

Sample Only

Dental Practice Information Summary & Practice Appraisal

For The General Dentistry Practice Of:

**I. M. Sample, D.D.S.
2222 Any Street
Every City, USA XXXXX**

Effective Date: As of December 31, 2006

**VALUATION PREPARED BY:
George D. Stollings and Associates, Inc.**

**RR 2, Box 329-A
Prichard, WV 25555
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**ASSIGNED VALUATOR:
DATE: January 31, 2008**



**George D. Stollings, D.D.S.
Member:
Institute of Business Appraisers**

IMPORTANT NOTES REGARDING THIS SAMPLE PRACTICE INFORMATION SUMMARY & PRACTICE APPRAISAL:

- 1) The data in this sample is not data from any of our clients' practices;
- 2) Data for this sample appraisal was arbitrary developed (fabricated) solely for use in preparing a sample appraisal;
- 3) Income (and other) Adjustments, notes to those adjustments, and the like, contained in the Sample Appraisal may not reflect those made in actual appraisals. They are presented solely to demonstrate the adjustment procedures necessary in the actual appraisal process.

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Appraiser / Valuator Contact Information

Questions related to this sample valuation report may be directed to George D. Stollings, D.D.S., President of George D. Stollings and Associates, Inc., via any of the following:

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PRACTICE OVERVIEW

Practice Owner:		<u>I. M. Sample, D.D.S.</u>
Corporate / Partnership / PLLC Name:		<u>I.M. Sample, D.D.S. (practice is a sole-proprietorship)</u>
Practice Type (General or Type Specialty)		<u>General Dentistry</u>
Practice Address:		<u>2222 Any Street</u> <u>Every City, USA XXXXX</u>
Form of Business: <input type="checkbox"/> C-corporation <input type="checkbox"/> S-corporation <input checked="" type="checkbox"/> Sole Proprietorship <input type="checkbox"/> Partnership <input type="checkbox"/> Professional Limited Liability Company		
Office Square Footage:		<u>~2,200 per owner</u>
Office Building / Suite Status		
<input checked="" type="checkbox"/> Leased		Current Monthly Rent <u>\$2,800</u>
		Lease Term Expires <u>August 30th, 2009</u>
		Option To Renew <u>5 years</u> (Rent to be CPI adjusted)
<input type="checkbox"/> Rented month to month		Current Monthly Rent _____
<input type="checkbox"/> Owned by subject practice owner		
Owner intends to:		<input type="checkbox"/> Lease the office space to the practice buyer <input type="checkbox"/> Sell the office space to the practice buyer
Dental Equipment		
<input type="checkbox"/> Right handed		
<input type="checkbox"/> Left handed		
<input checked="" type="checkbox"/> Left-Right versatile		
Total Number Operatories		<u>6</u>
Equipped for dentists		<u>4</u>
Equipped for hygienists		<u>2</u>
Items leased rather than owned:		<u>Credit card processing machine</u>
Equipment and Business Office Equipment List:		
<input checked="" type="checkbox"/> See accompanying Depreciation Schedule for detail		
<input type="checkbox"/> See accompanying Tax Asset Detail Report for detail		
<input type="checkbox"/> See accompanying itemized list		
<input type="checkbox"/> None provided		
Practice Management Software:		<u>EagleSoft</u>
Patients		
New patients in last 6 months	<u>118</u>	(per owner questionnaire answers)
Patients active in last 24 months	<u>2350</u>	(per owner questionnaire answers)
Patients active on recall in last 6 months	<u>1501</u>	(per owner questionnaire answers)
Average patients seen per day, per dentist	<u>15</u>	
Average patients seen per day, per hygienist	<u>10</u>	
Average length of hygiene appointments	<u>45 min</u>	

Age Distribution Of Patients

Under 18:	<u>11</u> % (per owner estimate)
18-30 years of age	<u>34</u> % (per owner estimate)
30-55 years of age	<u>38</u> % (per owner estimate)
55 years of age & older	<u>17</u> % (per owner estimate)

Office Hours

Monday	8 to 1, and 2 to 5	Thursday	8 to 1, and 2 to 5
Tuesday	8 to 1, and 2 to 5	Friday	
Wednes.	8 to 1, and 2 to 5	Saturday	

Dental Services Referred Out Of Office: TMJ, molar endodontics, oral surgery, surgical periodontics

Dental Staff

Position	Hrs. / Wk	Years Of Service	Hourly Wage	--- or ---	Salary
Receptionist	<u>32</u>	<u>18</u>			\$ <u>44,000</u> (per owner)
Assistant	<u>32</u>	<u>8</u>			\$ <u>31,000</u> (per owner)
Assistant	<u>32</u>	<u>6</u>			\$ <u>26,000</u> (per owner)
Hygienist	<u>32</u>	<u>12</u>			\$ <u>65,000</u> (per owner)
Hygienist	<u>24</u>	<u>4</u>			\$ <u>52,450</u> (per owner)

Benefits For Staff: Uniforms, annual bonus, health insurance for one employee (others do not elect)

Fee Schedule - Compared Average In Area

- () Higher
 Average - per owner
 () Lower

Experience

Length of time owner in practice 34 years
 Length of time owner in practice at this location 32 years

Production By Provider: See "Production" report in accompanying data and information

Estimated Percentages Of Production (Fee Charges) From Various Services:

Estimated by owner: December 20, 2008

Recall Services	<u>35</u> %
Restorative / fillings	<u>21</u> %
Crown & Bridge	<u>25</u> % (Includes implant restoration)
Removable Prosthetics	<u>1.5</u> %
Periodontics	<u>< 1</u> %
Surgery - Impactions, etc.	<u>0</u> %
TMJ Joint Treatment	<u>< 1</u> %
Simple Extractions	<u>< 1</u> %
Cosmetic Dentistry	<u>10</u> %
Orthodontics	<u>2</u> %
Endodontics	<u>4</u> %
Implant Placement	<u>0</u> %

Special Skills Required To Deliver All Services: None

Accounts Receivable Information -- See accompanying "Account Aging Report"

Estimated Percentage Of Collections From (per owner estimate):

Capitation / HMO / DMO	<u>0</u>	%
PPO's, including Delta Dental	<u>35</u>	%
Medicaid	<u>0</u>	%

Dental Suppliers Sullivan-Schein
Patterson Dental
Benco

Recent 5-Year Owner Reported History Of:

Law Suites / Legal Actions	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	No
Dental Board Investigations or Actions	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	No
Suffered Bad Publicity	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	No

IMPORTANT NOTES ON DATA / INFORMATION ACCURACY:

1. All information and data in this report is supplied by the practice owner, the practice's accountant, or the practice's staff.
2. George D. Stollings and Associates, Inc. and the assigned valuator have not audited information or confirmed its accuracy, and make no promises, warranties, representations or guarantees in regards to the accuracy of information contained or utilized herein.
3. Potential buyers, potential purchase loan lenders, and any other party who may make decisions to purchase, loan, or any other decision based on information herein, should first confirm or correct all such information by examination of the practice, its records, and by information requests to the practice owner and the practice's accountant.

Selected Pictures

In actual appraisals (most cases) one to two pages of pictures appear in this section, typically showing the exterior of the office building along with interior pictures of: reception room, business office, laboratory, sterilization area, and each operatory.

Buyer Purchase Feasibility Analysis

The following "Buyer Purchase Feasibility Analysis" is extracted from the practice appraisal that follows later in this document. To be understood correctly, and in proper context, the entire appraisal should be reviewed. (e.g. Within that appraisal report you will see the source of the adjusted collections and adjusted expenses shown below, and more detail on those expenses, as well as how the value of the practice was determined.)

