

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 56673 / October 18, 2007**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 2743 / October 18, 2007**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-12869**

**In the Matter of**

**Thomas C. Gentry, C.P.A.**

**Respondent.**

**ORDER INSTITUTING CEASE-AND-  
DESIST PROCEEDINGS, MAKING  
FINDINGS, AND IMPOSING A CEASE-  
AND-DESIST ORDER PURSUANT TO  
SECTION 21C OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against Thomas C. Gentry (“Respondent”).

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings, Making Findings, and Imposing a Cease-and-Desist Order Pursuant to Section 21C of the Securities Exchange Act of 1934 (“Order”), as set forth below.

### III.

On the basis of this Order and Respondent's Offer, the Commission finds<sup>1</sup> that:

#### **Respondent**

Thomas C. Gentry, age 53, served as MQ Associates Inc.'s Chief Financial Officer at all relevant times. Gentry was certified as a CPA in Georgia until his license lapsed in 2001.

#### **Related Party**

MQ Associates is a Delaware corporation with its headquarters in Alpharetta, Georgia. MQ Associates is a holding company which owns 100% of the shares of MedQuest, Inc. MedQuest is a health care company that provides diagnostic services like CT scans and MRI's. MQ Associates' debt is registered with the Commission and is lightly traded. Its equity is privately held. MQ Associates' fiscal year ends on December 31.

#### **Discussion**

This matter relates to reporting violations by MQ Associates and its failure to keep accurate books and records and to maintain an adequate system of internal accounting controls. At all relevant times, Gentry was MQ Associates' Chief Financial Officer ("CFO") and had primary responsibility for ensuring that its financial statements and books and records were accurate and that its internal accounting controls were adequate. MQ Associates' failures in this regard resulted in a restatement of its financial statements for fiscal years ended December 31, 2002 and 2003, for all quarters during both of those years, and for the first three quarters of 2004. In the aggregate, the restatement resulted in a cumulative reduction of net income by \$34.7 million. This restatement had a material impact on net income, reducing it by more than 300% from a profit of \$4.6 million to a loss of \$11 million during the first 9 months of 2004, by more than 150% from a profit of \$5.2 million to a loss of \$2.8 million in 2003, and by more than 400% from a profit of \$1.2 million to a loss of \$3.7 million in 2002. In connection with the accounting errors underlying the restatement, MQ Associates violated Sections 13(b)(2)(A), 13(b)(2)(B), and 15(d) of the Exchange Act and Rules 12b-20, 15d-1 and 15d-13 thereunder. Gentry was a cause of these violations.

MQ Associates' restatement largely resulted from an understatement of its allowance for contractual adjustments for accounts receivable. When services were rendered, MQ Associates booked the transaction by recording revenue and accounts receivable at equal gross amounts. However, MQ Associates was seldom compensated for the gross billable amount because its contractual arrangements with insurance carriers and governmental reimbursement rates often stipulated payment at rates significantly lower than the gross rate. Due to the difference between the gross billable rate and the net billable rate for the procedure, MQ Associates established an

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<sup>1</sup> The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

allowance for contractual adjustments which was deducted from the gross accounts receivable amount to calculate net, reportable accounts receivable. This allowance was materially understated, which resulted in MQ Associates' overstatement of accounts receivable and revenue.

To monitor the size of the allowance for contractual adjustments, MQ Associates chiefly relied on what it called a cash trend analysis. It compared net accounts receivable (gross accounts receivable minus the allowance) to the actual cash subsequently collected at the end of the average collection period. Beginning in 2002, MQ Associates' auditors advised the company and Gentry that there were inadequacies with the methodology it was using to calculate the allowance for contractual adjustment, and suggested that they be corrected by acquiring a billing system capable of an automated liquidation analysis. A liquidation analysis matches the revenue booked for each transaction with the actual amount collected for that transaction. Despite these warnings, MQ Associates did not acquire and fully implement a billing system with this capability until the third quarter of 2004. As CFO, Gentry signed MQ Associates' annual and quarterly reports (Forms 10-K and 10-Q, respectively) and had an obligation to ensure they were accurate. He also had primary responsibility for ensuring that MQ Associates dedicated the attention and resources necessary to accurately determine its allowance for contractual adjustments. He knew that this account was important to MQ Associates' financial statements and that it was difficult to estimate correctly. Gentry received information suggesting that the allowance might be understated. However, he failed to take sufficient corrective action until mid-2004, after MQ Associates had made several materially false filings with the Commission.

From time to time beginning in late 2002, when MQ Associates registered its debt with the Commission, the allowance for contractual adjustment declined in terms of its percentage of gross accounts receivable. The percentage remained relatively flat throughout 2003, however, it began to steadily decline in 2004. By late 2004, certain employees grew concerned that the allowance for contractual adjustment was not correctly stated. The finance department began conducting additional analyses, including using the new billing system which permitted a liquidation analysis on part of the company's accounts receivable. In light of what was discovered, in January 2005 company management informed the Audit Committee of a potential overstatement in accounts receivable. On March 30, 2005, the company announced in a Form 8-K filed with the Commission that it determined that its historical financial statements for the years ended December 31, 2002 and 2003, all quarters during those years, and the first three quarters of 2004 could not be relied upon. Eventually, on September 22, 2005, the company filed a Form 10-K for fiscal year ending December 31, 2004 which included the \$34.7 million restatement.

### **Legal Analysis**

Section 15(d) of the Exchange Act requires each issuer which has filed a registration statement that has become effective to file periodic reports with the Commission containing information prescribed by specific Commission rules. Rules 15d-1 and 15d-13 require, respectively, the filing of Forms 10-K and 10-Q. Rule 12b-20 requires, in addition to information required in periodic reports by Commission rules, such further information as may

be necessary to make the required statements not misleading. The obligation to file such reports embodies the requirement that they be true and correct. MQ Associates failed to do so by incorrectly setting its allowance for contractual adjustment, which caused it to materially overstate its accounts receivable and revenue as described above. It therefore violated Section 15(d) of the Exchange Act and Rules 12b-20, 15d-1, and 15d-13 thereunder. As CFO, Gentry had primary responsibility for ensuring that MQ Associates correctly determined its allowance for contractual adjustments and he knew or should have known that the allowances were understated. Gentry therefore was a cause of MQ Associates' violations.

Section 13(b)(2)(A) of the Exchange Act requires issuers to "make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer." Section 13(b)(2)(B) of the Exchange Act requires issuers to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit the preparation of financial statements in conformity with GAAP and to maintain the accountability of assets. MQ Associates violated Section 13(b)(2)(A) by failing to make and keep accurate books and records and Section 13(b)(2)(B) by failing to maintain sufficient internal accounting controls, as described above. As CFO, Gentry was responsible for ensuring that MQ Associates' books and records were accurate and its internal controls were adequate. Gentry knew or should have known that MQ Associates did not make and keep accurate books and records and maintain sufficient internal accounting controls. Consequently, he was a cause of those violations.

#### IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Section 21C of the Exchange Act it is hereby ORDERED that:

Respondent Thomas C. Gentry cease and desist from causing any violations and any future violations of Sections 13(b)(2)(A), 13(b)(2)(B), and 15(d) of the Exchange Act and Rules 12b-20, 15d-1, and 15d-13 thereunder.

By the Commission.

Nancy M. Morris  
Secretary