

Fair Market Value & Financial Analysis Report Summary

Prepared for: I. M. Sellerdoc, D.D.S.

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Prepared for: I. M. Sellerdoc, D.D.S.

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 John Doe Consultant, 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. PARAGON may or may not be engaged by the practice owner to provide consulting and/or brokerage services for the sale of this practice. This fair market valuation is contingent upon your validation of the **Practice Owner's Certification** included on the final page of this report.

You and/or any other persons asked to review this analysis on your behalf 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. You should consult with your personal attorney, accountant or other advisors as to the legal, tax or economic effect or related matters concerning this practice sale.

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 his or her 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 any more than the price of the tangible asset value.

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 Fair Market Value Proforma and corresponding support schedules and narrative, is included on the following pages. The Fair Market Value Proforma and Summary projects a conservative expectation of your practice income and expenses over a 10-year period without consideration for the involvement and/or contribution of a potential purchaser.

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.

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FINANCIAL ANALYSIS SUMMARY

Practice Owner: I. M. Sellerdoc, D.D.S.

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%
GROSS COLLECTIONS	\$ 713,510			\$ 713,510	100.00%
PRODUCTION EXPENSES:					
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	-	-		-	
OVERHEAD EXPENSES:					
Automobile	1,584	(1,584)	2	-	
Depreciation	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%
TOTAL EXPENSE	\$ 345,793			\$ 369,838	51.83%
NET INCOME	\$ 367,717			\$ 343,672	48.17%

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):

Adjustment Notes		
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 consideration of these adjustments, your practice reflects gross annual collected production of \$713,510, with practice production and fixed expenses of \$369,838, equating to a net financial benefit of ownership to you 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, Prosthodontics, 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:	17.00%	
Percentage of A/R that is insurance:	70.00%	
A/R Ratio (# of months out):	2.08 months	
Reported Patient Count & Mix:	3050 Total Patients	2.125* (FFS or Equivalent)
<i>(* sum equals Active Patients for calculations)</i>	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 YOUR practice. The process assists your PARAGON consultant in arming potential purchasers with the educated guidance required to formulate their 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 your active patient total and your actual procedure fees that you 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		
				ANNUAL	
EXAMS - All patients - twice a year:	(AP) <u>3,050</u>	times 2 = <u>6,100</u>	times <u>\$30.00</u>		183,000
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>		101,667
BITE WINGS - All patients - once a year	(AP) <u>3,050</u>	times <u>\$30.00</u>			91,500
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>	244,000
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>	101,667
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>		23,383
SOFT TISSUE MANAGEMENT - (Average 10% of patients each year):	(AP) <u>3,050</u>	times 10% = <u>305</u>	times <u>\$225.00</u>		68,625
ANNUAL HYGIENE PRODUCTION POTENTIAL					\$813,842
REASONABLE TARGET PERCENTAGE FOR HYGIENE EFFECTIVENESS				X	75%
NET ANNUAL HYGIENE PRODUCTION POTENTIAL					\$610,381

As you can see, the first step in our hygiene analysis simply takes YOUR actual procedure fees and applies those fees to your 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 your 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	\$610,381
<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>	
	1.75
ANNUAL RESTORATIVE PRODUCTION POTENTIAL	\$1,068,167
# OF CAPITATION PATIENTS 0 times N/A each per year	
ANNUAL TOTAL PRODUCTION POTENTIAL	\$1,678,548
CURRENT TOTAL ANNUAL PRACTICE COLLECTIONS	\$713,510
ESTIMATED ANNUAL LOST PRACTICE INCOME	\$965,038

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 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 nor 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 Prophyl	80	69	60	-9
D1120	Child Prophyl	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.

