

# Fair Market Value & Financial Analysis Report Summary

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PARAGON Consultant: John Doe Consultant

## INTRODUCTION

**PARAGON Dental Practice Transitions** ("PARAGON") is a consulting firm specializing in evaluating and selling healthcare practices with the vast majority of our focus on dental practices. Since 1988, PARAGON consultants have analyzed the needs of dentists and have provided in-depth consulting services for purchasing, selling, merging and consolidating dental practices.

In addition, PARAGON provides arbitration and mediation services, practice valuations, structures equity associateships, structures co-ownership programs, and comprehensive, equitable contract services for our clients. PARAGON is a nationally recognized leader in the field of dental practice sales. Our extensive experience enables us to provide clients with the most complete and accurate determination of fair market value for dental practices.

### Limiting Conditions

All information relating to the subject practice was supplied by the seller and accepted by your PARAGON consultant and primary evaluator as being accurate and/or reasonable without further verification, unless otherwise specifically stated elsewhere in this market value analysis.

To the best of the evaluator's knowledge, the information provided does not contain an untrue statement of material fact or fail to state a material fact necessary to support this market value analysis. We have analyzed the reasonableness of this information, but do not assume responsibility for its accuracy. No representation or warranty is made as to its accuracy or with respect to the economic return or tax benefits that may accrue to the purchaser.

*A breakdown of each individual asset and liability of the practice was not done for this valuation.* PARAGON uses an average value for the tangible assets for a practice based on the present age and estimated future life of the assets.

As for liabilities, a purchaser is assumed to be protected against non-disclosed, unknown, or contingent liabilities or claims against the practice since the purchaser is purchasing the practice assets free and clear of any outstanding liabilities of the seller. We are not aware of any omissions or material understatements, other than those noted herein, which would affect the value contained in this report.

We have no past, present or intended ownership or financial interest in this professional practice, and the fee for this determination of fair market value is not contingent upon the conclusions supported herein. However, PARAGON may or may not be engaged by the current owner to provide its consulting and/or brokerage services for the sale of this practice. We have no reason to believe that any of the representations made to us by the current owner are not true and accurate.

Prospective purchasers of this practice opportunity must not construe the contents of this report, or any prior or subsequent communication from the valuator or any of PARAGON's representatives as legal and/or tax advice. Each prospective purchaser should consult with his or her personal attorney, accountant or other advisors as to the legal, tax or economic effect or related matters concerning this practice.

### **Fair Market Value**

The most widely used method for determining dental practice value is fair market value. The commonly accepted definition of fair market value is the price that a professional practice would produce, allowing reasonable time to find a purchaser, with both buyer and seller having access to full disclosure of information about each other. It also includes the professional practice being offered for sale, and the seller being willing but not compelled to sell, and the buyer being able and willing but not compelled to purchase the professional practice. In addition, the fair market value will be contingent upon the seller being bound to the terms of a restrictive covenant and patient non-solicitation agreement, reasonable in both time and distance.

The fair market value of every professional practice is affected by various financial, economic, and geographic considerations. These considerations serve to make invalid the use of any industry formulas as a method of arriving at a fair market value of a professional practice. Ultimately, the practice fair market value will be determined by the marketplace and subject to the forces of supply and demand.

PARAGON has determined the fair market value of this practice to be **\$555,000**.

### **Existing Business**

The fact that this practice has an existing patient base (approximately 3,050 total active patients) is an intangible consideration that represents the most valuable asset of every professional practice. It refers to the fact that the practice has assembled the necessary equipment into a productive unit, the availability and existence of trained employees, and the existence of a patient base and patient referral base. A potential purchaser should bear in mind that the net income potential of an established practice for the first ten years after purchase will usually double the net income of the average new practice start-up over the same period.

### **Valuation**

Our analysis and fair market value determination considers transference of the following **(without regard for the specific value of individual assets)**:

- Clinical and Office Equipment
- Furniture and Fixtures
- Instruments
- Clinical and Office Supplies
- Patient Records, Files, List and Charts
- Office Lease
- Work-in-Progress

- Transfer of Practice Telephone Number
- Patient Letter of Recommendation by Owner
- Restrictive Covenant

Transference of the following assets is typically not included in our practice evaluation:

- Automobiles
- Real Estate
- Cash on Hand, Checking or Savings Accounts
- Pension & Profit Sharing Plans or Marketable Securities
- Accounts Receivable (occasionally considered)
- Corporate Stock

## **APPRAISAL CONSIDERATIONS**

In Rev. Rule 59-60, 1959-1 C.B. 237, the Internal Revenue Service defines "fair market value" as the price at which a property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, with both parties having reasonable knowledge of the relevant facts of the transaction.

In order to perform a proper market value analysis of the professional practice, it is necessary to review the overall operations of the practice for its most recently completed year. This analysis includes the most recent year as depicted in a current financial statement as well as the most recently completed tax year. In addition, several prior years' tax returns are reviewed based on the initial information supplied by the current practice owner. The number of prior years is typically three; however, it is not unusual for PARAGON to require additional past year's returns if the initial information supplied warrants further analysis.

The PARAGON market value analysis includes considerations for the following:

### **Balance Sheet**

The balance sheet for a practice reflects the book value of the practice assets. Book value is original cost less accumulated depreciation and amortization, less any outstanding liabilities. Book value has little relevance for determining practice value since it does not include the anticipated remaining life and use of the assets. In addition, supply inventories are not usually entered on the balance sheet since they are expensed upon purchase.

In order to accurately reflect the fair market value of the practice, the value of the assets should be adjusted to reflect their fair market value based on a combination of current market value and replacement value as of the valuation date, and an estimate of the current clinical and office supply inventory.

A typical balance sheet for a practice reflects the depreciated value of the assets for federal income tax purposes. Equipment, furniture and fixtures are depreciated over a seven-year period. These periods do not reflect the actual potential economic life of the assets. A typical economic life for these assets would be as follows:

- Equipment: 15 to 20 years.
- Furniture and Fixtures: 10 to 12 years.
- Leasehold improvements: 15 years or the remaining term of the lease (including renewals)

However, even after adjusting the balance sheet to reflect the tangible asset value of the practice, no value has yet been attributed to the intangible assets related to the practice.

### **Intangible Assets**

The primary intangible factors associated with the professional practice are the value of the goodwill, the value associated with the patient records and the value of the restrictive covenant (seller's non-compete agreement). The intangible assets account for the greatest portion of the fair market value of a dental practice.

### **Investment Value**

A potential purchaser seeks to earn a fair return on investment (operating profits versus down payment outlay) in addition to reasonable compensation for his or her services. The present and future earning power of the practice is of prime importance. If the practice is not at least equal in earning power to an outside investment in a comparable business venture or other type of investment, the buyer may be unwilling to pay more than the price of the tangible asset value. The initial first year return on investment is projected to be **32.45%** and the compensation rate for the purchaser's personal production equates to **57.58%**.

The investment value of a practice acquisition can be thought of as the difference between the established successful practice and a practice that has yet to establish itself. The price the buyer should be willing to pay for the investment value depends upon this earning power and growth potential of the existing practice. The valuator should base the value of the intangibles upon the actual condition and earning power of the practice.

If past efforts and capital were effectively used, the current earning power of the existing practice should be well above the average lifetime earning potential for a new practice start-up situation. If the operating profits are low, a purchaser will probably resist paying any amount for the intangible aspect of the practice unless he feels that his productive capacity and other market factors will lead to an increase in cash flow generated from the investment and a fair return thereon.

Under this method of determining the investment value of the practice, taking the gross income of the practice and subtracting the ordinary necessary operating expenses determine the operating profits of the practice. We then consider the cost of labor by subtracting an amount necessary to pay reasonable compensation (approximately 30% of gross collections) to another

professional for providing the required services. The remaining amount would be considered operating profits that reflect the actual return on investment.

**Comparable Sales**

Actual sales of comparable practices in the health-care industry are researched in order to provide some appropriate basis for comparison. Although no two practices are alike, comparability can be determined based upon calculations involving the gross and net income of particular practices. Ideally, comparables based upon multiples of the true or adjusted net income of the practice are preferable to those involving the gross income, since these more accurately reflect the economic value of the practice.

Example: Two practices have an identical gross of \$400,000; however, due to differences in operating efficiency, capital, and labor utilization, one practice may operate at a 65% overhead; the other practice operates at a 40% overhead. It is simply unreasonable to determine that these particular practices have equal values.

Geographic considerations play an important role in the valuation process as well. Many profitable rural practices have been virtually unmarketable because of the simple reason that no one wants to live and practice in the area. No matter what value may be determined by utilizing subjective valuation formulas, market demand ultimately plays the critical role when determining the fair market value of a dental practice.

**Financial Analysis and Summary**

Our complete financial analysis, including our proforma and corresponding support schedules, is included on the following pages. The proforma projects a conservative expectation of income and expenses over a 10-year period for the subject practice opportunity.

Practice Confidentiality Code: **MSENTOC**

Note: the valuator, on the basis of certain assumptions and hypotheses, has prepared the projections in the following analysis and proforma. Future operating results are impossible to predict, and no representation of any kind is made respecting the future accuracy or completeness of the projections demonstrated on this financial analysis and/or proforma.

\* \* \* \* \*

## FINANCIAL ANALYSIS SUMMARY

Practice Confidentiality Code: MSSENTOC

### Adjusted Income Statement

The PARAGON Financial Analysis is a comprehensive system of breaking down the important aspects of a dental practice opportunity so a potential purchaser may easily and effectively analyze the opportunity from both an investment and operational standpoint. The PARAGON Financial Analysis process always begins with the ADJUSTED INCOME STATEMENT.