Buyer Purchase Feasibility Analysis			
Adjusted Collections For Year -----	2007	\$	880,000
Less: Adjusted Operating Expenses		\$	(500,571)
Cash-flow Before Purchase Loan Payments		\$	379,429
		\$	-
Cash-flow Before Purchase Loan Payment		\$	379,429
Less: Annual Purchase Loan Payments		\$	(72,731)
(Calculated based on appraised value, interest rate, repayment term, operating capital required, and other required cash as shown below.)			
Pre-Tax Cash-Flow Income Estimate - After Loan Payment		\$	306,698
CALCULATION OF TOTAL LOAN PAYMENTS			
Appraised Value / Purchase Price	\$		571,721
Plus Operating Capital Required In Transition (Est.)	\$		62,500
Plus Other Immediate Cash-Requirements (if any)	\$		-
Equals: Total Purchase Loan Required	\$		634,221
 Estimate Of Interest Rate Available			 8.00%
Purchase Loan Repayment Term Assumed (years)			15
 Estimated Montly Payment Based On Above	 \$		 6,061 (rounded)
Estimated Annual Payment Total Based On Above	\$		72,731 (rounded)
<p>Note: The above buyer cash-flow estimate is preformed as a test of the appraised value, only for the purpose of assisting the valuator in self-judging the validity of the appraised value. The above pre-tax cash-flow estimate is not a promise of, or projection of, the future performance of the practice for any buyer of the practice, or for any other person or entity.</p> <p>The valuator and George D. Stollings and Associates, Inc. do not herein warrant, guarantee, promise, or project the future collections, expenses, or profit / income / cash-flow that may be realized by any person or entity, be that the current owner, future purchaser, purchase loan lender, or any other person or entity.</p>			

Tax Returns / Financial Statements & Management Reports

In actual appraisals pages are inserted in this section, showing data and reports, analyzed and utilized in the appraisal process, such as:

- 1) Tax Returns -- Pertinent pages from the practice's tax returns for the most recent 5 years;**
- 2) Profit & Loss Statement -- for the most recent full year;**
- 3) Detailed Depreciation Schedule;**
- 4) Accounts Receivable Aging Summary;**
- 5) Production By Provider Report;**
- 6) Production Summary By Category Report;**
- 7) Practice Analysis – Payment Summary,**
- 8) Etc.**

Dental Practice Appraisal / Valuation Report

**VALUATION PREPARED BY:
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**ASSIGNED VALUATOR:
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VALUATION / APPRAISAL ASSIGNMENT

PURPOSE OF VALUATION: Prepared for the Client to establish the "FAIR MARKET VALUE" of the subject dental practice, for the purpose of establishing the asking / sale practice in the proposed sale of the subject practice's assets.

SCOPE OF VALUATOR'S ASSIGNMENT: This valuation is based on the application of conceptual approaches deemed most appropriate by the valuator, for use in the valuation of dental practices, and more specifically for use in valuation of the subject practice. It therefore may not incorporate all possible conceptual approaches.

CLIENT: This valuation was performed for: **I.M. Sample, D.D.S.** (owner of the subject practice).

IMPORTANT CONDITIONS: Important conditions apply to this valuation process and report, as well as to its use. Read these conditions, attached hereinafter as Exhibit "A".

EFFECTIVE DATE OF VALUATION: December 31st, 2007. The effective date of a valuation may vary from the date upon which the valuation was performed and completed. The effective date is determined by the date of the latest complete data and information considered in the valuation process. (As an example, if a valuation was performed in February of 2007, but the latest complete data considered was through the end of December of 2006, the effective date would be December 31, 2006.)

DATE OF COMPLETION OF VALUATION: February 15th, 2008.

CLASS OF OWNERSHIP VALUED: The valuation determined by this report considers the value of the following:

- () 100% ownership of all subject practice assets
- () A minority stock ownership representing ___ % of the subject practice's assets
- () A partnership interest representing ___ % of the subject practice's assets

BASIS FOR VALUATION: Subject practice related data, reports, estimates and insights used in preparation of this valuation were obtained from the practice owner(s). Our firm, and the assigned valuator, believe this information to be correct and accurate, but no warranty to, or guarantee of the accuracy of information utilized is made by either George D. Stollings and Associates, Inc., nor the assigned appraiser, George D. Stollings, D.D.S. Although a more full range of information was reviewed and considered by the valuator, the most important informational items used in this valuation process are presented in the Dental Practice Information Summary that accompanies and precedes this valuation report.

DEFINITIONS / EXPLANATIONS FOR IMPORTANT TERMS / CONCEPTS:

A. ASSET SALE: The vast majority of dental practice sales occur as asset purchases, not stock purchases. Therefore, to be consistent with the dental practice market when determining fair market value, we first value the assets, not stock (if a corporation) of the subject practice. In such asset sales the purchaser is typically not assuming any of the practice's debts, accounts payable, or liabilities, not receiving cash-on-hand and investments, and in many cases, not receiving the practice's accounts receivable. In fact, in most such sales, the seller indemnifies and holds harmless the purchaser relative to all debts, liabilities, expenses, and claims related to events occurring prior to the closing of the transaction. The most reliable comparative market data reports purchase prices under the above transaction conditions. Therefore, in dentistry, it is best to first determine Fair Market Value exclusive of debts, liabilities, accounts payables, cash, investments, and accounts receivable, using the appropriately comparable market data. That is the approach to valuation taken in this appraisal assignment.

If, for any reason, the proposed sale will not be an asset sale, or if the purpose of the valuation requires consideration of additional assets and liabilities, then an adjustment to the reported value herein should be made to consider additional assets and liabilities being transferred to the buyer or considered in the valuation. In such case the Fair Market Value as first determined herein would need to be adjusted upward for the proportional ownership value of additional assets (e.g. cash-on-hand and receivables) being transferred or considered, and downward for the proportional ownership value of additional liabilities (e.g. debts, payables, and other accrued liabilities) being transferred or considered, to arrive at the final Fair Market Value appropriate for the sale as then structured, or for the purposes of the valuation. In such cases, as indicated, such adjustments are made herein.

Note the “IMPORTANT EXCLUSIONS” listed hereinafter immediately following the value opinion reached by the appraisal process.

B. DENTAL EQUIPMENT VALUATION.

1. **FUNCTIONAL LIFE EQUIPMENT VALUATION:** Functional life valuation is utilized hereinafter in the valuation process. This method values “used” equipment items, logically in our judgment, based on the utility value that the used equipment items have to an owner (or the utility value they’ll have to a buyer), rather than by trying to estimate what each item would sell for in the used equipment market (a market that does not exist to any degree). Functional life valuation incorporates considerations of: (i) the expected life cycle of dental equipment; (ii) the original cost of equipment; (iii) the current age of the equipment; and, (iv) its residual value at the end of its expected life cycle. Functional life valuation methodology can also be used for furnishings and business office equipment.
2. **ITEM-BY-ITEM APPRAISAL:** In this process a list of dental equipment items is reviewed by a person or company (most often a dental supply and equipment dealer) who then attempts to estimate the value of each individual item on the list based on what they think each such item would sell for in the used equipment market. Faith in this process originated years ago when dental dealers did frequently deal in used equipment, and therefore did have some working knowledge of used equipment sales to serve as a basis for estimating used equipment items’ values. Today, dental supply and equipment dealers sell very little used equipment, and therefore have no significant exposure to used equipment sales that is adequate to keep them abreast of used dental equipment transactions and values. There is no other highly active market for the sale of individual used dental equipment items. There is no “blue book” or database of dental equipment sales to which one can turn for the current sale prices or values of individual used dental equipment items. Therefore, today, be it by a dental dealer or anyone else, any attempt to value dental equipment item by item, based on its likely used market sale price, is by necessity largely “guess work” and highly speculative. Because of this, we avoid the utilization of this method when information supplied is adequate to allow the use of Functional Life Equipment Valuation.