PROJECTED DOCTOR PRODUCTION		
	annually	monthly
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	
Doctor A post-acquisition projected collections	<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	
Doctor B post-acquisition projected collections	<i>(equals)</i> 252,527	21,044
Doctor A post-acquisition projected collections	252,527	21,044
Doctor B post-acquisition projected collections	<i>(plus)</i> 252,527	21,044
Associate post-acquisition projected collections (if applicable)	<i>(plus)</i> 0	0
Hygienist post-acquisition projected collections	<i>(plus)</i> 208,457	17,371
Practice post-acquisition projected collections	<i>(equals)</i> 713,510	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

CONFIDENTIAL PRACTICE INCOME AND EXPENSE SCHEDULE COPYRIGHT 2010 BY PARAGON, INC. - ALL RIGHTS RESERVED REFER TO THE FINANCIAL ANALYSIS SUMMARY FOR SUPPORT INFORMATION	Listing Code: MSSENTOC I. M. Sellerdoc, D.D.S.
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FAIR MARKET VALUE	\$555,000	EQUIPMENT	\$62,400
SALES PRICE	\$555,000	FURNITURE/FIXTURES	\$23,600
PAYMENT AT CLOSING	\$555,000	CLIN. SUPPLIES	\$15,300
SELLER LOAN AMT.	\$0	MISC. ASSETS	\$9,700
		GOODWILL	\$416,200
		GOODWILL COVENANT	\$27,800
		TOTAL ALLOCATIONS	\$555,000

YEAR	# 1	#2	#3	#4	#5	#6	#7	#8	#9	#10	
Most Recent											
12 MONTHS 5.00% - Annual Growth Adjustment (years 2 - 10)											
INCOME (Collected)											
OWNER OPERATIVE PROD.	\$505,053	\$505,053	\$530,306	\$556,821	\$584,662	\$613,895	\$644,590	\$676,819	\$710,660	\$746,193	\$783,503
ASSOC. OPERATIVE PROD.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
HYGIENE PRODUCTION	\$208,457	\$208,457	\$218,880	\$229,824	\$241,315	\$253,381	\$266,050	\$279,352	\$293,320	\$307,986	\$323,385
TOTAL PRACTICE INCOME	\$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 (Owner Workdays = 4)										
DAILY AVERAGE	\$2,870 (Current Average Daily Collections from Operative Production ONLY based on an average of 176 annual practice days)										
TOTAL PRACTICE GROSS	\$713,510	\$749,186	\$786,645	\$825,977	\$867,276	\$910,640	\$956,172	\$1,003,980	\$1,054,179	\$1,106,888	

PRODUCTION EXPENSES:	PERCENT	#1	#2	#3	#4	#5	#6	#7	#8	#9	#10
LABORATORY FEES	8.99%	\$64,114	\$67,320	\$70,686	\$74,220	\$77,931	\$81,828	\$85,919	\$90,215	\$94,726	\$99,462
CLINICAL 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	N/A	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
ASSOCIATE COMMISSION	N/A	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
HYGIENIST COMMISSION	N/A	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
PROD. EXP. TOTAL		\$121,437	\$127,509	\$133,884	\$140,579	\$147,607	\$154,988	\$162,737	\$170,874	\$179,418	\$188,389

FIXED EXPENSES ‡	PERCENT	#1	#2	#3	#4	#5	#6	#7	#8	#9	#10
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	0.87%	\$6,108	\$6,413	\$6,734	\$7,071	\$7,424	\$7,796	\$8,185	\$8,595	\$9,024	\$9,476
LEGAL & PROFESSIONAL	0.28%	\$1,945	\$2,042	\$2,144	\$2,252	\$2,364	\$2,482	\$2,606	\$2,737	\$2,874	\$3,017
PROFIT SHARING	0.70%	\$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	0.42%	\$2,919	\$3,065	\$3,218	\$3,379	\$3,548	\$3,725	\$3,912	\$4,107	\$4,313	\$4,528
INSURANCE - MALPRACTICE	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
INSURANCE - LIFE/DISABILITY	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
INSURANCE - HEALTH	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
REPAIRS & MAINTENANCE	1.53%	\$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	0.79%	\$5,548	\$5,825	\$6,117	\$6,423	\$6,744	\$7,081	\$7,435	\$7,807	\$8,197	\$8,607
DUES & SUBSCRIPTIONS	0.13%	\$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	0.57%	\$3,994	\$4,194	\$4,403	\$4,624	\$4,855	\$5,097	\$5,352	\$5,620	\$5,901	\$6,196
TELEPHONE	1.01%	\$7,041	\$7,393	\$7,763	\$8,151	\$8,558	\$8,986	\$9,436	\$9,907	\$10,403	\$10,923
RENT	3.83%	\$31,200	\$31,200	\$31,200	\$31,200	\$31,200	\$32,760	\$34,398	\$36,118	\$37,924	\$39,820
POSTAGE	0.49%	\$3,428	\$3,599	\$3,779	\$3,968	\$4,167	\$4,375	\$4,594	\$4,824	\$5,065	\$5,318
SALARIES - STAFF	21.48%	\$150,386	\$157,905	\$165,801	\$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	1.81%	\$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	0.25%	\$1,720	\$1,806	\$1,896	\$1,991	\$2,091	\$2,195	\$2,305	\$2,420	\$2,541	\$2,668
COLLECTION EXPENSE	0.37%	\$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	0.12%	\$810	\$851	\$893	\$938	\$985	\$1,034	\$1,085	\$1,140	\$1,197	\$1,257
FIXED EXP. TOTAL		\$248,401	\$259,261	\$270,664	\$282,637	\$295,209	\$309,970	\$325,468	\$341,742	\$358,829	\$376,770
PROD. & FIX. EXP. TOTAL		\$369,838	\$386,770	\$404,548	\$423,216	\$442,817	\$464,957	\$488,205	\$512,616	\$538,246	\$565,159
OPERATING INCOME		\$343,672	\$362,416	\$382,096	\$402,761	\$424,459	\$445,682	\$467,966	\$491,365	\$515,933	\$541,730