The ADJUSTED INCOME STATEMENT for the subject practice is set forth on the next page of this report and is a reflection of the actual financial condition of the subject practice after adjustment for any known post-sale requirements and/or any seller-only or non-practice related expenses that the purchaser would not normally incur in the operation of the practice.

It is important to understand the basics of the ADJUSTED INCOME STATEMENT in order to fully appreciate the other schedules and statements contained in the analysis. The first column of figures is taken directly from financial information provided by the seller. PARAGON requires a minimum of 3 years of tax returns plus a current financial statement in its data gathering stage. In the case of this analysis, the first column of figures is taken directly from the 2008 Federal Tax Return that you provided to PARAGON, and will match perfectly.

**NOTE:** Frequently doctors have certain expenses that we consider non-practice-essential expenses. These expenses are perfectly legal for tax purposes but typically not necessary for the operation of the practice (i.e. automobile expenses, doctor's health insurance premiums, travel, meals, entertainment, etc.). We make adjustments in the Adjustments column (with an explanation code) to eliminate such non-essential expenses to arrive at an adjusted income and expense projection based on the source document previously referenced: 2008 Federal Tax Return

**IMPORTANT NOTICE:** PARAGON and John Doe Consultant (your PARAGON consultant and primary evaluator), on the basis of certain assumptions and hypotheses, has prepared the projections set forth in the following analysis and proforma. However, future operating results of a dental practice are impossible to predict, and therefore no representation of any kind is made respecting the future accuracy or completeness of the projections demonstrated in this financial analysis and/or proforma.

\* \* \* \* \*

## Adjusted Income Statement

		Adjustments	Notes	Adjusted	%
Doctor Collections	505,053	-		505,053	70.78%
Hygiene Collections	208,457	-		208,457	29.22%
<b>GROSS COLLECTIONS</b>	<b>\$ 713,510</b>			<b>\$ 713,510</b>	<b>100.00%</b>
<b>PRODUCTION EXPENSES:</b>					
Lab Expense	64,114	-		64,114	8.99%
Clinical Supplies	48,490	-		48,490	6.80%
Office Supplies	8,833	-		8,833	1.24%
Miscellaneous	-	-		-	
Associate Compensation	-	-		-	
<b>OVERHEAD EXPENSES:</b>					
Auto mobile	1,584	(1,584)	2	-	
Depre ciation	15,875	(15,875)	1	-	
Employee Benefits	6,108	-		6,108	0.86%
Legal & Professional	1,945	-		1,945	0.27%
Profit Sharing	4,877	-		4,877	0.68%
Insurance - Staff	-	-		-	
Insurance - Office	2,919	-		2,919	0.41%
Insurance - Malpractice	1,750	(1,750)	7	-	
Insurance - Life/Disability	-	-		-	
Insurance - Health	-	-		-	
Repairs & Maintenance	10,705	-		10,705	1.50%
Entertainment	177	(177)	3	-	
Utilities	5,548	-		5,548	0.78%
Dues & Subscriptions	5,888	(5,000)	5	888	0.12%
Janitorial	724	-		724	0.10%
Promotion	3,994	-		3,994	0.56%
Telephone	7,041	-		7,041	0.99%
Rent	-	31,200	13	31,200	4.37%
Postage	3,428	-		3,428	0.48%
Salaries - Staff	132,386	18,000	12	150,386	21.08%
Salaries - Owner	-	-		-	
Payroll Taxes - Staff	10,972	1,710	12	12,682	1.78%
Payroll Taxes - Owner	-	-		-	
Laundry & Uniforms	1,720	-		1,720	0.24%
Collection Expense	2,569	-		2,569	0.36%
Continuing Education	2,479	(2,479)	3	-	
Bank Charges	857	-		857	0.12%
Miscellaneous Expenses	810	-		810	0.11%
<b>TOTAL EXPENSE</b>	<b>\$ 345,793</b>			<b>\$ 369,838</b>	<b>51.83%</b>
<b>NET CASH FLOW</b>	<b>\$ 367,717</b>			<b>\$ 343,672</b>	<b>48.17%</b>

An explanation of the specific adjustments we made for your ADJUSTED INCOME STATEMENT are listed below (note that the first eleven notes are standard notes due to the frequency that these adjustments are made in a PARAGON analysis... the final 5 notes are reserved for notes that are unique to this practice):

<b>Adjustment Notes</b>		
1	AMORTIZATION & DEPRECIATION	Practices do not depreciate in value, but rather they appreciate in value. Depreciation and Amortization are off-set tax allocations for equity payments on an asset. The expenses are allowed for tax purposes but they are non-cash expenses (a check is not written for the expense) so they have no effect on cash flow.
2	AUTOMOBILE	Auto expenses are allowed for tax purposes but are not considered a necessary operating expense of the practice.
3	CONTINUING EDUCATION, CONVENTIONS, TRAVEL, MEALS, ENTERTAINMENT, PROMOTION	These expenses are common expenses for a dental practice but are frequently personal in nature and not considered a necessary operating expense of the practice.
4	DOCTOR'S WAGES / SALARY	This is not an operating expense of the practice and is adjusted out to show all potential owner income as Net Income. Any payroll taxes associated with the Seller must also be adjusted out.
5	DUES & SUBSCRIPTIONS CONTRIBUTIONS	These are common expenses and deductible for tax purposes, but it is not necessary to be a member of an organization to practice dentistry. These expenses are elective and not considered necessary operating expenses.
6	EQUIPMENT, FURNITURE & FIXTURES	Payments for equipment represent an equity build-up of a Balance Sheet item. These are not operating expenses.
7	INSURANCE	Non-practice related insurance premiums are not necessary operating expenses. All premiums for the benefit of the Seller are adjusted out.
8	LEGAL & ACCOUNTING	This amount should not exceed \$3,000 per year per doctor. Excessive amounts indicate an unusual situation or one-time expense occurrence.
9	PENSION & PROFIT SHARING PLANS	The Seller's portion should always be adjusted out.
10	RENT	To adjust the rent to fair market value or to include rent if the seller owns the building and has not been paying himself rent.
11	TAXES	Real Estate Taxes is not a practice expense. Payroll taxes are adjusted as part of salaries (note #4).
12	Additional assistant for purchaser	
13	Seller owns building - long term lease to buyer	
14	N/A	
15	N/A	
16	N/A	

The sole purpose of the ADJUSTED INCOME STATEMENT is to reach a result that fairly and accurately reflects the true financial condition of your practice.

After adjustments, the subject practice reflects gross collected production of \$713,510, with practice related expenses of \$369,838, revealing Net Cash Flow of \$343,672.

**Practice Data Analysis**

PARAGON evaluates each practice for growth potential and marketability based on the general characteristics of the subject practice. We conduct an internal PRACTICE DATA ANALYSIS that offers an informative and revealing comparison of YOUR practice to certain standard statistical criteria, as well as, a comparison to a collective average of many of the high-end practices PARAGON’s consultants have had the privilege of analyzing since we began analyzing dental practices in 1988. For example:

**Procedures Referred Out:** Perio, Ortho, Endo, OS  
**Specialty Services Offered:** Pedo, Endo, Prosth, OS  
**# of Equipped Restorative Rooms:** 3  
**# of Equipped Hygiene Rooms:** 2  
**# of Non-Equipped Rooms:** 1  
**Reception Area Seating:** 12  
**Annual Practice Production:** \$728,657  
**Gross Income (from AIS):** \$713,510  
**Adjusted Net Income (from AIS):** \$343,672  
**Collection Percentage:** 97.92%  
**Accounts Receivable (A/R) Balance:** \$126,459  
**Percentage of A/R over 90 days:** 17%  
**Percentage of A/R that is insurance:** 70%  
**A/R Ratio (# of months out):** 2.08 months  
**Reported Patient Count & Mix:** 3050 Total Patients      2125\* (FFS or Equivalent)  
*(\* sum equals Active Patients for calculations)* 925\* (Low Fee Plans)      0 (Capitation Patients)  
**Average # of patients treated daily:** 20  
**Production per Active Patient:** \$239  
**Ideal Production per Active Patient:** \$550  
**Production per Active FFS Patient:** \$343  
**Average new patients received a month:** 53  
**Estimated Patient Mix (Income):** 8% from high income households  
 70% from middle income households  
 22% from low income households  
**Estimated Patient Mix (Age):** 13% of the patients are under age 16  
 41% of the patients are from age 16 to age 35  
 31% of the patients are from age 36 to age 55  
 15% of the patients are over age 55  
**Estimated C&B/Prosthetic Production:** 45.67%  
**Ratio of crown fee to lab cost:** 10.90 to 1  
**Characteristics of general area:** Rural  
**Description of local population:** Stable  
**Description of office location:** Free standing building  
**Date practice was established:** 1975  
**Does Seller own building:** Yes  
**Nitrous Oxide Percentage Use:** 10%  
**Practice Percentage that is Medicaid:** NONE  
**Weeks doctor booked in advance:** 2.0  
**Weeks hygiene booked in advance:** 24.0  
**Average time to work in a new patient:** 1.5 weeks  
**Who initially treats new patients:** Hygienist  
**Internal & External Marketing Efforts:** Yellow Pages, Newspaper, Other

**Practice General Indicators**

Thousands of dental practice evaluations and financial analyses through the years have provided PARAGON with the unique knowledge and experience to develop accurate and pertinent statistical information for all types of dental practices.