C. FAIR MARKET VALUE: Is commonly defined as, “The price at which the 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, both parties having reasonable knowledge of relevant facts.” This definition is widely accepted and used in courts of law. It is the most widely used approach in valuing closely held businesses.

SOURCES OF PRACTICE SALE / VALUE DATA UTILIZED IN THE APPRAISAL PROCESS

Capitalization rates, ratios, and / or multipliers, such as price-to-earnings, price-to-collections (or revenues), goodwill-to-earnings, and goodwill to collections (or revenues), utilized in the valuation process, were obtained from the following sources:

1. Goodwill Registry: In addition to being a source of information on transactions in other healthcare fields, as used herein it is a dental practice sale and valuation result database maintained by, and available from The Health Care Group, Inc., 140 West Germantown Pike, Suite 200, Plymouth Meeting, PA 19462-1421. It contains sale and valuation related data on a large number of dental practice sales and valuation reports, useful in establishing the fair market value of a specific practice. Information in the Goodwill Registry database, related to dentistry, has been collected from dentists, CPAs and other sources over a period of many years. It reports certain basic financial data for each dental practice reported, along with the sales price or valuation result, organized by dental practice specialty and general dentistry. Date of the sale, purpose of valuation, state of location, component of goodwill value, and other distinguishing characteristics are reported for each entry. Data maintained in the Goodwill Registry typically dates back 10 years.

2. Institute Of Business Appraisers Data Base: The IBA is a membership society for business appraisers, based in Plantation, FL. The IBA maintains databases, on business sales and valuations, including data on dental transactions dating back over 20 years. Members have access to these databases, which provide key data and information on each practice sale or valuation.

3. George D. Stollings and Associates, Inc.'s Proprietary Practice Sale & Valuation Database: Within our office we have maintained records on dental practice sales of our clients, dating back over 17+ years. In almost all cases, our records for each sale include an array of valuable information, such as the sale price, the practice's annual collections, the practices taxable income, copies of tax returns, and information on the style of practice, location of the practice, etc.

Data from the above three (3) sources is downloaded onto computers in the offices of George D. Stollings and Associates, Inc., where it is then statistically analyzed.

ASSUMPTIONS UTILIZED IN VALUATION

In establishing a fair market value, the valuator assumed conditions which impact the market price in a sale. These “assumed” conditions include:

- 1) To be consistent with Fair Market Value, it is assumed that the hypothetical buyer is not a strategic or synergistic buyer, not one who might bring added value to the subject practice via exceptional skill or the potential to merge with an existing patient base;
- 2) In the event of a sale, the transition would be facilitated by the cooperation of both the buyer and seller, working together to preserve patient and staff relations, and to transfer goodwill to the fullest extent possible;
- 3) The practice will be operated prudently;
- 4) No unforeseen adverse economic conditions, nationally or locally, will adversely affect the practice, dentistry, or the dental sale market;
- 5) The practice, prior to the sale, would remain in continual operation;
- 6) The seller would introduce, via letter or other means, the buyer, assisting him/her/it in retaining the patients that had utilized the subject practice during the owner’s operation, as well as the referral sources;
- 7) The majority of the staff would remain with the buyer, or qualified staff replacements are readily available;
- 8) No unknown factors effecting the goodwill or public perception, or future performance of the practice exist;
- 9) The hypothetical buyer has the clinical skills / education / experience necessary to continue the services provided by this practice, or prepares him/herself in advance, or during transition to do so, allowing continuation of the mode of service and operation that currently exists;
- 10) Certain assets would not be included in the sale, and are therefore not considered in this valuation process, including: real estate, vehicles, accounts receivable, cash-on-hand, investments held by the owner or the practice, and debts, liabilities, or payables accrued as of the planned date of any sale closing. In cases in which the valuation should include consideration of any or all of these additional assets and liabilities, the preliminary fair market value is adjusted accordingly hereinafter.
- 11) In the event of a sale, the current owner(s) would enter into and abide by a reasonable non-competition agreement;
- 12) There are no environmental or toxic contamination problems;
- 13) There are no significant lawsuits occurring or potentially pending, or undisclosed contingent liabilities that might adversely impact the subject practice.

Therefore in valuation process the future potential is assumed to be approximately parallel to, or equal to, that of the subject practice at present. However, those who read this report must realize that no guarantee of the future performance of the subject practice is made by George D. Stollings and Associates, Inc., or George D. Stollings, D.D.S., nor in fact could one be made. Due to the management decisions, the management skills, and the clinical skills of both the current practice owner and/or a future buyer, the future performance of the practice could be similar to that of the present, improved, or it could decline. Unforeseeable outside events could also impact future performance. The method of transition from seller to buyer could impact future performance. Value is calculated on current performance. The potential for future improved operational performance does not add to the value of the practice as based on current performance. The potential for future decline, unless specific reasons are identified that predict that decline, does not detract from the value as based on current performance. Between now and any future potential sale, the burden falls upon the current owner to preserve the value by maintaining performance. During and after any future potential purchase, the burden falls upon the purchaser to structure the transition, and then continue management and clinical services in a manner that preserves the performance, and therefore the value of the subject practice. Nothing in this valuation report guarantees or projects future results to be obtained by the buyer in terms of patient retention, collections, expenses, pre-tax cash-flow income, or taxable income

QUALIFICATIONS OF VALUATOR

This valuation is provided by George D. Stollings and Associates, Inc. The employed valuator assigned is George D. Stollings, D.D.S., whose qualifications to perform this valuation include:

George D. Stollings, D.D.S. is founder and President of George D. Stollings and Associates, Inc., a consulting and brokerage firm assisting dentists in/with practice sales, brokerage, practice valuations, associate recruitment, transition planning, and various forms of dental practice consultation. Both Dr. Stollings and George D. Stollings and Associates, Inc. specialize in services for dentistry, and limit their services to the field of dentistry.

Dr. Stollings has served dental clients throughout the Mid-Atlantic and Southeast United States, including Alabama, Florida, Georgia, Kentucky, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, and West Virginia.

Dr. Stollings is a member of: *The Institute of Business Appraisers*.

Dr. Stollings has conducted practice management workshops, presented accredited continuing education courses, guest lectured at dental schools, presented programs for state and local dental associations / societies, and has published articles in a number of publications including Dental Economics and the Journal of Small Business Strategy. In 1991 he co-authored, with John B. Wallace, Ph.D. of Marshall University's School of Business, "Improving The Value Of Professional Practices", which received the 1st Place Distinguished Paper Award awarded by the Small Business Institute Directors Association. His latest publication, a book entitled Your Dental Practice Sale – Planning Ahead (1-15 Years): Optional Approaches To Planning & Executing Your Practice Sale, was released for sale in February of 2005.

Following his dental education (D.D.S. degree from West Virginia University School of Dentistry, 1973), selected to be pertinent to his work, Dr. Stollings has pursued undergraduate business classes at Marshall University and Ohio University, along with graduate level business classes in accounting, finance, marketing and management at Marshall University's College of Business.

Dr. Stollings is a past member of the Advisory Board of the Management and Marketing Division of the College of Business, Marshall University.

In addition to his knowledge of practice sales and transitions, Dr. Stollings has experience in dental office design, dental equipment layout, dental equipment selection, and new and used dental equipment sales, having at one time been: (i) a co-owner and manager of a regional dental equipment and supply company; and, (ii) an equipment specialist for Patterson Dental Company, one of the largest dental equipment and supply dealers in the United States.

Dr. Stollings once served on the faculty of West Virginia University School of Dentistry, served 3 years as a clinical dentist for the U.S. Air Force, as a Captain, and has a total of approximately 10 years of clinical dentistry experience, with part of that in private practice as both a solo and group practitioner.