SELLER POST-SALE CASH FLOW SUMMARY											
SELLER POST-SALE WORKDAYS	2.0	2.0	2.0	2.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0
SELLER POST-SALE PRODUCTION	\$252,527	\$265,153	\$278,410	\$292,331	\$306,948	\$0	\$0	\$0	\$0	\$0	\$0
SELLER POST-SALE COMMISSION *	\$101,011	\$106,061	\$111,364	\$116,932	\$122,779	\$0	\$0	\$0	\$0	\$0	\$0
MISCELLANEOUS COMPENSATION	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
RENT (only if Seller owns building)	\$31,200	\$31,200	\$31,200	\$31,200	\$31,200	\$32,760	\$34,398	\$36,118	\$37,924	\$39,820	\$39,820
SELLER LOAN PAYMENTS	\$0	\$0	\$0								

FAIR MARKET VALUE PROFORMA SUMMARY

The proforma is FOR SELLER'S EYES ONLY. PARAGON prepares a separate custom financial analysis and 10-year proforma that is specifically tailored for maximum effectiveness in presenting opportunities to purchasers.

Fair Market Value

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

Sales Price

While a seller may indeed establish his or her own final sales price, it is highly recommended that said sales price match the fair market value of the practice. The Proforma reflects that you have set a sales price of \$555,000.

Down Payment

In accordance with your expressed needs and goals and/or in full consideration of practice marketability, PARAGON has established a purchaser down payment of \$555,000. NOTE: a transaction with no seller financing will obviously reflect a down payment amount that is identical to the purchase price.

Seller Loan Amount

In accordance with your expressed needs and goals and/or in full consideration of practice marketability, PARAGON has established a Seller Loan Amount of none. NOTE: Occasionally a seller wishes to finance the entire transaction. In these situations the seller loan amount will also include the additional funding a purchaser needs to complete the transaction.

Seller Loan Percent

N/A

Number of Years

N/A

Payment Amount

N/A

Allocation of Sales Price

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 practice valuation of \$555,000 takes into consideration the following specific allocation values and the expected seller tax treatment of the assets being sold.

EQUIPMENT	\$	62,400	<i>(taxed as ordinary income)</i>
FURNITURE & FIXTURES	\$	23,600	<i>(taxed as ordinary income)</i>
CLINICAL SUPPLIES	\$	15,300	<i>(taxed as ordinary income)</i>
MISCELLANEOUS ASSETS	\$	9,700	<i>(taxed as ordinary income)</i>
GOODWILL	\$	416,200	<i>(taxed as capital gains)</i>
GOODWILL COVENANT	\$	27,800	<i>(consult your tax advisor)</i>
		555,000	

* * * * *

FAIR MARKET VALUE 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 recent **collected** income that your practice generated both in total and by doctor and hygiene.

Your practice reflects current collected production from the result of operative production (for the most recent 12 months) of \$505,053. Your practice also reflects hygiene-collected production for the same period of \$208,457, for a total practice gross collected production for the same period of \$713,510.