* % of Collections	General	Pedo	Perio	Ortho	Endo	Oral Surg	Subject Practice
Overhead *	50 - 55%	50 - 55%	45 - 55%	51 - 55%	40 - 45%	35 - 45%	51.83%
Profit *	45 - 50%	45 - 50%	50 - 55%	45 - 49%	55 - 60%	55 - 65%	48.17%
Clinical Supplies *	7%	7%	7%	7%	7%	5%	6.80%
Rent *	6%	6%	6%	5%	5%	5%	4.37%
Staff Salaries *	25%	25%	25%	24%	19%	19%	22.85%
Hygiene % of Production	33%	20%	30%	N/A	N/A	N/A	29.22%

In conclusion, the PARAGON Practice Data Analysis provides an invaluable insight into the special inter-workings and philosophies of the subject practice and arms the potential purchaser with the educated guidance required to formulate his or her due-diligence strategy.

**Practice Production Potential**

This analysis provides an interesting perspective of internal growth potential derived from a comparative look at the hygiene department. This analysis is actually a three-step process. The first step is a look at the subject practice’s Hygiene Production Potential based on the active patient total and the actual procedure fees that the practice owner provided to PARAGON.

**HYGIENE PRODUCTION POTENTIAL**

Number of Active Patients (AP)	<u>3,050</u>						
(AP) <u>3,050</u> times 2 =	<u>6,100</u>	Annual Recall Visits					
							<b>ANNUAL</b>
EXAMS - All patients - twice a year:							
(AP) <u>3,050</u> times 2 = <u>6,100</u> times	<u>\$30.00</u>						<b>183,000</b>
FULL MOUTH X-RAYS - Once every three years (1/3 of patients every year):							
(AP) <u>3,050</u> times 1/3 = <u>1,017</u> times	<u>\$100.00</u>						<b>101,667</b>
BITE WINGS - All patients - once a year							
(AP) <u>3,050</u> times	<u>\$30.00</u>						<b>91,500</b>
ADULT PROPHY - Adults - twice a year (Average 2/3 of patients are adults)							
(AP) <u>3,050</u> times 2/3 = <u>2,033</u> times 2	<u>4,067</u> times	<u>\$60.00</u>					<b>244,000</b>
CHILD PROPHY - Children - twice a year (Average 1/3 of patients are children)							
(AP) <u>3,050</u> times 1/3 = <u>1,017</u> times 2	<u>2,033</u> times	<u>\$50.00</u>					<b>101,667</b>
FLUORIDE - Children - once a year (1/3 are children):							
(AP) <u>3,050</u> times 1/3 = <u>1,017</u> times	<u>\$23.00</u>						<b>23,383</b>
SOFT TISSUE MANAGEMENT - (Average 10% of patients each year):							
(AP) <u>3,050</u> times 10% = <u>305</u> times	<u>\$225.00</u>						<b>68,625</b>
<b>ANNUAL HYGIENE PRODUCTION POTENTIAL</b>							<b>\$813,842</b>
REASONABLE TARGET PERCENTAGE FOR HYGIENE EFFECTIVENESS	X						75%
<b>NET ANNUAL HYGIENE PRODUCTION POTENTIAL</b>							<b>\$610,381</b>

As you can see, the first step in our hygiene analysis simply takes the actual procedure fees and applies those fees to the active patient count. The various hygiene-related procedures are assumed to be performed at the generally accepted frequency levels. The schedule above reveals that if it were possible to persuade 100% of the active patients to participate in regular 6-month hygiene visits, the annual practice production just from hygiene related procedures would be \$813,842. A more conservative approach reveals that if only 75% of the active patients were active in the hygiene recall **AND IF** the various hygiene procedures were being provided to patients at the intervals indicated, the subject practice's hygiene production potential calculates to be \$610,381.

NOTE: A practice that has already achieved a 75% efficiency rating but yet still reflects significant growth potential indicates that the practice is not capitalizing on the opportunity to perform the hygiene related procedures as indicated. It should be noted that PARAGON has had the privilege of analyzing numerous practices that have already exceeded the 75% hygiene efficiency level and even a select few practices that have an outstanding hygiene efficiency rating in excess of 85%.

The second step of the analysis is to determine the total practice production potential based on hygiene potential. The premise of this step is that well-operated dental practices generate significant amounts of doctor production as a result of operative and restorative procedure sourcing from within the hygiene department.

Experience reveals that a healthy practice mix of doctor production to hygiene production is 2 to 1 (or 67% doctor and 33% hygiene).

**PRACTICE TOTAL PRODUCTION POTENTIAL**

NET ANNUAL HYGIENE PRODUCTION POTENTIAL .....	<b>\$610,381</b>
<i>NOTE: the ratio of Hygiene production to restorative production should be 1 to 2 (1:2)</i>	
<i>however in order to maintain a conservative estimate we only will use a ratio of 1 to 1.75 (1:1.75)</i>	<b>1.75</b>
ANNUAL RESTORATIVE PRODUCTION POTENTIAL .....	<b>\$1,068,167</b>
# OF CAPITATION PATIENTS <b>0</b> times <b>N/A</b> each per year	
ANNUAL TOTAL PRODUCTION POTENTIAL .....	<b>\$1,678,548</b>
CURRENT TOTAL ANNUAL PRACTICE COLLECTIONS .....	<b>\$713,510</b>
ESTIMATED ANNUAL LOST PRACTICE INCOME .....	<b>\$965,038</b>

The schedule above offers an interesting analysis of internal growth potential for **additional doctor production** and **total practice production** that could be achieved if the hygiene department was maximized and the ratio of doctor production to hygiene production was more in line with a 2 to 1 ratio. Based on the hygiene potential calculated at a 75% efficiency rate (and hygiene procedures being performed as previously indicated), the annual PRACTICE internal growth potential based on hygiene activities calculates to be \$965,038.

The final step provides an interesting calculation of the number of **TRUE** active patients in the practice (we discovered that the patients who routinely visit a practice every 6 months are also the same patients that provide the vast majority of a practice's gross income each year). Calculating an average annual production per patient using only these TRUE active patients generally reveals some interesting "food for thought". For instance, the calculation regularly indicates that a practice is doing very well in terms of total production per patient, but the practice needs more emphasis on achieving a higher recall effectiveness rating. In other words, we have discovered that most practices have an ample supply of quality patients... it is just that a significant number of these patients are NOT included in the active recall program (the **TRUE** active patients of the practice).

It is important to note that the following schedule represents our best estimation of the actual hygiene department production in the subject practice regardless of whether a hygienist or doctor is actually performing this hygiene related production.

**CURRENT ANNUAL FEE PER TRUE ACTIVE PATIENT**

NUMBER OF HYGIENE DAYS PER WEEK.....	7.0
<i>Times</i> AVERAGE NUMBER OF HYGIENE PATIENTS SEEN PER DAY.....	8.0
<i>Equals</i> APPROXIMATE NUMBER OF CURRENT PATIENTS SEEN PER WEEK.....	56
<i>Times 24 weeks equals</i> APPROXIMATE NUMBER OF PATIENTS IN ACTIVE RECALL...	1,344
CURRENT HYGIENE EFFICIENCY.....	44.07%
CURRENT ANNUAL TOTAL PRACTICE COLLECTIONS (See above).....	\$713,510
<i>Divided by</i> CURRENT NUMBER OF ACTIVE PATIENTS IN RECALL.....	1,344
<i>Equals</i> APPROXIMATE ANNUAL COLLECTION PER PATIENT IN ACTIVE RECALL.....	\$531

The subject practice is currently producing an average of **\$531** per TRUE active patient. It is interesting to note that often this calculation exceeds the ideal average potential production of **\$550** per patient that we established as a goal for this practice in our earlier "**Practice Data Analysis**". When this does occur it is actually neither an accident or a coincidence. We pre-set the potential goal based on statistical information. The potential goal established for the subject practice is representative of the many practices that we have analyzed in comparable areas that are of the same general gross income, patient base size and mix as the subject practice. It should be noted that an actual production per patient that is below the ideal is not necessarily a

negative factor. In fact, this typically indicates a great potential for internal growth if some strategic changes were implemented.

In summary, PARAGON feels it can be reasonably assumed that the key to internal growth is not always increasing how much the dentist averages as to production per patient or even increasing the practice's patient base. The TRUE key to internal growth is frequently the result of moving more of the active patients that are already in the practice into routine office visits. A more effective hygiene recall program provides a larger TRUE active patient base for the doctor to work with. For example in the subject practice, 1,344 of the 3,050 total active patients are currently in the hygiene department recall program. This typically indicates significant internal growth that could be achieved if more energy and focus were directed toward getting more of the active patients visiting the practice every 6 months.

\* \* \* \* \*

**Fee Comparison Analysis**

PARAGON feels that the fees in most dental practices are too low. The schedule below compares selected fee codes for the subject practice to comparable fee data taken from the most current NDAS fee survey data available for the same zip code prefix.

The schedule also provides the purchaser with the date the seller last implemented a fee increase. This information will obviously allow the purchaser to analyze the effect and timing of the next fee increase.