Dr. Stollings' specific experience levels relative to various aspects of dentistry and dental practice valuation include (some experiences acquired concurrently):

- 1) Practice Transition Services: 17+ years
 - a) Dental Practice Appraisal / Valuation
 - b) Dental Practice Sales / Brokerage
 - c) Structuring Ownership Transitions Between Practice Owners & Associates
 - d) Partnership Formation Structures
 - e) Associate Additions
 - f) Staged Equity Plan Ownership Development Plans
- 2) Dental Practice Office Design, Layout, Equipment Selection & Sales: 6 years
- 3) Clinical dental practice – 10 years

5-YEAR PERFORMANCE & TREND ANALYSIS

5-Year Weighted 5-YEAR WEIGHTED AVERAGE & TREND ANALYSIS						
Data Source Used:	Schedule C Tax Returns			Weights: 1-2-3-4-5 for Years 03->07		
Year	2003	2004	2005	2006	2007	Weighted Average
NET COLLECTIONS	\$ 557,000.00	\$ 625,000.00	\$ 685,000.00	\$ 720,000.00	\$ 880,000.00	\$ 742,800.00
<small>(Net Collections = Collections Less Returns / Allowances & Interest / Dividend Income)</small>						
EXPENSES REPORTED	\$(345,340.00)	\$(387,500.00)	\$(424,700.00)	\$(446,400.00)	\$(538,171.00)	\$(458,059.67)
PROFIT	\$ 211,660.00	\$ 237,500.00	\$ 260,300.00	\$ 273,600.00	\$ 341,829.00	\$ 284,740.33
2007 VERSUS 5-YEAR WEIGHTED AVERAGE						
NET COLLECTIONS			\$ 137,200.00	above weighted average		
EXPENSES REPORTED			\$ 80,111.33	above weighted average		
PROFIT			\$ 57,088.67	above weighted average		

CASH-FLOW ANALYSIS & ADJUSTMENT

Among others as needed, adjustments are made for the following reasons::

- 1) Exclude non-recurring expenses;
- 2) Exclude non-cash expenses, such as depreciation and amortization, so as to convert the income statement or tax return to an analysis of pre-tax cash-flow income potential;
- 3) Exclude elective expenses that are not mandatory operating expenses, and that are therefore not imposed on a potential buyer;
- 4) Add any expense that would be mandatory for a buyer, but that is not reflected in the current owner's income statement or tax return (Example: Practice owner also owns the practice's office building, but has not charged rent to the practice.);
- 5) Exclude any expenses not directly related to the practice;
- 6) Exclude payroll tax expenses related to owners' and other dentists' income;
- 7) Exclude any revenues derived from outside sources, such as lectures or consulting, that are not derived from the operation of the practice;
- 8) Exclude real estate ownership related expenses, such as insurance and maintenance, if the practice owners are owners of the practice's office building aside and separate from owning the practice, and if any lease offered a practice buyer is not expected to require the tenant to pay such expenses;
- 9) Exclude current owners' interest expense if under the proposed transaction's structure the debt related to that interest expense would not transfer to a potential buyer. Principle and interest related to a buyer's purchase loan is considered elsewhere in the valuation process;
- 10) Exclude interest income if the interest bearing investment would not be transferred in the proposed transaction;
- 11) Add debt service related to any anticipated expenditure that is mandatory for a buyer to upgrade the practice to reasonable minimum current professional standards. (Example: Addition of sterilization equipment if existing equipment did not allow the buyer to meet current required standards for sterilization of instruments.)

(The adjustment process is provided on the following page.)

CASH-FLOW ANALYSIS AND ADJUSTMENT

Data Source: Year 2007 Tax Return -- Form 1040 Schedule C

REVENUES:	ACTUAL	ADJUSTMENT	ADJUSTED	NOTES:
COLLECTIONS	\$ 882,200.00	\$ -	\$ 882,200.00	
Returns and Allowances	\$ (2,200.00)	\$ -	\$ (2,200.00)	
Interest Income	\$ -	\$ -	\$ -	
NET COLLECTIONS	\$ 880,000.00		\$ 880,000.00	

EXPENSES:	ACTUAL	%	ADJUSTMENT	ADJUSTED	NOTES:
Advertising	\$ 7,500.00	0.9%	\$ -	\$ 7,500.00	
Car and truck	\$ 3,850.00	0.4%	\$ (2,200.00)	\$ 1,650.00	1
Commission and fees	\$ -	0.0%	\$ -	\$ -	
Contract labor	\$ -	0.0%	\$ -	\$ -	
Depreciation & Section 179	\$ 28,500.00	3.2%	\$ (28,500.00)	\$ -	2
Employee benefit programs	\$ 10,500.00	1.2%	\$ -	\$ 10,500.00	
Insurance (other than health)	\$ 5,200.00	0.6%	\$ -	\$ 5,200.00	
Interest	\$ 4,300.00	0.5%	\$ (4,300.00)	\$ -	3
Legal and professional	\$ 2,550.00	0.3%	\$ -	\$ 2,550.00	
Office expense	\$ 13,300.00	1.5%	\$ -	\$ 13,300.00	
Pension and profit sharing	\$ -	0.0%	\$ -	\$ -	
Rent	\$ 33,600.00	3.8%	\$ -	\$ 33,600.00	
Repairs and maintenance	\$ 3,800.00	0.4%	\$ -	\$ 3,800.00	
Supplies	\$ 2,400.00	0.3%	\$ -	\$ 2,400.00	
Taxes and licenses	\$ 38,468.00	4.4%	\$ -	\$ 38,468.00	
Travel	\$ 2,850.00	0.3%	\$ (1,250.00)	\$ 1,600.00	4
Meals and entertainment	\$ 1,350.00	0.2%	\$ (1,350.00)	\$ -	5
Utilities	\$ 11,500.00	1.3%	\$ -	\$ 11,500.00	
Wages	\$ 218,450.00	24.8%	\$ -	\$ 218,450.00	
	\$ -	0.0%	\$ -	\$ -	
	\$ -	0.0%	\$ -	\$ -	
Other Expenses:	\$ -	0.0%	\$ -	\$ -	
Laboratory fees	\$ 75,200.00	8.5%	\$ -	\$ 75,200.00	
Seminars and meetings	\$ 2,850.00	0.3%	\$ -	\$ 2,850.00	
Workmans compensation	\$ 1,120.00	0.1%	\$ -	\$ 1,120.00	
Dental Supplies	\$ 57,500.00	6.5%	\$ -	\$ 57,500.00	
Cleaning	\$ 2,800.00	0.3%	\$ -	\$ 2,800.00	
Books and subscriptions	\$ 383.00	0.0%	\$ -	\$ 383.00	
Professional Dues	\$ 1,600.00	0.2%	\$ -	\$ 1,600.00	
Miscellaneous	\$ 2,200.00	0.3%	\$ -	\$ 2,200.00	
Bank-VISA-MC charges	\$ 6,400.00	0.7%	\$ -	\$ 6,400.00	
	\$ -	0.0%	\$ -	\$ -	

TOTAL EXPENSES:	\$ 538,171.00	ADJUSTED EXPENSES ->	\$ 500,571.00
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REPORTED ON TAX RETURN:	ADJUSTED COLLECTIONS, EXPENSES, AND INCOME
COLLECTIONS REPORTED \$ 880,000.00	ADJUSTED COLLECTIONS -----> \$ 880,000.00
EXPENSES REPORTED \$ 538,171.00	ADJUSTED EXPENSES -----> \$ (500,571.00)
TAXABLE INCOME REPORTED \$ 341,829.00	ADJUSTED PRE-TAX CASH-FLOW ----> \$ 379,429.00

NOTES TO ABOVE EXPENSE ADJUSTMENTS:

1. Remove portion of car expense related to elective, non-mandatory travel.
2. Depreciation removed as "non-cash" expense deduction.
3. Remove interest as specific to current owner. Potential buyer's purchase loan principal and interest considered elsewhere herein.
4. Remove portion of travel expense related to elective, non-mandatory travel.
5. Remove as elective, non-mandatory expense.