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 your 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. This analysis is based on the 2008 Federal Tax Return that you provided to PARAGON.

Growth and Inflation Adjustments

An appropriate adjustment allows projected increases to the practice gross income in order to project annual growth. Applicable Fixed Expenses are increased annually by the inflation percentage. The dollar amounts of the Production Expenses are factors of the practice's collected production and are pre-set for proforma purposes at the percentages illustrated. These percentages are based on the respective percentage for each Production Expense as derived from our analysis of the practice's most recent 12 months financial history.

Year 1

The first year column reflects the exact same collected production as the "Most Recent 12 Months" column. We use a variation of this proforma to present your opportunity to potential purchasers and thus we take this ultra-conservative approach to show the purchaser reasonably expected results with no provision for growth from your most recent actual results. It should be noted that it is not unusual for the purchaser to achieve significantly greater results than we are projecting in the Purchaser Proforma.

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 you to the purchaser, if applicable (see Seller Post-Sale Production and Seller Post-Sale Workdays at the bottom of this proforma).

Owner / Doctor Operative Production

We have determined that YOU are personally producing annual collections of \$505,053. It should be noted that this number has been adjusted to eliminate any collections you may have generated from hygiene production (if applicable).

Associate Production

Occasionally, a practice may employ a current associate who is not the projected buyer and who will remain with the practice after the sale. An entry on this line typically reflects the current and projects the future production of such an associate who is not the buyer.

Hygiene Production

The \$208,457 represents the annual collected production for the most recent 12-month period from hygiene production for your practice (regardless of whether a hygienist is utilized in the practice or not). If you are actually providing the hygiene services (or a portion of the hygiene services) then this figure is derived from the "Production by Procedure" report you provided to PARAGON. If such a report was not provided, then we may conservatively estimate that 20% of the total practice production is for hygiene services.

Total Practice Gross

This line reflects the current annual gross **collected** income (including hygiene, if applicable) for this practice. For conservatism, the first year column assumes no increase in overall practice production over the previous 12 months. We may have included additional first-year growth production for the Purchaser based on realistic potential discovered through our analysis (see "**Projected Doctor Production**" analysis included on page 12 of this report). Other than this additional growth (and any hygiene growth that would result) for the Purchaser, the first year column figures exactly match the "Most Recent 12 Months" column.

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 of \$2,870 is for reference purposes only. This amount represents the current annual collected production for doctor production only divided by the number of practice workdays per year.

FAIR MARKET VALUE PROFORMA EXPENSES

For Proforma purposes, the expenses of your practice have been categorized into PRODUCTION EXPENSES and FIXED EXPENSES. It is important to understand that Production Expenses will fluctuate as the practice production fluctuates. Fixed Expenses (or sometimes referred to as the TRUE Overhead Expenses) should be the major concern of practice owners as they can be more effectively controlled than Production Expenses.

FAIR MARKET VALUE 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 (a low % could also be the result of an exceptionally low lab fee per crown). The average lab fee percentage for your practice is 8.99%.

Clinical Supplies

This percentage should typically be in a range from 5% to 7% of the gross income for general dental practices, specialties vary (see the **Practice Data Analysis** table illustrated on page 8). If you were showing more than 7%, the excess amount was determined to be a non-practice-essential expense and adjusted out in the Adjusted Income Statement step of our analysis process. The adjusted (if applicable) average clinical supplies percentage for your 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. Excesses are generally determined to be non-practice-essential expenses and are adjusted out. It should be noted that young practices that are still in a significant growth pattern may have a higher percentage simply because the income level of the practice has not yet caught up to the expense level. The average office supplies percentage for your practice is 1.24%.

Miscellaneous

This line is typically zero for general practices. Occasionally some specialty practices (and in rare instances, general practices) may have a unique expense that is production related.

Associate Commission

The percentage shown reflects the commission rate paid to an associate (not the purchaser if the purchaser had been an associate prior to acquisition) 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 and corresponding dollar expense shown reflects the commission paid to the hygienist(s) for any post-sale hygiene production.

* * * * *

FAIR MARKET VALUE PROFORMA FIXED EXPENSES

Many fixed expenses are self-explanatory and thus are not specifically addressed in this summary. Other 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 found on the 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

Rent is adjusted to reflect known or anticipated rent increases (generally can be determined from analysis of the current lease). If the seller owns the building and has not been paying rent, then a rent expense will be created (Adjusted Income Statement) to reflect the fair market rental expense commensurate with the office size and location.