**SELECTED FEE COMPARISON**

Fee Code	Procedure Description	NDAS Survey Data (national average)	NDAS Survey Data (391 zip code prefix)	Subject Practice	Subject Practice versus Survey Data
D0120	Periodic Oral Exam	44	38	30	-8
D0150	Comprehensive Oral Evaluation	76	65	50	-15
D0210	Intraoral complete w/bitewings	115	99	100	1
D0272	Bitewing - 2 films	40	34	30	-4
D0330	Panoramic Film	98	84	90	6
D1110	Adult Prophy	80	69	60	-9
D1120	Child Prophy	59	51	50	-1
D1203	Fluoride - Child	32	27	23	-4
D1351	Pit & Fissure Sealant	48	41	30	-11
D2140	Amalgam - 1 surface	120	103	85	-18
D2150	Amalgam - 2 surfaces	151	130	100	-30
D2160	Amalgam - 3 surfaces	184	158	125	-33
D2330	Composite - 1 surface (anterior)	142	122	100	-22
D2331	Composite - 2 surface (anterior)	176	151	125	-26
D2391	Composite - 1 surface (posterior)	155	133	95	-38
D2392	Composite - 2 surface (posterior)	202	174	130	-44
D2393	Composite - 3 surface (posterior)	252	216	160	-56
D2750	Crown - Porcelain to Metal	988	849	850	1
D2950	Crown build-up with pins	243	209	150	-59
D2920	Crown - recement	95	82	75	-7
D3310	Root Canal - 1 canal	650	558	575	17
D3320	Root Canal - 2 canals	754	648	650	2
D3330	Root Canal - 3 canals	913	784	800	16
D4341	Root Planing (per quadrant)	225	193	225	32
D5110	Complete Denture - upper	1,476	1,268	900	-368
D5120	Complete Denture - lower	1,486	1,276	900	-376
D7140	Extraction (removal & closure)	149	128	95	-33
D9972	Extrenal Bleaching (per arch)	250	215	250	35

Date of Last Fee Increase.....Jun 2009

\* comparative fees represent median fees (50th percentile) from the 2010 NDAS Comprehensive Fee Report / Survey

*The "National Dental Advisory Service" (NDAS) is a recognized industry standard for dental fee reference and comparison. Since 1981, through the utilization of confidential fee surveys, the NDAS has provided comprehensive fee reports to the dental profession. While the comparative data is considered to be accurate, confidential survey data cannot be guaranteed. This information is provided by PARAGON, Inc. by utilizing data provided by the NDAS and it should be noted that neither the NDAS nor PARAGON, Inc. is rendering professional advice requiring a professional license. The information provided should not be utilized in lieu of the ADA's "Current Dental Terminology" (CDT) or any other recognized standard for the establishment, filing and/or reporting of dental procedures to third parties. More than 1,060 zip code prefixes are represented (accuracy +/- 5%).*

**Projected Doctor Production**

The following schedule reflects the projected breakdown of individual doctor and hygiene department (if applicable) production pre and post acquisition.

<b>PROJECTED DOCTOR PRODUCTION</b>		
	<b>annually</b>	<b>monthly</b>
Total practice pre-acquisition collections (most recent 12 months)	713,510	
Hygienist pre-acquisition collections (most recent 12 months)	<i>(minus)</i> 208,457	
Associate pre-acquisition collections (most recent 12 months)	<i>(minus)</i> 0	
Owner pre-acquisition collections (most recent 12 months)	<i>(equals)</i> 505,053	
Owner pre-acquisition days per week	<i>(divided by)</i> 4.0	
Doctor A post-acquisition days per week	<i>(times)</i> 2.0	
<b>Doctor A post-acquisition projected collections</b>	<i>(equals)</i> 252,527	21,044
Doctor A pre-acquisition collections	505,053	
Doctor A post-acquisition collections	<i>(minus)</i> 252,527	
Associate production from Doctor A (if applicable)	<i>(minus)</i> 0	
Doctor B post-acquisition collections (from Doctor A)	<i>(equals)</i> 252,527	
Doctor B assumption of associate pre-acquisition collections	<i>(plus)</i> 0	
Doctor B - Anticipated additional collections (from growth)	<i>(plus)</i> 0	
<b>Doctor B post-acquisition projected collections</b>	<i>(equals)</i> 252,527	21,044
Doctor A post-acquisition projected collections	<b>252,527</b>	21,044
Doctor B post-acquisition projected collections	<i>(plus)</i> <b>252,527</b>	21,044
Associate post-acquisition projected collections (if applicable)	<i>(plus)</i> 0	0
Hygienist post-acquisition projected collections	<i>(plus)</i> <b>208,457</b>	17,371
<b>Practice post-acquisition projected collections</b>	<i>(equals)</i> <b>713,510</b>	59,459

NOTE: In virtually every Pre-Sale situation the seller will voluntarily back down as anticipated. Consequently, the purchaser will receive the patient base to work with that he or she is anticipating. However, the patients are accustomed to the seller so the purchaser will need to be ever mindful of their fear of any new doctor. Purchasers who take it slow and are compassionate typically have no problems with patient transference. In thousands of transactions since 1988, we have found that virtually all purchasers produce more than the proforma projects they will produce. The strange thing is that a vast majority of sellers also produce at a higher level than projected as well. This is a factor of a stress free environment for the seller who no longer has the responsibility of practice ownership. It seems that sellers who are allowed to pick and choose their procedures often produce at much higher levels. Of course, purchasers love it since the purchaser now reaps 100% of the benefit of the practice profits.

**FAIR MARKET VALUE & FINANCIAL ANALYSIS SUMMARY**

<b>CONFIDENTIAL PRACTICE INCOME AND EXPENSE SCHEDULE</b>	<b>MSSENTOC</b>
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<b>REFER TO THE FINANCIAL ANALYSIS SUMMARY FOR SUPPORT INFORMATION</b>	<b>PAGE 1 OF 2</b>

<b>FAIR MARKET VALUE</b>	\$555,000	<b>PURCHASE PRICE</b>	\$555,000
		<b>CLOSING COSTS</b>	\$16,650
<b>PURCHASE PRICE</b>	\$555,000	<b>WORKING CAPITAL</b>	\$48,350
<b>PAYMENT AT CLOSING</b>	\$555,000	<b>IMPROVEMENT COSTS</b>	\$0
<b>SELLER LOAN AMT.</b>	\$0	<b>BANK LOAN AMOUNT</b>	\$620,000
		<b>BANK LOAN PERCENT</b>	9.00%
		<b>NUMBER OF YEARS</b>	10 YEARS
		<b>BANK LOAN PAYMENT</b>	\$7,853.90 /MONTH

	YEAR	# 1	#2	#3	#4	#5	#6	#7	#8	#9	#10
	Most Recent										
<b>INCOME (Collected)</b>	12 MONTHS 5.00% - Annual Growth Adjustment (years 2 - 10)										
OPERATIVE COLLECTIONS	\$505,053	\$505,053	\$530,306	\$556,821	\$584,662	\$613,895	\$644,590	\$676,819	\$710,660	\$746,193	\$783,503
HYGIENE COLLECTIONS	\$208,457	\$208,457	\$218,880	\$229,824	\$241,315	\$253,381	\$266,050	\$279,352	\$293,320	\$307,986	\$323,385
GROSS COLLECTED PROD.	\$713,510	\$713,510	\$749,186	\$786,645	\$825,977	\$867,276	\$910,640	\$956,172	\$1,003,980	\$1,054,179	\$1,106,888
PRACTICE DAYS/WK	4.0 (Seller Pre-Transition Workdays = 4)										
DAILY AVERAGE	\$2,870	(Current Average Daily Collections from Operative Production ONLY based on an average of 176 annual practice days)									
SELLER POST-SALE WORKDAYS		2.0									
ASSOCIATE POST-SALE DAYS		0.0									
SELLER'S POST-SALE PROD.		\$252,527	\$265,153	\$278,410	\$292,331	\$306,948	\$0	\$0	\$0	\$0	\$0
ASSOCIATE'S POST-SALE PROD.		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
ASSOC. PROD. BY PURCHASER		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
PURCH. PROD. FROM SELLER		\$252,527	\$265,153	\$278,410	\$292,331	\$306,948	\$644,590	\$676,819	\$710,660	\$746,193	\$783,503
PURCHASER'S ADDED PROD.		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>TOTAL PRACTICE INCOME</b>		\$713,510	\$749,186	\$786,645	\$825,977	\$867,276	\$910,640	\$956,172	\$1,003,980	\$1,054,179	\$1,106,888

<b>PRODUCTION EXPENSES</b>											
LABORATORY FEES	8.99%	\$64,114	\$67,320	\$70,686	\$74,220	\$77,931	\$81,828	\$85,919	\$90,215	\$94,726	\$99,462
CLIN. SUPPLIES	6.80%	\$48,490	\$50,915	\$53,460	\$56,133	\$58,940	\$61,887	\$64,981	\$68,230	\$71,642	\$75,224
OFFICE SUPPLIES	1.24%	\$8,833	\$9,275	\$9,738	\$10,225	\$10,737	\$11,273	\$11,837	\$12,429	\$13,050	\$13,703
MISCELLANEOUS	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
SELLER COMM.	40.00%	\$101,011	\$106,061	\$111,364	\$116,932	\$122,779	\$0	\$0	\$0	\$0	\$0
SELLER MISC. COMP.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
ASSOCIATE COMM.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
HYGIENIST COMM.	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>PROD. EXP. TOTAL</b>		\$222,448	\$233,570	\$245,248	\$257,511	\$270,386	\$154,988	\$162,737	\$170,874	\$179,418	\$188,389