CALCULATION OF INDIVIDUAL TRANSFERABLE ASSETS' VALUES

For use in some of the valuation methods' calculations that follow, the individual transferable assets' values are first calculated as follows.

GOODWILL VALUE DETERMINATION:				
From study of databases referenced elsewhere in this valuation report, the valuator determines that:				
1. In 50% of general dental practice sales and valuations, the ratio of Goodwill Value to adjusted Revenues (collections) for the immediately preceding year falls between ~40% and ~57%. One standard deviation is approx. 37% to 61%. Based on the valuator's review of information related to the subject practice, for this valuation the valuator determines the correct Goodwill to Revenues ratio for the subject practice to be as shown below.				
2. In 50% of general dental practice sales and valuations, the ratio of Goodwill Value to adjusted Earnings (pre-tax cash-flow income) for the immediately preceding year falls between ~97% and ~135%. One standard deviation is approx. 86% to 148%. Based on the valuator's review of information related to the subject practice, for this valuation the valuator determines the correct Goodwill to Earnings ratio for the subject practice to be as shown below.				
Calculation of Goodwill Value:				
	Year 2007 Adjusted Revenues	Times	Multiplier Percentage	Calculated Goodwill Value
Based On Gross Revenues (Collections)	\$ 880,000	X's	48.80%	\$ 429,440
	Year 2007 Adjusted Pre-tax Cash-flow Earnings		Multiplier Percentage	Calculated Goodwill Value
Based On Earnings	\$ 379,429.00	X's	117.0%	\$ 443,932
Goodwill As Average Of Both Methods ----->				\$ 436,686
OFFICE / BUSINESS EQUIPMENT - COMPUTER - SOFTWARE VALUE DETERMINATION				
Functional Life Depreciation Utilized (As opposed to depreciation for tax purposes)				
<u>Study & Observation Of Dentistry Over 30+ Years Show That:</u>				
1. Computer Equipment tends to be upgraded on approximately 5 year cycles				
2. Computer & Business Equipment tend to undergo rapid technological changes on approximately 5 year cycles.				
3. They tend to have residual value after 5 years, established for purposes herein at 12% of their original cost.				
4. Therefore, their functional value declines in straight-line fashion from their original cost to 12% residual value over a period of 5 years.				
The Value Of The Subject Practice's Business / Computer Equipment Is Therefore Calculated As Follows:				
Purchase Cost	Purchase Date	Year Of Appraisal	Current Value	
\$ -	2008	2008	\$ -	
\$ 480	2007	2008	\$ 396	
\$ 17,700	2006	2008	\$ 11,470	
\$ -	2005	2008	\$ -	
\$ -	2004	2008	\$ -	
\$ 2,200	2003 or Before	2008	\$ 264	
Total Value of Business / Computer Equipment >			\$ 12,129	

DENTAL EQUIPMENT VALUE DETERMINATION

Functional Life Depreciation Utilized (As opposed to depreciation for tax purposes)

Study & Observation Of Dentistry Over 30+ Years Show That:

1. Dental Equipment tends to be upgraded on approximately 15 year cycles
2. Dental Equipment tends to undergo style and function evolution during periods of approximately 15 years.
3. Dental Equipment tends to have residual value after 15 years, established for purposes herein at 12% of its original cost.
4. Therefore, its functional value declines in straight-line fashion from its original cost to 12% residual value over a period of 15 years.

The Value Of The Subject Practice's Dental Equipment Is Therefore Calculated As Follows:

Purchase Cost	Purchase Date	Year Of Appraisal	Current Value
\$ -		2008	2008 \$ -
\$ 28,500		2007	2008 \$ 26,828
\$ -		2006	2008 \$ -
\$ 24,500		2005	2008 \$ 20,188
\$ -		2004	2008 \$ -
\$ 3,200		2003	2008 \$ 2,261
\$ 31,000		2002	2008 \$ 20,088
\$ 27,500		2001	2008 \$ 16,207
\$ 5,100		2000	2008 \$ 2,706
\$ 2,600		1999	2008 \$ 1,227
\$ 250		1998	2008 \$ 103
\$ 10,600		1997	2008 \$ 3,759
\$ -		1996	2008 \$ -
\$ -		1995	2008 \$ -
\$ -		1994	2008 \$ -
\$ 6,400	1993 or Before	2008	\$ 768
Total Preliminary Value of Dental Equipment --->			\$ 94,136

Equipment selection and installation is a laborious and time consuming process. Further, for use, dental equipment requires a significant expense for supporting plumbing and electrical supplies. As a result, dental equipment that is accumulated, laid-out, plumbed, wired, and arranged for use within an office has a premium value over that sold simply as used equipment to then be relocated and installed. Based on experience relative to the value of dental equipment sold in both manners, we place the average premium in value at 15%.

Based on the average age of the equipment in the subject practice, we place the premium in this case at: 15%

Previously Determined Dental Equipment Value	\$ 94,136
Premium In Value ("In Place" Premium)	\$ 14,120
Total "In Place" Value Of Dental Equipment ---->	\$ 108,257

DENTAL SUPPLY VALUE DETERMINATION

Dental Supply inventories change daily as supplies are constantly used and ordered. As a result, taking a detailed inventory is meaningless. The value of the supplies would change before the valuator could produce a report indicating that value. For the value of dental supplies to be determined in a manner that has some validity at any time, the best approach is based on analysis of the subject practice's ordering patterns, average weeks of inventory, and annual purchase costs.

Based On Management's Answers To Our Questions Related To Dental Supplies, We Calculate Their Value As follows:

Most Recent Year Dental Supply Purchase Cost	\$	57,500
Average # Of Weeks Of Inventory Without Shortages		6
Weeks Of Inventory As A Percent Of A Full Year		11.5%
Calculated Average Dental Supply Inventory	\$	6,635

OFFICE SUPPLY VALUE DETERMINATION

Office Supply inventories change daily as supplies are constantly used and ordered. As a result, taking a detailed inventory is meaningless. The value of the supplies would change before the valuator could produce a report indicating that value. For the value of office supplies to be determined in a manner that has some validity at any time, the best approach is based on analysis of the subject practice's ordering patterns, average weeks of inventory, and annual purchase costs.

Based On Management's Answers To Our Questions Related To Office Supplies, We Calculate Their Value As follows:

Most Recent Year Office Supply Purchase Cost	\$	13,300
Average # Of Weeks Of Inventory Without Shortages		4
Weeks Of Inventory As Percent Of Full Year		7.7%
Calculated Average Office Supply Inventory	\$	1,023

SMALL DENTAL EQUIPMENT / DENTAL INSTRUMENT VALUE DETERMINATION

The number of small equipment and instrument items is extremely large in the average dental practice. Although great in number, their value in used condition is not great, and is not a significant part of the value of dental practices. As a result, a detailed count and valuation of every instrument has not been performed. Based on the values of instruments when detailed counts were performed, we estimate the value of small equipment and instruments as \$1,500 per dental operator.

The value of small dental equipment and instruments is therefore estimated as follows:

Number Of		Est. Value /		Estimated
Operatories		Operator		Value
6	X's	\$ 1,500.00	=	\$ 9,000

TRANSFERABLE ASSETS' CALCULATED VALUES

Assets:	
<u>Current Assets</u>	
Note: Limited to those considered in Asset Purchases.	
Dental Supply Inventories	\$ 6,634.62
Office Supplies	\$ 1,023.08
Total Current Assets	\$ 7,657.69
<u>Fixed Assets</u>	
Note: Limited to those considered in Asset Purchases.	
Dental Equipment	\$ 108,256.86
Instruments	\$ 9,000.00
Business Office Equipment & Software	\$ 12,129.12
	\$ -
Total Fixed Assets	\$ 129,385.98
<u>Other Assets</u>	
Goodwill	\$ 436,685.97
Other	\$ -
Total Other Assets	\$ 436,685.97
Total Assets	\$ 573,729.64
Note:	
1. Liabilities not considered since they are not transferred to the buyer in typical asset purchases of dental practices. Standard procedure is for the seller to payoff all liabilities by or at closing of the sale, so that assets are transferred free of liabilities.	