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.

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 (such as: 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 are higher than established norms, PARAGON adjusts this expense down to an acceptable average expense amount.

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 reflects the premiums for the office general liability insurance. It should be noted that this expense is frequently grouped (umbrella coverage) into the doctor's malpractice insurance coverage.

Malpractice Insurance

This line is often zero since the malpractice insurance is grouped (umbrella coverage) into the Office Insurance on the previous line.

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 typically 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 (or partially commissioned) and the expense is listed as Hygiene Commission under the Production Expenses category. NOTE: Payroll Taxes are also adjusted accordingly.

Salaries - Owner

This expense always defaults to zero for Fair Market Value Proforma purposes. The income derived from ownership of this practice is included in the Operating Income (calculation of income less practice-essential expenses). NOTE: Payroll Taxes associated with owner salaries is also always defaulted to zero.

* * * * *

POST-SALE CASH FLOW SUMMARY

This section of the Fair Market Value Proforma is included to show the anticipated cash inflow benefits available to you as a result of selling your practice. This data is based on the post-sale criteria that you provided to PARAGON in the practice valuation and data-gathering and program determination stage of the PARAGON Process. Depending on the make-up of your practice situation, your post-sale basis of income may come from several different sources.

Seller Post-Sale Workdays

This line reflects the anticipated days that you will continue to work after the practice is sold (if applicable). These figures should be a direct result of the personal goals you directed to us in the pre-analysis data-gathering step.

Seller Post-Sale Production

This reflects the anticipated production level that you will maintain based on the Seller Post-Sale Workdays that you are projected to work after the sale.

Provider Compensation

Provider compensation is normally based on a commission percentage of all seller-generated income. Such seller-generated income includes your customary dental services and doctor fees for your hygiene exams. Provider compensation (paid under the terms of a Provider Agreement) is typically paid to you on the 10th day of each month on seller-generated production that is COLLECTED in the previous calendar month. The compensation is calculated in one of two ways: i) as a percentage of ALL seller-generated collections for the period; or ii) as a percentage of seller-generated collections after adjustment for provider related lab expenses for the same month ("Lab Off the Top"). The "Lab Off the Top" method would be calculated as follows: \$10,000 collections *less* \$1,000 lab expense *equals* \$9,000 *times* 40% commission *equals* monthly provider compensation of \$3,600).

Your provider compensation will be calculated as 40% of your collected production.

Miscellaneous Compensation

This line is used when there are unique compensation situations that are not handled in the standard Provider Compensation. This line would include such things as profits on over-the-counter products sales you personally generate (if applicable).

Rent

This line reflects the annual amount of monthly rent payments that you will receive when the purchaser rents your personally owned office building (if applicable).

Debt Service Payments

This line reflects the annual amount of the monthly Seller Loan payments that you will receive from the purchaser (if applicable).

SALES PROCEEDS DISTRIBUTION SUMMARY

The following schedule reveals how the proceeds of your practice sale will be distributed at Closing. PARAGON's total transaction fee is 10% of the sales price of the practice. In our successful "dual representation" approach, it is customary for the transaction fee to be split between the Seller (paying 7%) and the Buyer (paying 3%). However, there may be some instances (for whatever reason) when a buyer is unwilling to pay his or her share of the total fee. If the seller wishes to proceed with this particular buyer, the seller will be fully responsible for the entire 10% transaction fee.

PRACTICE SALES PROCEEDS DISTRIBUTION SUMMARY

Payment Received into Escrow from Purchaser	\$	555,000
PARAGON Transition Fee *	\$	38,850
PARAGON Post-Sale Management Fee		-
Credit for prepaid PARAGON fees		(2,000)
Fee Adjustments: <u>no fee adjustment</u>		<u>-</u>
Less: Net Fee Due PARAGON		<u>36,850</u>
Net Payment due Seller at Closing	\$	518,150
Plus: Accounts Receivable retained by Seller		126,459
Plus: Seller Loan Payments		<u>0</u>
Anticipated Seller Net Sale Proceeds plus retained receivables	\$	<u><u>644,609</u></u>

* Practice Transition Fee is calculated @ 7% (unless minimum fees apply)