<b>FIXED EXPENSES †</b>												
		5.00% - Annual Fixed Expense Inflation Adjustment (years 2 - 10)										† Fixed Expense % represents 10 year average
AUTOMOBILE	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
DEPRECIATION	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
EMPLOYEE BENEFITS	0.86%	\$6,108	\$6,413	\$6,734	\$7,071	\$7,424	\$7,796	\$8,185	\$8,595	\$9,024	\$9,476	
LEGAL & PROFESSIONAL	0.27%	\$1,945	\$2,042	\$2,144	\$2,252	\$2,364	\$2,482	\$2,606	\$2,737	\$2,874	\$3,017	
PROFIT SHARING	0.68%	\$4,877	\$5,121	\$5,377	\$5,646	\$5,928	\$6,224	\$6,536	\$6,862	\$7,206	\$7,566	
INSURANCE - STAFF	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
INSURANCE - OFFICE	0.41%	\$2,919	\$3,065	\$3,218	\$3,379	\$3,548	\$3,725	\$3,912	\$4,107	\$4,313	\$4,528	
INSURANCE - MALPRACTICE	0.21%	\$1,500	\$1,575	\$1,654	\$1,736	\$1,823	\$1,914	\$2,010	\$2,111	\$2,216	\$2,327	
INSURANCE - LIFE/DISABILITY	0.21%	\$1,500	\$1,575	\$1,654	\$1,736	\$1,823	\$1,914	\$2,010	\$2,111	\$2,216	\$2,327	
INSURANCE - HEALTH	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
REPAIRS & MAINTENANCE	1.50%	\$10,705	\$11,240	\$11,802	\$12,392	\$13,012	\$13,663	\$14,346	\$15,063	\$15,816	\$16,607	
ENTERTAINMENT	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
UTILITIES	0.78%	\$5,548	\$5,825	\$6,117	\$6,423	\$6,744	\$7,081	\$7,435	\$7,807	\$8,197	\$8,607	
DUES & SUBSCRIPTIONS	0.12%	\$888	\$932	\$979	\$1,028	\$1,079	\$1,133	\$1,190	\$1,250	\$1,312	\$1,378	
JANITORIAL	0.10%	\$724	\$760	\$798	\$838	\$880	\$924	\$970	\$1,019	\$1,070	\$1,123	
PROMOTION	0.56%	\$3,994	\$4,194	\$4,403	\$4,624	\$4,855	\$5,097	\$5,352	\$5,620	\$5,901	\$6,196	
TELEPHONE	0.99%	\$7,041	\$7,393	\$7,763	\$8,151	\$8,558	\$8,986	\$9,436	\$9,907	\$10,403	\$10,923	
RENT	3.76%	\$31,200	\$31,200	\$31,200	\$31,200	\$31,200	\$32,760	\$34,398	\$36,118	\$37,924	\$39,820	
POSTAGE	0.48%	\$3,428	\$3,599	\$3,779	\$3,968	\$4,167	\$4,375	\$4,594	\$4,824	\$5,065	\$5,318	
SALARIES - STAFF	21.08%	\$150,386	\$157,905	\$166,801	\$174,091	\$182,795	\$191,935	\$201,532	\$211,608	\$222,189	\$233,298	
SALARIES - OWNER	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
PAYROLL TAXES - STAFF	1.78%	\$12,682	\$13,316	\$13,982	\$14,681	\$15,415	\$16,186	\$16,995	\$17,845	\$18,737	\$19,674	
PAYROLL TAXES - OWNER	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
LAUNDRY & UNIFORMS	0.24%	\$1,720	\$1,806	\$1,896	\$1,991	\$2,091	\$2,195	\$2,305	\$2,420	\$2,541	\$2,668	
COLLECTION EXPENSE	0.36%	\$2,569	\$2,697	\$2,832	\$2,974	\$3,123	\$3,279	\$3,443	\$3,615	\$3,796	\$3,985	
CONTINUING EDUCATION	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
BANK CHARGES	0.12%	\$857	\$900	\$945	\$992	\$1,042	\$1,094	\$1,148	\$1,206	\$1,266	\$1,329	
MISCELLANEOUS EXPENSES	0.11%	\$810	\$851	\$893	\$938	\$985	\$1,034	\$1,085	\$1,140	\$1,197	\$1,257	
<b>FIXED EXP. TOTAL</b>		\$251,401	\$262,411	\$273,972	\$286,110	\$298,856	\$313,798	\$329,488	\$345,963	\$363,261	\$381,424	
<b>PROD. &amp; FIX. EXP. TOTAL</b>		\$473,849	\$495,981	\$519,220	\$543,621	\$569,242	\$468,786	\$492,226	\$516,837	\$542,679	\$569,813	
<b>OPERATING INCOME (BEFORE FINANCING)</b>		\$239,661	\$253,204	\$267,425	\$282,356	\$298,034	\$441,853	\$463,946	\$487,143	\$511,501	\$537,076	

**CASH FLOW PROFORMA**

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**FAIR MARKET VALUE & FINANCIAL ANALYSIS SUMMARY**

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<b>CONFIDENTIAL PRACTICE INCOME AND EXPENSE PROJECTION</b>	<b>PAGE 2 OF 2</b>
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YEAR	# 1	#2	#3	#4	#5	#6	#7	#8	#9	#10
<b>OPERATING INCOME from page 1</b>	\$239,661	\$253,204	\$267,425	\$282,356	\$298,034	\$441,853	\$463,946	\$487,143	\$511,501	\$537,076
TOTAL OF SELLER NOTE PAYMENTS	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL OF BANK NOTE PAYMENTS	\$94,247	\$94,247	\$94,247	\$94,247	\$94,247	\$94,247	\$94,247	\$94,247	\$94,247	\$94,247
<b>TOTAL DEBT SERVICE PAYMENTS</b>	<b>\$94,247</b>	<b>\$94,247</b>	<b>\$94,247</b>	<b>\$94,247</b>	<b>\$94,247</b>	<b>\$94,247</b>	<b>\$94,247</b>	<b>\$94,247</b>	<b>\$94,247</b>	<b>\$94,247</b>
<b>PRE-TAX CASH FLOW</b>	<b>\$145,415</b>	<b>\$158,958</b>	<b>\$173,178</b>	<b>\$188,109</b>	<b>\$203,787</b>	<b>\$347,607</b>	<b>\$369,699</b>	<b>\$392,897</b>	<b>\$417,254</b>	<b>\$442,829</b>

**SUGGESTED PURCHASE PRICE ALLOCATION**

Recommended purchase price allocations for tax treatment purposes ONLY  
NOT A FAIR MARKET VALUATION OF INDIVIDUAL PRACTICE ASSETS

EQUIPMENT	\$62,400
FURNITURE/FIXTURES	\$23,600
CLIN. SUPPLIES	\$15,300
MISC. ASSETS	\$9,700
GOODWILL	\$416,200
GOODWILL COVENANT	\$27,800
	<u>\$555,000</u>

<b>Purchaser ONLY - Production Recap:</b>	
Initial Year Net Cash Flow	\$145,415
Initial Year Collected Production	\$252,527
Effective Earnings Rate	57.58%

DEPRECIATION AND AMORTIZATION (projected)

EQUIPMENT/FURN./FIXTURES	\$12,286	\$12,286	\$12,286	\$12,286	\$12,286	\$12,286	\$12,286	\$0	\$0	\$0
AMORTIZATION OF MISC. ASSETS	\$647	\$647	\$647	\$647	\$647	\$647	\$647	\$647	\$647	\$647
AMORTIZATION OF GOODWILL	\$27,747	\$27,747	\$27,747	\$27,747	\$27,747	\$27,747	\$27,747	\$27,747	\$27,747	\$27,747
AMORTIZATION OF COVENANT	\$1,853	\$1,853	\$1,853	\$1,853	\$1,853	\$1,853	\$1,853	\$1,853	\$1,853	\$1,853

EXPENSED ITEMS (projected)

CLINICAL SUPPLIES	\$7,650	\$7,650	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
PARAGON PURCHASER FEE	\$16,650	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
ACQUISITION DEBT INTEREST	\$54,174	\$50,415	\$46,303	\$41,805	\$36,886	\$31,505	\$25,620	\$19,182	\$12,140	\$4,438

<b>ESTIMATED ANNUAL TAX DEDUCTIONS</b>	\$121,006	\$100,597	\$88,835	\$84,338	\$79,418	\$74,038	\$68,152	\$49,429	\$42,387	\$34,685
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<b>PROJECTED 10 YEAR PRE-TAX CASH FLOW</b>	<b>\$2,839,731</b>
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<b>INITIAL INVESTMENT (total debt less working capital)</b>	<b>\$571,650</b>
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<b>RETURN ON INITIAL INVESTMENT</b>	32.45%	67.92%	106.60%	148.68%	194.37%	266.15%	342.83%	424.69%	512.04%	605.22%
* Rate of return on initial investment reflects cumulative profits (Pre-Tax Cash Flow) plus return of principal on acquisition loans.										
PV146/2.42/352										

**CASH FLOW PROFORMA**

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## PROFORMA SUMMARY

Practice Confidentiality Code: MSSENTOC

### Fair Market Value

After a careful and comprehensive analysis from a practice sale viewpoint, your PARAGON consultant has determined a fair market value of \$555,000 for this practice. This market value analysis takes into consideration the allocation of the purchase price, financial terms and many other tangible and intangible factors that contribute to the value of this transaction.

### Purchase Price

The purchase price for this practice opportunity is \$555,000. Occasionally, a seller has specific reasons to set a purchase price that is different from the Fair Market Value. Your PARAGON consultant will share these reasons with you.