ADJUSTMENT MECHANISM FOR TANGIBLE ASSET VALUE VARIANCES

TANGIBLE ASSET VALUE ADJUSTMENT CALCULATION	
<p>From study of practice data and practice valuations, utilizing databases referenced elsewhere in this valuation report, the valuator has determined that in 50% of practice sales and valuations, the tangible assets value falls with the following range:</p>	
Bottom end of range	8% of collections / revenues
Top end of range	22% of collections / revenues
<p>Values determined based on earnings and revenues must be adjusted, if the value of the subject practice's tangible assets deviate dramatically from levels expected for practices with similar levels of annual earnings and collections.</p>	
<p>Given that there are normal variances in tangible asset values, and in how practices utilize tangible assets, this valuator does not believe that values, determined from earnings and revenues should be adjusted unless the subject practice's tangible asset value falls outside the above range that would cover 50% of practices with similar revenues and earnings.</p>	
<p>Below we determine if the subject practice's tangible asset value is within this range, and if not, the valuator determines a value adjust that should be made within the calculations of valuation methods herein that are based on earnings or revenues.</p>	
Adjusted Collections - Year 2007	\$ 880,000.00
Top Of 50% Tangible Value Range	\$ 192,720.00
Bottom Of 50% Tangible Value Range	\$ 73,920.00
Subject Practice Hard Asset Value Summation	
Dental Supply Inventory	\$ 6,634.62
Office Supply Inventory	\$ 1,023.08
Dental Equipment	\$ 108,256.86
Instruments	\$ 9,000.00
Business Office Equipment	\$ 12,129.12
	\$ -
Total Hard Asset Value ----->	\$ 137,043.67
Tangible Asset Value Is In Range	Yes
Amount Below Range	N/A
Amount Above Range	N/A
<p>Due to the above excess or shortage (if any) in tangible asset value, values that are determined for the subject practice using earnings and revenue based methods shall be adjusted by -----> \$ 000,000</p>	

In the calculations of the subject practice's value in the Income and Market Methods, the valuator will consider any excess or shortage noted above, and make valuation adjustments as indicated.

VALUATION METHODS CONSIDERED – BUT NOT SELECTED

DISCOUNTED FUTURE EARNINGS.

- This method relies on projections of future earnings, five or ten years into the future. By its very nature, that process is highly speculative.
- Discount rates used in this method should consider normal industry growth and the risk inherent in the projections. That risk determination is subjective, forward looking, and subject to significant error due to unforeseeable changes in dentistry, the economy, and other factors.

In dentistry, market forces place the most importance on the most recent year, or a weighted average of recent years. Because of this, in our judgment, future looking methods are out of touch with the market forces specific to dentistry.

DISCOUNTED CASH-FLOW. Given that this method is also forward looking, with subjective and speculative elements required, the comments above, related to the Discounted Future Earnings method, are by an large equally applicable to this method.

VALUATION METHODS SELECTED & UTILIZED:

I. SINGLE PERIOD CAPITALIZATION OF EARNINGS

A capitalization rate, derived from market data, is used to determine the value of the practice, based on the total of all dentists' earnings derived from the practice.

SINGLE PERIOD CAPITALIZATION OF EARNINGS				
Based on a study of sales and valuations in databases referenced elsewhere in the valuation report, the capitalization rate for adjusted earnings (all dentists' incomes and benefits removed from expenses) falls in 50% of the cases within the following range:				
Top End	0.733			
Bottom End	0.58			
One Standard Deviation Produces A Range From -----> .529 to .796				
Based on the valuator's review of information related to the subject practice, the valuator determines the correct capitalization rate for the subject practice to be as shown below.				
Subject Practice Adjusted Annual Collections		\$ 880,000		
Less: Adjusted Operating Expenses		\$(500,571.00)		
Source: Cash-flow Analysis & Adjustment				
Section: Income Statement Analysis & Adjustment				
Adjusted Pre-Tax Cash-Flow Earnings		\$ 379,429.00		
CAPITALIZATION OF EARNINGS:				
Capitalization Rate Determined Applicable:			0.663	
Formula:				
Earnings	/	Capitalization Rate	=	Practice Value
\$ 379,429.00	/	0.6630	=	\$ 572,291.10
Adjustment For Hard Asset Value Excess or Shortage				
Preliminary Value From Above:			\$ 572,291.10	
Adjustment For Hard Asset Excess Or Shortage:			\$ -	
Preliminary Value Adjusted For Hard Assets:			\$ 572,291.10	
THEREFORE - PRACTICE VALUE BY THIS METHOD IS: \$ 572,291				

II. ASSET SUMMATION – WITH GOODWILL REVENUE BASED

The theory is that the whole is worth the sum of the value of its parts.

This method determines the value of the goodwill component of the practice based on comparative market data that correlates the value of goodwill to the annual collections of dental practices. The value of other assets are then determined by various methods, and added to the goodwill value, to determine total practice value.

Asset Summation -- Goodwill Revenue Based	
Note: Dollar amount values for various assets summed below were determined by calculations elsewhere in this valuation report.	
<u>Current Assets:</u>	
Dental Supply Inventories	\$ 6,634.62
Office Supplies	\$ 1,023.08
<u>Fixed / Hard Assets:</u>	
Dental Equipment	\$ 108,256.86
Business Office Equipment	\$ 12,129.12
Instruments	\$ 9,000.00
<u>Intangible Assets:</u>	
Goodwill - Based On Revenues	\$ 429,440.00
Summation Of Assets:	\$ 566,483.67
THEREFORE - PRACTICE VALUE BY THIS METHOD IS: \$ 566,484	

III. ASSET SUMMATION – WITH GOODWILL EARNINGS BASED

The theory is that the whole is worth the sum of the value of its parts.

This method determines the value of the goodwill component of the practice based on comparative market data, as in the previous method, but in this case it does so with market data that correlates the value of goodwill to the annual earnings of dental practices. As in the previous method, the values of the other assets are then added to the goodwill value, to determine total practice value.

Asset Summation -- Goodwill Earnings Based	
Note: Dollar amount values for various assets summed below were determined by calculations elsewhere in this valuation report.	
<u>Current Assets:</u>	
Dental Supply Inventories	\$ 6,634.62
Office Supplies	\$ 1,023.08
<u>Fixed / Hard Assets:</u>	
Dental Equipment	\$ 108,256.86
Business Office Equipment	\$ 12,129.12
Instruments	\$ 9,000.00
<u>Intangible Assets:</u>	
Goodwill - Based On Earnings	\$ 443,931.93
Summation Of Assets:	\$ 580,975.60
THEREFORE - PRACTICE VALUE BY THIS METHOD IS: \$ 580,976	

IV. MARKET TRANSACTIONAL DATA

There is significant data available from which to determine price to collections and price to earnings ratios, known as multipliers, that allow the determination of the value of one practice by comparable means to prices paid for other practices. Of the market methods, comparing earnings multipliers versus revenue multipliers, based on R-squared analysis revenue multipliers are more statistically accurate and/or predictive of the prices of practices in the dental practice market. Therefore, revenue multipliers will be used in this method.