* Buyer Fee \$ 16,650

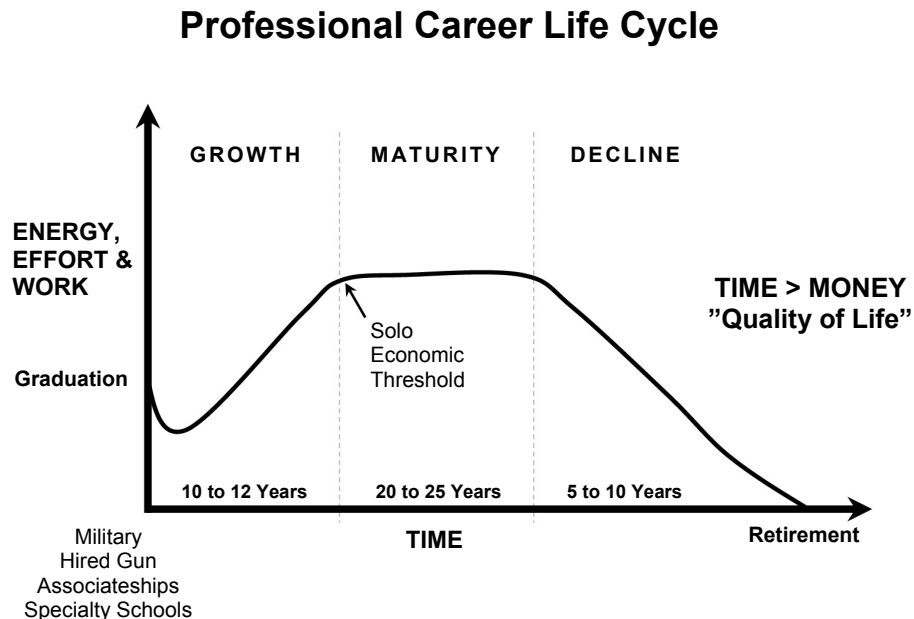
The schedule assumes that all fees will be paid in accordance with the standard provisions of the PARAGON "Listing Agreement" executed between the Client and PARAGON.

This schedule is provided for illustrative purposes only to show the anticipated distribution of a purchaser's down payment proceeds and total fees due PARAGON.

This schedule is not intended to be a transaction closing statement. A detailed Closing Statement will be provided at Closing should a practice sale be finalized using PARAGON's practice sale services

PROFESSIONAL CAREER LIFE CYCLE

While the time periods may vary somewhat from doctor to doctor, each dentist's professional career is broken down into 3 separate and distinct stages: GROWTH, MATURITY and DECLINE.



The GROWTH stage begins with graduation from dental school and typically ends with the dentist reaching his or her SOLO ECONOMIC THRESHOLD (the point where a dentist reaches a production limit with his "own two hands" – either by choice or by physical limitation). The length of time it takes to reach the profitable MATURITY stage is a direct reflection on how long it takes to build a quality patient base. It is important to note that those dentists who purchase practices will reach MATURITY 10 to 12 years quicker than those who take the standard growth route.

The MATURITY stage is the time for peak clinical production, peak practice profits and peak practice market value. This stage generally lasts 20 to 25 years (typically from age 35 to age 55).

The DECLINE applies to the practitioner ONLY. Actually a practice doesn't decline - the practitioner declines. The decline can occur for a number of reasons but generally it is because the doctor reaches a point in his or her life when time and freedom means more than money. "Quality of Life" becomes a significant goal. The decline lasts from 5 to 10 years and sees the practice gross income drop on a rather constant and rapid trend. The reason most dentists sell in this DECLINE stage is because most dentists associate selling with retirement and never fully understand the concept of selling and continuing to work (the PARAGON Pre-Sale Program

RETIREMENT FUNDING ANALYSIS

PARAGON recognizes that a seller's practice value is often an integral part of the overall retirement funding process. The following schedule shows a reasonable expectation of your retirement goals and relative retirement funding results EITHER utilizing stated goals and facts that you supplied to us in the data-gathering step of our analysis process OR (in the absence of such stated goals and facts) an educated guesstimation based on relative default interpretations derived from our experiences with other clients.

