plus 2.0%. As of March 31, 2010, there was \$2,142 outstanding under this note. The ASC entered into a five-year interest rate swap agreement that effectively fixes the LIBOR rate on this debt at 5.51%. The ASC has recognized the fair value of this interest rate swap as a long-term liability of approximately \$45 at March 31, 2010.

The Company has two outstanding letters of credit issued to two of its optical products buying group vendors. One letter of credit in the amount of \$630 expired on March 31, 2010 and one letter of credit in the amount of \$203 expires on September 30, 2010. On April 1, 2010, the letter of credit that expired on March 31, 2010 was renewed for the same amount and has an expiration date of March 31, 2011. The outstanding letters of credit reduce the amount available under the credit facility.

7. OTHER COMPREHENSIVE INCOME

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The Company reports other comprehensive income as a measure of changes in stockholders' equity that resulted from recognized transactions and other economic events of the period from non-owner sources. Other comprehensive income of the Company results from adjustments due to the fluctuation of the value of the Company's interest rate swaps accounted for under ASC 815, *Derivatives and Hedging*. One of the Company's 67.5% owned subsidiaries entered into an interest rate swap during the third quarter of 2006. The Company's share of the negative value of the interest rate swaps was \$30 at March 31, 2010 and is recorded as accumulated other comprehensive loss in the accompanying unaudited consolidated balance sheet. See Note 6 for further discussion of the interest rate swap. The total comprehensive income attributable to NovaMed, Inc. for the three months ended March 31, 2010 and 2009 was \$1,346 and \$1,842, respectively.

### 8. STOCK BASED COMPENSATION

The Company accounts for stock based compensation applying the provisions of ASC 718, *Compensation-Stock Compensation*. ASC 718 applies to new awards and to awards that were outstanding as of December 31, 2005 that are subsequently vested, modified, repurchased or cancelled. Compensation expense recognized during the first three months of 2010 and 2009 includes the portion vesting during the period for all share-based payments granted subsequent to December 31, 2005, based on the grant-date fair value estimated using the Black-Scholes option-pricing model.

The Company is authorized to issue shares of its common stock, par value \$.01 per share, under various stock plans. Under these plans, the Company has granted restricted stock and non-qualified options to purchase shares of common stock to employees and outside directors. Restricted stock awards vest over a four-year period with 1/8th of the total award vesting six months from the date of grant and 1/16th of the total award vesting every three months thereafter. The fair value of

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**NOVAMED, INC. AND SUBSIDIARIES**

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restricted stock is determined based on the closing market value of the Company's common stock on the day prior to the grant.

Options are granted at market value on the date of the grant. Options become exercisable over a four-year period with 1/8th of the total options granted becoming exercisable six months from the date of the grant and 1/48th of the total options granted becoming exercisable each month thereafter. Options generally have a term of ten years from the date of grant. During the first three months of 2010, the Company did not grant any options.

Other information pertaining to share-based activity during the three months ended March 31, 2010 and 2009 was as follows:

	Three Months Ended	
	March 31,	
	2010	2009
Shared-based compensation expense	\$ 419	\$ 527
Fair value of shares vested	361	495
Cash received from option exercises	38	
Tax benefit from option exercises	25	

The following is a summary of non-vested restricted share activity for the three months ended March 31, 2010:

	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested at December 31, 2009	280,240	\$ 3.10
Granted	511,741	\$ 3.82
Vested	(25,511)	\$ 3.72
Canceled		\$
Nonvested at March 31, 2010	766,470	\$ 3.56

At March 31, 2010, there was \$2,631 of total unrecognized compensation cost related to non-vested restricted stock awards which is expected to be recognized over a weighted average period of 3.5 years.



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A summary of stock option activity within the Company's stock-based compensation plans for the three months ended March 31, 2010 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2009	3,878,450	\$ 4.49	5.2	
Granted		\$		
Exercised	(25,416)	\$ 1.50		
Terminated	(82,044)	\$ 11.69		
Outstanding at March 31, 2010	3,770,990	\$ 4.35	5.0	\$ 2,520
Exercisable at March 31, 2010	3,126,612	\$ 4.45	4.3	\$ 2,218

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## NOVAMED, INC. AND SUBSIDIARIES

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(Dollars in thousands, except per share data; unaudited)

The aggregate intrinsic value for stock options outstanding and exercisable is defined as the difference between the market value of the Company's stock as of the end of the period and the exercise price of in-the-money stock options. The total intrinsic value of stock options exercised during the first three months of 2010 was \$65. At March 31, 2010, there was \$1,201 of unrecognized compensation expense related to non-vested stock options which is expected to be recognized over a weighted average period of 1.9 years.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for stock options granted during the three months ended March 31, 2010 and 2009:

	Three months ended	
	2010	2009
Expected option life in years		6
Risk-free interest rate		3.53%
Dividend yield		
Expected volatility		43.3%
Weighted average fair value at grant date	\$	1.29

The expected option life used for 2009 grants was based on historical stock option exercise activity. The risk free interest rate is based on the yield curve for U.S. Treasury zero-coupon issues with an equivalent remaining term. The dividend yield is based on the Company's current dividend yield as the best estimate of projected dividend yield for periods within the expected life of the options. The expected volatility in 2009 was based on the historical volatility of the Company's stock.

The Company has an employee stock purchase plan ( ESPP ) for all eligible employees. Under the plan, shares of the Company's common stock may be purchased at six-month intervals at 85% of the lower of the fair market value on the first or the last day of each six-month period. Under this plan 16,539 and 26,455 shares were purchased during the three months ended March 31, 2010 and 2009, respectively. Under the provisions of ASC 718, the Company recognized compensation expense of \$6 and \$7 during the first three months of 2010 and 2009, respectively. At March 31, 2010, 148,932 shares were reserved for future issuance under the ESPP.

## 9. FAIR VALUE OF FINANCIAL INSTRUMENTS

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On January 1, 2008, the Company adopted the provisions included in ASC 820 which establishes a framework for reporting fair value and expands disclosures required for fair value measurements for measuring the fair value of its financial assets and liabilities. Although the adoption of this accounting standard did not materially impact its financial condition, results of operations or cash flow, the Company is now required to provide additional disclosures as part of its financial statements.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of March 31, 2010 the Company had an interest rate swap agreement that is required to be measured at fair value on a recurring basis. The Company's interest rate swap agreement attributable to NovaMed, Inc. had a fair value of \$30 based on Level 2 inputs and is recorded as a liability as of March 31, 2010.

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## NOVAMED, INC. AND SUBSIDIARIES

## NOTES TO THE INTERIM

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

(Dollars in thousands, except per share data; unaudited)

## 10. OPERATING SEGMENTS

The table below presents information about operating data and segment assets as of and for the three months ended March 31, 2010 and 2009:

	Surgical Facilities	Product Sales	Other	Corporate	Total
<b>Three months ended March 31, 2010</b>					
Net revenue	\$ 30,553	\$ 4,553	\$ 1,949	\$	\$ 37,055
Earnings (loss) before taxes	7,587	794	273	(2,837)	5,817
Depreciation and amortization	1,105	187	30	76	1,398
Interest income	1				1
Interest expense	145	6		2,129	2,280
Capital expenditures	133	14	63	24	234
Accounts receivable	11,104	8,594	571	64	20,333
Identifiable assets	211,659	24,371	2,187	11,004	249,221
<b>Three months ended March 31, 2009</b>					
Net revenue	\$ 31,891	\$ 4,395	\$ 2,008		