NOTE: It is important that the purchaser realizes that the purchase of a practice is not an expense, but rather an investment... as you pay for the practice; your equity in the practice increases. When you eventually sell the practice, your original investment will be returned to you along with whatever increase in value the practice has appreciated to at that time. This can be equated to depositing money in the bank or purchasing a publicly traded stock (since the investment (the practice) will continue to appreciate in value). But, an investment in a practice also gives you the ability to depreciate or amortize your original investment! In addition, you will not have to declare the increase in value as income until you sell the practice at some future date. There exist few, if any, investments a doctor could make that could compare to the overall return on investment of purchasing a practice.

### Down Payment

This opportunity requires the purchaser to pay a down payment of \$555,000.

NOTE: a transaction with no seller financing will reflect a down payment amount that is identical to the purchase price.

### Seller Loan Amount

The seller has agreed to finance none (see proforma for details).

NOTE: Occasionally a seller wishes to finance the entire transaction. In these situations the seller loan amount will also include the additional funding (working capital and closing costs) a purchaser needs to complete the transaction.

### Seller Loan Percent

N/A

### Number of Years

N/A

### Payment Amount

N/A

### **Closing Costs**

Closing costs include the fees that the purchaser will likely pay for representation services. We estimate the closing costs for this transaction to be \$16,650. These costs have been included in the proforma to provide an accurate sum that the purchaser will need to borrow from a third-party lender. NOTE: 100% of the cost of a practice purchase is typically financed in a PARAGON transaction.

### **Working Capital**

Most dental practice acquisitions don't include accounts receivable, thus the purchaser will need additional working capital to assist in the cash flow during the first 3 or 4 months. We estimate the purchaser of this opportunity will need \$48,350 of working capital. It should be noted that our working capital estimates are purposely calculated high. We consider it better to have more than less working capital.

### **Improvement Costs / Sales Taxes**

Some purchasers elect to have professional practice management assistance in conjunction with a practice acquisition. Others desire to make improvements to the facility. In New York and Washington (at the present time), sales taxes are due and payable on the hard assets being acquired. Based on any request for additional funds and/or sales tax requirements, we have included no additional funding that will be needed by the purchaser.

### **Bank Loan Amount**

A PARAGON practice acquisition does not require the purchaser to have any available funds. The ENTIRE acquisition is generally financed. The proforma estimates that the Purchaser will borrow \$620,000 from a third-party lender. This loan includes the sum of the down payment, closing costs, working capital, practice improvement costs and practice management fees, if any.

### **Bank Loan Percent**

Based on current conditions and experience, we estimate an interest rate of 9.00% on the third-party loan. This percentage is merely an educated estimate since the rate will ultimately depend on the borrower's credit worthiness.

### **Number of Years**

The third-party loan is estimated to have a term of 10 years.

### **Bank Loan Payment**

Based on the above assumptions, the monthly installment payment of both interest and principal due the third-party lender will be \$7,853.90.

## PROFORMA INCOME

All reference to income on the PARAGON proforma represents collected income ONLY (not production) regardless of the heading titles used.

### Most Recent 12 Months

This column reflects a breakdown of the most current **collected** income for this practice. This practice opportunity reflects current Doctor collected production for the most recent 12 months of \$505,053 and Hygiene Department collected production of \$208,457, for a total Gross Collected Production of \$713,510. It should be noted that PARAGON makes a concerted effort to obtain financial statements that accurately reflect the income and expenses over the most recent twelve-month period for the practice. Unfortunately in some cases, such ultra-current information is simply not available. Therefore we may, on occasion, use the most recent fiscal or calendar year. Check with your PARAGON consultant for the actual timing of the financial data that was used for Practice Opportunity Code MSSENTOC.

If the Seller is actually providing the hygiene services (or a portion of hygiene services) then this figure is derived from the "Production by Procedure" report provided to PARAGON. If such a report was not provided, then we conservatively estimate that 20% of the total practice production is for hygiene services.

It should be noted that PARAGON makes a concerted effort to obtain financial sources that accurately reflect the income and expenses over the most recent twelve-month period for the subject practice. Unfortunately, in some cases, current information is simply not available. Therefore we may, on occasion, use the most recent fiscal or calendar year. This analysis is based on the 2008 Federal Tax Return that the practice owner provided to PARAGON.

### Growth and Inflation Adjustments

An appropriate adjustment allows projected increases to the practice gross income in order to project conservative growth. Applicable Fixed Expenses are increased annually by the inflation percentage.

### Gross Collected Production

This line reflects the current annual gross **collected** income (including hygiene, if applicable) for this practice. The first year figures typically match the "Most Recent 12 Months" figures of the practice UNLESS additional production has been added for the purchaser (hygiene production will also be added for this additional production based on the practice percentage of hygiene to doctor production).

### Year 1

The first year column will typically reflect the exact same collected production as the most recent 12 months column. If not, the difference is the result of additional production that has been added for the purchaser (hygiene production may also be added for this additional production based on the practice percentage of hygiene to doctor production). The first year column also shows the projected expenses the purchaser will incur in the initial year the purchaser owns the practice, including commissions paid to the seller if the seller is to remain with the practice as the associate to the purchaser (the PARAGON Pre-Sale Program).

**Years 2 thru 10**

As mentioned, the collected production and fixed expenses of the practice are increased only by a reasonable and conservative adjustment percentage. These years also reflect the financial impact of a switch in production from the seller to the buyer, if applicable (see Seller Post-Sale Production and Seller Post-Sale Workdays).

**Practice Days Per Week**

This line shows the current number of practice days that the practice is currently open to service patients each week. For reference purposes, the average weekly practice days of the individual dental service provider(s) is also reflected on the proforma.

**Daily Average**

The average daily operative collected production for this practice is for reference purposes only. The average daily production of \$2,870 is a calculation of the current annual collected production for doctor production only divided by the number of practice workdays per year.

**Seller Post-Sale Workdays**

This is the number of practice days the seller will work after the sale of the practice to the purchaser. This number is used to determine the seller's post-sale operative production and commission. The seller is currently working 4.0 practice day(s) and intends to work 2.0 practice day(s) after the sale of the practice. The actual days of doctor coverage in the practice will be worked out between the seller and the buyer prior to the purchaser's acquisition of the practice.

**Associate Workdays**

If applicable, this is the number of days to be worked by an associate (not the purchaser) after the sale of the practice to the purchaser. This number is typically zero, however, some practices may have current associates that the purchaser plans to keep in the practice after the acquisition. Also, in some transactions (i.e. practice mergers where the purchaser does not wish to increase his or her production load) it may be that the purchaser will hire an associate to pick up the extra production as the seller backs down his or her production level. This number is used to calculate such associate's post-sale operative production and commission (if applicable).

NOTE: A purchaser may have an opportunity to add an associate to the practice because of the increased production resulting from a practice merger. It is reasonable to assume the associate will add additional income to the practice via promotional efforts as well as extended office hours and additional patient services. This would increase the gross income of the acquired practice. Since this is a direct benefit of a practice merger and the objective of the Proforma is to give a realistic projection of income and cash flow, the amount shown as the associate's additional producing is included, however, the purchaser should be advised that this is not a factor in determining the fair market value of this practice opportunity.

**Seller's Post-Sale Production**

The figure on this line of the proforma reflects that portion of the operative collected production that is projected to be produced by the seller on a year-by-year basis following the sale of the practice (if applicable). NOTE: entries on this line are applicable only if the seller plans to remain in the practice as the purchaser's associate after the sale of the practice (the PARAGON

Pre-Sale Program). Walk-away sales will obviously reflect zeros across this line for each year of the proforma.

**Associate’s Post-Sale Production**

This reflects a portion of the operative collected production that is projected to be produced by an associate (either an existing associate or an associate that is hired by the purchaser) following the sale of the practice (if applicable). Entries on this line may also reflect projected added production by an associate (if applicable).

**Associate Production by Purchaser**

This reflects the amount of collected production that had previously been produced by an associate that will now be produced by the purchaser. This is typically a situation where the practice had an associate prior to the sale that leaves the practice after the sale.

**Purchaser Production from Seller**

This reflects the amount of collected production that had previously been produced by the seller that will now be produced by the purchaser (if applicable). This number is calculated by subtracting the Seller’s Post-Sale Production from the Operative Production (the amount of collected production the seller did the year before the sale of the practice).

The purchaser is expected to pick up \$252,527 production from post-acquisition patients transferred from the seller to the purchaser in the initial year. This DOES NOT include any consideration for added practice production growth or the purchaser doing procedures that the seller normally refers out of the practice.

**Purchaser’s Added Production**

If a number appears on this line it reflects a very conservative estimate of the additional collected production the purchaser will bring to the practice after the sale. If the purchaser is a new practitioner, the purchaser should be able to contribute additional production based on his or her public relations efforts. A purchaser may also perform certain procedures that the seller has been referring out of the practice (the seller is currently referring out the following procedures: Perio, Ortho, Endo, OS). When applicable and reasonably expected due to the specifics of the practice, amounts are included for growth to improve the accuracy of the proforma. NOTE: Added production is never used in determining practice fair market value.

**Total Practice Income**

The amounts on this line are merely annual totals of all sources of production from the entries above. **Remember, ALL production numbers shown on the proforma represent collected production ONLY.**

NOTE: Typically, the current gross income of a practice rarely reflects that practice’s potential income. In many instances, the current owner refers patients out of office for treatment that could be completed in-office by the purchaser. For various reasons, many sellers have not actively marketed the practice nor maintained the hygiene recall system. This represents untapped potential that can considerably increase the gross income of the practice.

## PROFORMA PRACTICE EXPENSES

The type of transaction will determine the expenses associated with purchasing a practice. If a new practitioner (recent graduate or current associate in a practice) is to acquire the practice, then all the current expenses (actual practice-related expenses from the last 12 months) will be applicable.