RETIREMENT FUNDING ANALYSIS

GENERAL INFORMATION

Desired Retirement Age	62	Years until Retirement	7
Your Current Age	55	Desired after-tax income	\$ 60,000

POST-RETIREMENT ANNUAL INCOME REQUIREMENTS

Annual Income needed to provide desired after-tax income (<i>divided by 60%</i>)	\$100,000
Less: Anticipated Annual Social Security Income	12,000
Less: Annual Net Rental Income (<i>less all applicable expenses</i>)	8,000
Less: Other Annual Retirement Income	2,000
Adjusted Annual Post-Retirement Total Gross Taxable Income Needed	<u>78,000</u>
Divided by anticipated annual rate of return on post-retirement investments	8.00%
Equals total accumulation needed to produce desired income at retirement	975,000
Current Retirement Savings of \$ 102,000 compounded at 10% will provide	198,767
Additional savings accumulation needed between NOW and desired retirement	<u>\$776,233</u>

POST-RETIREMENT SAVINGS NEEDED (Selling Practice at Retirement)

Net Savings needed between NOW and your desired retirement age	<u>\$776,233</u>
Less: Practice Market Value at retirement * (<i>price less fees</i>)	518,150
Adjusted Net Savings needed between NOW and your desired retirement age	258,083
Factor to reveal effect of annual contribution and 10% compound interest	.09582
Net <u>ANNUAL</u> after-tax savings needed in addition to practice value	24,729
Annual Income needed to provide annual savings requirement (<i>divided by 60%</i>)	41,216
Divided by profit percentage on increased collections after production expenses	82.98%
Annual practice collection increase needed for desired retirement income goal	<u>\$49,669</u>

POST-RETIREMENT SAVINGS NEEDED (Selling Practice NOW)

Net Savings needed between NOW and your desired retirement age	\$776,233
Less: Practice Market Value of \$518,150 compounded at 10% will provide	1,009,719
Adjusted Net Savings needed between NOW and your desired retirement age	(233,486)
Factor to reveal effect of annual contribution and 10% compound interest	N/A
Net <u>ANNUAL</u> after-tax savings needed in addition to current practice value	<u>none needed</u>

* Current value is assumed to be future value. Inflation will increase value in some of the future years, however, practices generally show a dramatic decrease in value during the 3 to 5 years prior to retirement.

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. by the owner/operator and/or seller of the subject practice. The information contained herein is highly sensitive and confidential material. This is a projection. Neither PARAGON, Inc. nor any of its representatives, employees, agents, consultants and/or analysts make any representations or warranties that the production and/or expenses indicated by this report 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. Certain valuation information included in this report is time sensitive and shall expire exactly 6 months from the "Report Print Date" displayed in the footer of each page of this report. This report is NOT valid, in any manner, without the practice owner's validation of the "Practice Valuation Certificate" included on the final page of this report.

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PRACTICE VALUATION CERTIFICATE

Practice Owner: I. M. Sellerdoc, D.D.S.
Practice Address: 123 Main Street
Anytown, MS 39157

Fair Market Value: \$555,000

VALUATOR'S CERTIFICATION

It is certified that:

- *the statements and opinions expressed in this report are correct and accurate to the best of our knowledge and belief, subject to the assumptions and conditions previously stated herein; and*
- *our engagement to perform this fair market valuation and compensation, if any, therefore are independent of the market value reported; and*
- *we have no present or contemplated future interest in the property evaluated; and*
- *on the basis of the information provided to us, the fair market value of the property is as stated in this report; and*
- *the fair market value, as computed, is valid only for the singular purpose of this fair market valuation, and remains valid for six months from the date herein; and*
- *this fair market valuation is contingent upon validation of the PRACTICE OWNER'S CERTIFICATION below.*

PARAGON, Inc.

DATE

PRACTICE OWNER'S VALIDATION

I have provided PARAGON, Inc. with pertinent, accurate information and unaudited financial records regarding this practice.

I have reviewed this Fair Market Value and Financial Analysis Summary and, to the best of my knowledge and belief, have not omitted or misstated any information.

Validated by:

I. M. Sellerdoc, D.D.S.

DATE

Print Name (if applicable): _____



PRACTICE VALUATION CERTIFICATE

Practice Owner: I. M. Sellerdoc, D.D.S.
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I. M. Sellerdoc, D.D.S.

DATE

Print Name (if applicable): _____