MARKET TRANSACTIONAL DATA BASED	
Based on a study of sales and valuations in databases referenced elsewhere in the valuation report, the multiplier for adjusted annual collections falls in 50% of the cases within the following range:	
Top End	0.709
Bottom End	0.602
One Standard Deviation Produces A Range From -----> 56.2% to 73.6%	
Adjusted Annual Collections (Gross Revenues)	\$ 880,000.00
Price / Gross Revenue Market Multiplier	X's 0.649
Practice Value -----:	\$ 571,120.00
Selection Of Revenue Multiplier By:	
Adjustment For Hard Asset Value Excess or Shortage	
Preliminary Value From Above:	\$ 571,120.00
Adjustment For Hard Asset Excess Or Shortage:	\$ -
Preliminary Value Adjusted For Hard Assets:	\$ 571,120.00
THEREFORE - PRACTICE VALUE BY THIS METHOD IS:	\$ 571,120

VALUATION RESULT RECONCILIATION / ADJUSTMENT (Weighted Average Value Calculation)

The weightings below reflect the valuator's opinion as to the relative applicability of each valuation method in this specific valuation assignment.

WEIGHTED AVERAGE VALUATION CALCULATION:					
VALUATION METHOD	VALUE X	WEIGHT	=	WEIGHTED	Weighted Average Value As A % Of Year
Meth. #1 - Single Period Capitalization Of Earnings	\$ 572,291.10	0.57		\$ 326,206	2007
Meth. #2 - Asset Summation -- Revenues Based	\$ 566,483.67	0.84		\$ 475,846	Adjusted
Meth. #3 - Asset Summation -- Earnings Based	\$ 580,975.60	0.5		\$ 290,488	Collections
Meth. #4 - Market Transactional Data	\$ 571,120.00	0.92		\$ 525,430	v
	Totals:	2.83		\$ 1,617,970	65.0%
WEIGHTED AVG. VALUE =	\$ 1,617,970	divided by		\$ 571,721	

Notes:

1. The weighted averaging process is accomplished as follows:

The most accurate, and most logical approach would be to place the weights on the varied value results in relation to the significance that the dental practice sale market places on on the underlying value component measured by each of the methods. To do that, we turn to R-Squared statistical analysis, and in doing so, find the following R-Squared relationships.

Correlation -- Revenues (Collections) relationship to practice sale prices	0.92
Earnings relationship to practice sale prices	0.57
Correlation -- Revenues (Collections) relationship to the value of Goodwill	0.84
Earnings relationship to the value of Goodwill	0.5

Conclusion: It can be seen very clearly, given the above R-Squared statistical analysis, that annual collections (revenues) is a far more closely correlated with the market's determination of value and price than is earnings. The same is true relative to Goodwill value, for which annual collections plays a far more significant role in value correlation.

The above correlations can be used as "weight factors" for revenue versus earnings weighting of results from the various methods.

ADJUSTMENTS TO PRELIMINARY WEIGHTED AVERAGE VALUE

To the extent that differences exist between the subject practice, and the typical (average in attributes) practice, adjustments are required in the value determined to this point. Based on the valuator's experience in, and knowledge of dentistry, and analysis of the subject practice, the adjustments indicated in the valuator's judgment, if any, are made as shown in the following chart.

ADJUSTMENTS TO WEIGHTED AVERAGE VALUE		
PRELIMINARY WEIGHTED AVERAGE VALUE:	\$ 571,721	NOTES:
Based on the valuator's knowledge of the subject practice and any considered transactions (if any), the valuator makes the following adjustments to the weighted average (if any are indicated):		
Percentage Adjustments Based On:		
5 - Year Weighted Average Performance / Trend Analysis	\$ -	1
Minority Interested / Non-Controlling	\$ -	1
Distress Conditions	\$ -	1
Other:	\$ -	1
Total Percentage Adjustment Indicated	\$ -	
Apply Percentage Adjustment To Adjusted Value		
Unadjusted Value	\$ 571,721	
Adjustment	\$ -	
PRELIMINARY ADJUSTED VALUE ----->	\$ 571,721	
NOTES:		
1. No adjustment indicated.		

ADJUSTMENTS FOR ADDITIONAL ASSETS & LIABILITIES

() The proposed transaction, for which this valuation was obtained, is to be structured as an Asset Purchase, and as such no additional assets or liabilities are planned to be included in the transaction, and therefore, no further adjustments are required. In this case, the chart that follows will contain no further adjustments.

() The purpose of this valuation is for other purposes, in regards to which additional assets are not to be considered, and therefore, no further adjustments are required. In this case, the chart that follows will contain no further adjustments.

() The purpose of this valuation is relative to a divorce property settlement, legal action, stock purchase, partnership buy-in or buy-out, or for another purpose in regards to which additional assets and liabilities must be considered. In this event, additional adjustments are required to consider the impact on the subject practice's value that their inclusion will have. The required adjustments are made in the chart that follows.

() The purpose of this valuation is relative to a transaction, the structure of which, and the date of which, have not yet been determined. Depending on the structure, adjustments may be required for some or all of the additional assets and liabilities noted below. If so, the value of such assets must be determined closer to the date of the transaction. Given that they change over time, their values cannot be accurately determined this far in advance of the proposed transaction. Therefore, the valuation gives no consideration to these additional assets and liabilities at this time, and rather produces a value opinion to which such adjustments may be applied at the time of the transaction, if so indicated then based on the structure of the transaction, using the value of such additional assets and liabilities that would be determined at or near the time of the transaction. For this reason, no such adjustments appear below at this time.

Adjustment For Additional Assets & Liabilities		
Preliminary Adjusted Value	\$	571,721
Plus Additional Assets Included:		
Cash-on-hand	\$	-
Accounts Receivable	\$	-
Bank Account Balances	\$	-
Other	\$	-
Total Additional Assets	\$	-
Less Liabilities Assumed:		
Accounts Payable	\$	-
Long Term Debt	\$	-
Other	\$	-
Total Additional Liabilities	\$	-
 Value With Additional Assets & Liabilities	 \$	 571,721

OPINION OF VALUE

The value opinion reported below was developed through multiple valuation methods and steps. The results of each method and step are outlined in the chart that follows.

Summary Of Valuation Steps & Results For Each Step	
Valuation Methods:	Results:
Single Period Capitalization Of Earnings	\$ 572,291
Asset Summation - With Goodwill Revenue Based	\$ 566,484
Asset Summation - With Goodwill Earnings Based	\$ 580,976
Market Transactional Data	\$ 571,120
Weighted Average Preliminary Value	\$ 571,721
Adjusted Preliminary Value	\$ 571,721
<u>No adjustments indicated</u>	
Value Unadjusted For Additional Assets & Liabilities	\$ 571,721
Final Value Conclusion / Opinion	\$ 571,721

Based on information available to the valuator, and analysis of that information, it is the valuator's opinion that effective as of December 31st, 2007, the Fair Market Value of a 100% undivided controlling interest in the assets of the Subject Practice was:

\$571,721.

Important Exclusions: The value reported above excludes the following.

- 1) Accounts Receivable, Cash-On-Hand / Bank Accounts, Investments, Marketable Securities, Deposits, Prepaid Expenses, Accounts Payable, Notes Payable, Debts, Liabilities, Taxes Payable. If the sale of an interest in the practice is structured as a stock sale, or if for any other reason any of these additional assets and / liabilities are transferred to the buyer in the structure of the transaction, then adjustments to this reported value must be made at that time to increase or decrease the value based on the then value of these additional assists and liabilities, and should be done so proportional to the percentage of ownership changing hands in the transaction..