If the transaction is to be structured as a practice merger (combining the seller and purchaser's practice into one location), then only some of the current expenses of the seller's practice would be applicable.

For example:

**NEW PRACTITIONER ACQUIRING A SOLO PRACTICE:** All of the seller's current expenses will be applicable (except for those "elective" and/or "creative" expenses that were adjusted out on the Adjusted Income Statement included in the Financial Analysis).

**EXISTING PRACTITIONER ACQUIRING A PRACTICE FOR MERGER:** If the seller's practice were moved to the purchaser's office, there will be no additional rent, utilities or telephone expenses incurred by the purchaser, therefore, they would not be included in the proforma (unless the purchaser is required to pay the remaining rent due on the seller's lease, if any).

If the purchaser is moving to the seller's office, then the amount under rent will reflect the difference, if any, between the purchaser's former office rent and the seller's office rent; there may be some negligible additional utilities or telephone expenses.

Staff salaries and payroll expenses will reflect additional staff requirements only. Staff expenses can be considered production related since staff expenses will vary with the practice production; should production levels decrease, then the staff expenses will decrease and vice-versa. Staff expenses may also reflect a decrease in staff if it is determined that a merger of the two practices would create the ability to eliminate some payroll.

\* \* \* \* \*

## PROFORMA PRODUCTION EXPENSES

Production expenses are the **variable** expenses of a practice. Variable expenses routinely fluctuate (up or down) as the production level of the practice changes. Since the expenses are tied to production, the significant factor to examine is the percentage each expense reflects in relation to the gross income of the practice. A growth in the dollar amount of these expenses from year to year (if the percentage is in line with the customary norms) is not a negative. An increase in production expenses simply signifies the overall practice production is increasing accordingly.

### Laboratory Fees

This percentage reflects the lab fees to gross income. The dollar amount for each year is the result of Total Practice Income projected for that year multiplied by this percentage. A percentage of 8% to 10% is considered very healthy indicating a respectable level of crown and bridge production. A lab fee percentage in excess of 12% frequently indicates a significant amount of denture work in the practice. A lab fee percentage less than 7% could indicate a lower than normal crown and bridge level or it could mean an exceptionally low lab fee per crown. The average lab fee percentage for this practice is 8.99%.

### Clinical Supplies

This should typically be in a range from 5% to 7% of the gross income for general dental practices, specialties vary. If the seller is showing more than 7%, the additional amount will normally be considered a non-practice-essential expense and will be adjusted out for proforma purposes. The average clinical supplies percentage for this practice is 6.80%.

### Office Supplies

Office supplies expense in a mature dental practice should generally not exceed 2% of the gross collected practice revenues. The average office supplies percentage for this practice is 1.24%.

### Miscellaneous

This line is generally always zero for general practices. Occasionally some specialty practices may have a unique expense that is production related.

### Seller Commission

This reflects the commission percent to be paid to the seller for any post-sale collected production generated by the seller (seller commission is applicable for the PARAGON Pre-Sale Program only).

If applicable for this transaction, Seller Commission is calculated as 40% of seller-generated collected production.

### Seller Miscellaneous Compensation

In some cases, the seller is paid additional compensation (over and above the seller commission) to compensate the seller for his or her participation in various unique situations, such as, the retail sale of over-the-counter products, etc.

**Associate Commission**

The percentage shown reflects the commission rate paid to an associate for any post-sale production (if applicable) for this practice.

**Hygienist Commission**

Some hygienists are paid a salary, others are paid on a daily rate and others are paid commission. Occasionally a practice will have a hygienist that is paid a combination of salary plus commission. If the practice employs a commissioned hygienist, the percentage shown reflects the commission percent to be paid to the hygienist(s) for any post-sale hygiene production.

\* \* \* \* \*

## PROFORMA FIXED EXPENSES

As mentioned earlier, the type of transaction will generally determine the fixed expenses associated with purchasing the practice. Many fixed expenses are self-explanatory and are not addressed in this summary. Some Fixed Expenses do require additional explanation. While some of the following expenses may not be shown on the proforma included in this report, the most common of the fixed expense items listed on a typical PARAGON proforma are listed below.

NOTE: Most of the percentages for the expenses to the left of the dollar amounts on the proforma do not reflect the annual percentages for any one particular year. The percentage is an average percentage calculation taking into consideration the entire ten-year period illustrated.

### Rent

If the purchaser is a new practitioner, rent will be adjusted to reflect known or anticipated rent increases (generally can be determined from analysis of the current lease). *Rent expense is not considered for practice merger proformas* since the seller and purchaser are merging their practices into one office. Since the purchaser's rent already exists, that expense cannot be attributed to the purchased practice. The first year may reflect some rent if the purchaser incurs additional rent expense resulting from acquiring the seller's office and having to pay the remainder of the lease. For proforma purposes, however, this additional rent will not extend beyond one year even if the seller's existing lease is for a longer period of time. If the lease is longer term, the proforma assumes the purchaser will sublet the space.

### Miscellaneous Taxes

This expense may not appear on all proformas. It is for those areas of the country that have a business tax on practice income and/or advalorem taxes that are based on the income of the practice and/or on the assets located on the premises.

### Utilities

Includes expenses for the gas, electric and water. Not used for practice merger proformas since this expense is not attributable to the purchased production.

### Telephone

Includes expenses for telephone usage and minimal yellow page advertising. If extensive yellow page ads are utilized, this amount is generally broken out and listed as separate line item named advertising.

### Laundry and Cleaning

This expense typically includes uniform allowances and/or janitorial services.

### Legal and Accounting

It is not unusual for practice financial statements and tax returns to reflect legal and accounting expenses that are not practice related. If the current legal and accounting expense shown by the current owner is too high, PARAGON adjusts this expense down to an acceptable average expense amount instead of the figure provided by the current practice owner.

**Staff Insurance**

This expense item typically represents health insurance for the staff members. It is not unusual for the seller to be writing off disability and health insurance for himself or herself, but PARAGON does not consider this a practice related expense and will adjust the amount out for this expense item.

**Office Insurance**

This expense item is for the general office liability insurance. It should be noted that this line may be ZERO as this insurance is often included on the Malpractice Insurance line since many doctors carry "umbrella coverage" that includes both the office liability and personal liability (malpractice) insurance.

**Malpractice Insurance**

This expense reflects the purchaser's malpractice insurance premium ONLY. The number may also include premiums for office liability insurance (umbrella plan). The seller is responsible for his or her own malpractice insurance premiums thus the seller's malpractice premium is not listed as an expense on the proforma.

**Life and Disability Insurance**

This expense includes the estimated cost for the life and disability insurance that PARAGON contracts require the purchaser to obtain.

**Advertising**

This reflects any advertising or marketing expenses for the practice. Extensive yellow page advertising is also typically included in this category instead of on the Telephone Expense line.

**Computer Expenses**

This reflects computer annual software costs; software license transfer costs and estimated annual computer equipment maintenance costs.

**Salaries - Staff**

This expense item typically represents the total salaries for the entire office staff. However, hygiene compensation may not be listed here if the hygienist(s) is commissioned and listed under production expenses.

**Payroll Taxes - Staff**

This expense item reflects the payroll taxes for the office staff salaries and wages included in this proforma. Payroll taxes for the seller have been adjusted out.

## PROFORMA OPERATING INCOME

This number represents the total collections for this practice less all practice related production and fixed expenses for each of the 10 years listed on the proforma. This is an estimation of the purchaser's net cash flow before any debt service principal and interest payments to the seller and/or the third-party lenders.

### Total of Seller Note Payments

This represents the annual debt service payments on the seller note. It is a total of the 12 installment payments each year from the purchaser to the seller. This figure includes principal and interest.

### Total of Bank Note Payments

This represents the annual debt service payments on the third party financing. It is a total of the 12 installment payments each year from the purchaser to the third-party lender. This figure includes principal and interest.

\* \* \* \* \*

## PROFORMA PRE-TAX CASH FLOW

Operating Income (before financing) minus loan payments to seller and third-party lenders. This is to give the purchaser an idea of the actual annual cash flow that can be expected for this practice. PARAGON attempts to make the expense calculation as accurate as possible. However, the proforma income numbers are generally understated so that the results are conservative. Past transactions verify that this is an accurate description of the proforma results.

## ADDITIONAL FINANCIAL CONSIDERATIONS

The following items appear at the end of the PARAGON Proforma. It should be noted that many of these items are significant factors in determining the fair market value of this practice.

### Purchase Price Allocation

The fairness of the assigned value to the individual assets being transferred is vital in determining the fair market value of a professional practice. PARAGON **does not** value the individual assets of a practice, and thus the amounts assigned to each of the assets listed below should not be considered, in any way, an indication of the actual value of such asset. The values placed on these allocations have been assigned based on years of experience to arrive at an equitable practice fair market value considering the anticipated tax consequences for the buyer and the seller. Any deviation from these assigned values would affect the tax liabilities of both parties and thus would impact the fair market value of the practice.

The Purchase Price of \$555,000 for practice opportunity MSSENTOC takes into consideration the following allocation of the acquired assets:

EQUIPMENT	\$	62,400
FURNITURE & FIXTURES	\$	23,600
CLINICAL SUPPLIES	\$	15,300
MISCELLANEOUS ASSETS	\$	9,700
GOODWILL	\$	416,200
GOODWILL COVENANT	\$	27,800
	\$	<u>555,000</u>

### Depreciation and Amortization

This is based on current depreciation guidelines and the related tax effect that would result considering the purchase price allocations that are presented above.

### Expensed Items

Certain items or allocations associated with a practice acquisition may be expensed in the year of acquisition; however, (from a conservative proforma approach) we prefer to show these expense items being expensed over a two-year period.

### Estimated Annual Tax Deductions

Projected depreciation, amortization and inventory item expense deductions that may be taken for each year of the proforma.

**PARAGON DOES IT OFFER TAX AND/OR LEGAL ADVICE TO ITS CLIENTS. PARAGON RECOMMENDS THAT ALL CLIENTS CONSULT WITH A PROFESSIONAL ADVISOR FOR INFORMATION CONCERNING ANY TAX TREATMENT BY THE I.R.S. AND A LEGAL ADVISOR FOR LEGAL ADVICE.**

### Return on Initial Investment

Purchasing a practice is not an expense, but rather an investment. This figure is one of the most significant figures on this proforma as it reflects the actual return on your investment. The first year return on this investment is conservatively estimated to be 32.45%. There are few investments, if any, that can provide as much, as sure and as safe results as the purchase and/or merger of a dental practice.

*NOTE: This proforma reflects a 100% financed transaction since the Proforma includes the costs of financing the down payment, working capital and all acquisition related fees and costs.*

*Purchaser should also be aware of the many "perks" or "elective" or "creative" expenses that may be reflected in the seller's tax returns. A tax return will include many deductible expenses not required for the operation of the practice. The purpose of the Proforma is to provide a realistic income and expense projection; therefore our Proforma will never reflect such non-practice-essential expenses.*

### Production Recap

This section (included in the box) shows a comparison of anticipated earnings based on the personal production of the purchaser in terms of an earnings percentage. This reflects a conservative earnings capacity and a comparison between being paid as some other doctor's associate or purchasing this practice. Associates are generally paid 30 to 35% of their personal collected production. The purchaser of this practice is anticipated to personally produce \$252,527 the first year and show positive net earnings of \$145,415 after all practice expenses and all first year costs associated with the purchase of the practice. This equates to an effective earnings rate of 57.58% that favorably compares to the average of 30% to 35% that young associates generally earn. In addition to achieving higher earnings, the purchaser of this practice is also gaining valuable asset equity and, as owner and operator, will make his or her own decisions.

## PROFORMA BREAKEVEN ANALYSIS

We are often asked what would happen if the seller suddenly left the practice. In case of the seller's death, we suggest that purchasers purchase a term life insurance policy to cover the practice acquisition debt. But, what about a seller who just simply decides he no longer wants to work? Even though purchasers don't generally believe us, patient retention is not a problem. It is PARAGON's experience (since 1988 and after thousands transactions) that a purchaser will retain 95% to 98% of the practice income regardless if the seller remains with the practice or not. This is due to the professional manner in which the transition is handled and the pre and post transition steps PARAGON recommends to assure a smooth and successful transition. However, just to ease your mind we have prepared a BREAKEVEN PROFORMA just so you can see how much of the practice you could lose before it starts costing you money.

### BREAKEVEN PROFORMA

	Original Proforma	Adjustments	Adjusted Proforma
<b>GROSS COLLECTIONS</b>	\$ 713,510	(392,943)	\$ 320,567
<b>PRODUCTION EXPENSES</b>			
Seller Compensation	101,011	(101,011)	-
Associate Compensation	-	-	-
Lab Expense	64,114	(35,231)	28,883
Clinical Supplies	48,490	(25,583)	22,907
Office Supplies	8,833	(4,169)	4,664
Miscellaneous	-	-	-
<b>FIXED EXPENSES</b>			
Salaries - Staff	150,386	(75,193)	75,193
Payroll Taxes - Staff	12,682	(6,341)	6,341
All Other Fixed Expenses	88,333		88,333
<b>TOTAL EXPENSES</b>	<u>\$ 473,849</u>		<u>\$ 226,321</u>
Seller Note Payments	-		-
Bank Note Payments	94,247		94,247
<b>TOTAL OUTFLOW</b>	<u>\$ 568,095</u>		<u>\$ 320,567</u>
<b>NET CASH FLOW</b>	<u>\$ 145,415</u>		<u>\$ 0</u>

The **From Proforma** column matches the Year 1 column of the Proforma. The adjustments consider that the Seller leaves the practice and the Purchaser will suffer lost production (not logical, but we will assume it anyway). As production falls, fewer staff members are needed. As you can see, it will take a loss of **55%** of the total practice revenues before a breakeven situation is reached. The note payments and all expenses are being paid from operations. Note that production expenses decrease as practice production decreases. This is logical since production expenses (as the name implies) are always tied directly to production.

## FINANCING THE ACQUISITION OF A PRACTICE

The following is offered as a quick reference guide of the financial acquisition terms and requirements of this practice opportunity:

### SUMMARY OF ACQUISITION AND FINANCING TERMS

Practice Sales Price	\$ 555,000
Payment in Full at Closing	<u>(555,000)</u>
Amount Financed by Seller	\$ -

Financed for <u> N/A </u> months at an interest rate of <u> </u> Monthly Note Payment <u> </u>
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### RECAP OF PURCHASER FINANCING

FULL Practice Sales Price	\$ 555,000
Working Capital	48,350
Additional Funds Needed	-
Closing Costs	<u>16,650</u>
Total Third-Party Financing needed by Purchaser	<u>\$ 620,000</u>

Financed for <u> 120 </u> months at an interest rate of <u> 9.00% </u> Monthly Note Payment <u> \$ 7,853.90 </u>
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### Obtaining and Negotiating a Loan

PARAGON is pleased to provide a complimentary financing search service for our purchasers. We assist our purchasers (at the client's request) in obtaining, analyzing, negotiating and screening third-party financing offers for PARAGON practice acquisitions. Due to the volume of practice transitions we facilitate each year, PARAGON has developed close working relationships with several lenders who specialize in dental practice acquisition financing. These relationships often provide a clear path to favorable terms and frequent approval of borderline applicants.

These lenders are familiar with the PARAGON process and our Financial Analysis Report. They require little, if any, education on the merits and track records of PARAGON transactions. These lenders have seen the results of past transactions and reasonably believe that our proforma results can and will be achieved. These lenders also know that they are in direct competition with other lenders for your business so they will provide PARAGON clients with best rates and terms possible. Therefore, the decision making process is generally quick, simple and positive.

Please talk with your PARAGON consultant if you would like PARAGON's Financing Department to work for you to obtain favorable financing for your practice acquisition.

## LEGAL NOTICE

DISCLAIMER: The information contained in this report, including but not limited to its schedules, text, reports and/or proformas, is based on information provided to PARAGON, Inc. ("PARAGON") by the owner/operator and/or seller of the subject practice. The information contained herein is highly sensitive and confidential material. This schedules and proformas presented herein are projections. Neither PARAGON nor any of PARAGON's representatives, employees, agents, consultants and/or analysts make any representations or warranties that the production and/or expenses indicated by this report can and will be achieved. Information contained herein is not intended to be or should it be considered to be or construed as tax and/or legal advice. Consult with your tax advisor concerning tax treatment by the Internal Revenue Service. Consult with your attorney and/or other advisor(s) on any legal and/or tax considerations contained herein.

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## PRACTICE OPPORTUNITY SUMMARY

The summary below breaks down important highlights of this practice opportunity for a quick reference guide.

### PRACTICE OPPORTUNITY SUMMARY

#### GENERAL INFORMATION

Practice Proforma Code	MSENTOC	Current Practice Collections	\$713,510
Consultant	John Doe Consultant	Current Hygiene Collections	\$208,457
PARAGON Office	USA	Seller post-sale days / week	2.0
Consultant Phone Number	(866) 898-1867	Seller Commission	40%

#### PRACTICE GROWTH ANALYSIS *(patients seen in past 24 months)*

Hygiene Growth Potential	\$401,924	Approx. Active Patients	3,050
Current Practice days/week	4.0	Approx. Patients in Recare	1,344
Current Hygiene days/week	7.0	Avg. prod. per recare patient	\$531

#### PRACTICE FINANCIAL ANALYSIS

	<u>IDEAL</u>	<u>ACTUAL</u>
Collection Percentage	98.00%	97.92%
Accounts Receivable Ratio	1.5 months	2.08 months
Hygiene Recare Efficiency Rating	85%	44.07%
Time to work a new patient in (weeks)	less than 1	1.5
Proforma Average Overhead (% of Average Collections) *	50% - 55%	57.86%
Proforma Year #1 Clinical Supplies (% of Collections)	7.00%	6.80%
Proforma Year #1 Facility Rent (% of Collections)	6.00%	4.37%
Proforma Year #1 Staff Salaries (% of Collections)	22% to 25%	22.85%
Proforma Hygiene Collections (% of Average Collections)	33.00%	29.22%
Crown & Bridge Expense Ratio	7 to 1	10.90 to 1
Crown & Bridge (% of Total Production)	55% - 60%	45.67%

*\* includes seller provider compensation if seller to remain as buyer's associate after acquisition*

#### PROJECTED FINANCIAL RESULTS

	<u>Year #1</u>	<u>Year #2</u>	<u>Year #3</u>
Projected Practice Collections	\$713,510	\$749,186	\$786,645
Purchaser Personal Collections	\$252,527	\$265,153	\$278,410
<b>Net Annual Cash Flow to Purchaser</b>	<b>\$145,415</b>	<b>\$158,958</b>	<b>\$173,178</b>
Effective Earnings Rate	57.58%	59.95%	62.20%
Return on Initial Investment	32.45%	67.92%	106.60%