- 2) Any consideration for a discount in value for minority (“non-controlling”) interest that might appropriately apply if only a portion of (percentage of) the practice is to be sold with its value determined as a percentage of the total practice’s value. This might occur when one partner sells his/her percentage of ownership interest in a practice. Minority interests apply to any percentage of ownership that is less than a controlling percentage. Therefore, a 50% interest, or anything less, is a minority, non-controlling interest, because it requires 50.001% ownership to become a controlling interest. (Study of data on “buy-ins” and “buy-outs”, versus typical 100% “whole practice” sales, suggests that the average discount for minority interest is approximately 5.29% of the appraised value of the percentage interest in the practice that is being bought or sold.)
- 3) Real Estate.
- 4) Leasehold Improvement & Remodeling Investments. (Ownership of these assets does not transfer with the sale of a dental practice. Real estate sales reflect any value attributable to these assets.)
- 5) Vehicles / Cars.
- 6) Retirement Account Balances.
- 7) Personal items not deemed to be a dental practice related asset and not material to the operation of the practice.

Submitted By: George D. Stollings, D.D.S.

For, representing, and on behalf of: George D. Stollings and Associates, Inc.

Date: February 15th, 2008

BUYER PRE-TAX CASH-FLOW PURCHASE FEASIBILITY ANALYSIS

Buyer Purchase Feasibility Analysis			
Adjusted Collections For Year -----	2007	\$	880,000
Less: Adjusted Operating Expenses		\$	(500,571)
Cash-flow Before Purchase Loan Payments		\$	379,429
		\$	-
Cash-flow Before Purchase Loan Payment		\$	379,429
Less: Annual Purchase Loan Payments		\$	(72,731)
(Calculated based on appraised value, interest rate, repayment term, operating capital required, and other required cash as shown below.)			
Pre-Tax Cash-Flow Income Estimate - After Loan Payment		\$	306,698
CALCULATION OF TOTAL LOAN PAYMENTS			
Appraised Value / Purchase Price	\$		571,721
Plus Operating Capital Required In Transition (Est.)	\$		62,500
Plus Other Immediate Cash-Requirements (if any)	\$		-
Equals: Total Purchase Loan Required	\$		634,221
Estimate Of Interest Rate Available			8.00%
Purchase Loan Repayment Term Assumed (years)			15
Estimated Montly Payment Based On Above	\$		6,061 (rounded)
Estimated Annual Payment Total Based On Above	\$		72,731 (rounded)
<p>Note: The above buyer cash-flow estimate is preformed as a test of the appraised value, only for the purpose of assisting the valuator in self-judging the validity of the appraised value. The above pre-tax cash-flow estimate is not a promise of, or projection of, the future performance of the practice for any buyer of the practice, or for any other person or entity.</p> <p>The valuator and George D. Stollings and Associates, Inc. do not herein warrant, guarantee, promise, or project the future collections, expenses, or profit / income / cash-flow that may be realized by any person or entity, be that the current owner, future purchaser, purchase loan lender, or any other person or entity.</p>			

VALUATOR'S CERTIFICATION

I hereby certify that:

1. Subject to the assumptions, conditions and judgments noted, the statements and opinions contained in this report are accurate and correct to the best of my knowledge and/or belief;
2. My engagement to perform this valuation, and my compensation for doing so, were both independent of the value reported, and not contingent upon any specific level of value to be reported;
3. The opinions & conclusions expressed are my personal opinions and conclusions, and that they are impartial and unbiased;
4. I have no personal bias in regards to any party that may be involved in a transaction related to the subject practice;
5. I have no present or contemplated financial interest in the subject practice;
6. Except for external references and research, as noted herein, no other person, other than myself, contributed material or significant assistance in the analysis and preparation of this report.

George D. Stollings, D.D.S.

George D. Stollings, D.D.S.

EXHIBIT A: IMPORTANT CONDITIONS

The following conditions apply to this valuation report, and to the underlying valuation process:

- 1) Neither George D. Stollings and Associates, Inc., nor George D. Stollings, D.D.S., the assigned valuator, have any present or contemplated financial interest in the subject practice. Fees for this valuation are independent of, and in no way contingent upon the value opinion provided.
- 2) Calculation of expenses, expense adjustments, projections of pre-tax cash-flow income, projections of annual collections, and estimates of production / collection / compensation / income for any party or entity, included in this report, are included because they are part of the methodology used to determine the subject practice's value. They do not project that any specific expenses, income, compensation, collections, production or pre-tax cash-flow will be experienced or realized by the practice owner / seller, potential buyer, any employee, or any other party or entity. The reader is instructed not to misinterpret anything herein to be a guarantee of, or projection of, future performance or financial result. Actual results may vary from projections and estimates herein, and the degree of variance may be material.
- 3) We have not attempted to confirm that the subject practice's assets are free and clear of liens and other encumbrances, or that the practice owner(s) has free and clear title to the assets. The value determination is made as though the assets are free and clear of encumbrances. For this value to be valid in reference to any transaction, the practice owner must pay any debts, claims or liabilities required to remove any liens or encumbrances.
- 4) The purpose of this report is limited in nature to the determination of the subject practice's value. It therefore may contain departures from generally accepted accounting principles.
- 5) The valuator has neither compiled, completed, nor audited the accounting statements, tax returns and practice data / information used herein, and therefore provides no assurance relative to them. The valuator has relied on the information provided to him by management. Events may have occurred, or issues may exist, that are unknown to the valuator, and that, if known, could materially impact and change the value opinion reported herein. The valuator assumes no liability relative to information utilized.
- 6) The practice owner represented and warranted to the valuator that the information supplied is accurate and correct. The information is accepted as if correct and no further verification has been done by the valuator. The valuator expresses no opinion relative to information supplied by the practice owner.
- 7) Normalization, and other adjustments, made to the practice's revenues, expenses, and income, are made solely to assist in determination of the subject practice's value, and are not restatements of historical results, or projections of future results.
- 8) Readers of this report should not rely on the information contained herein without first seeking the advice of their attorney and accountant and without confirming for themselves the accuracy of the information contained within this report.
- 9) The value of a business changes over time in response to many internal and external factors. The value opinion provided is for, and only for, the effective date of this valuation report, and it should not be considered meaningful at any other point in time.
- 10) Neither George D. Stollings and Associates, Inc., nor George D. Stollings, D.D.S., guarantees the value reported herein. Valuation of closely held businesses, such as dental practices, is not a precise science. Reasonable and experienced valuers can differ in their opinions as to the value of a specific dental practice. We have, however, used conceptually sound methodologies (relative to the dental practice market) in determining the value opinion herein, and have made a good-faith effort to do so realistically, fairly, and logically, after consideration of an array of pertinent data and information.
- 11) Unless prior and specific arrangements have been made with George D. Stollings and Associates, Inc., by reason of providing this valuation, neither George D. Stollings and Associates, Inc., nor George D. Stollings, D.D.S., shall be required to:
 - a) Update this report in response to events that occur following the delivery of this report to the Client; or,
 - b) Provide expert testimony in regards to this valuation, be in attendance in any court, at any legal action, or at any government or other hearing.
- 12) This report is intended for the use of the Client for the purpose described herein before in "PURPOSE OF VALUATION". This report is not to be disclosed to other parties, except for the current potential buyer, without first obtaining the express

written permission of George D. Stollings and Associates, Inc. Neither George D. Stollings and Associates, Inc., nor George D. Stollings, D.D.S., are responsible for results or consequences that occur in relation to any unauthorized use of this report.

- 13) This appraisal, and no part of this appraisal, shall be used with or in any other appraisal.
- 14) This appraisal is valid only when viewed in its entirety.
- 15) No portion of this appraisal shall be used in part, or used or taken out of the context of the entire appraisal.
- 16) Any allocations of the subject practice's value, to various assets, are so allocated solely for the purposes of this appraisal, and are invalid if used for any other purpose.
- 17) The valuation process, contained herein, considers only information and conditions presented to the valuator as of the date of the valuation.
- 18) An actual transaction may occur at a price higher or lower than the value opinion expressed in this report, depending on the circumstances, the motivations of the buyer or seller, or the condition of the business at the time to the transaction, or the presence of strategic buyers, or other factors. The valuator makes no guarantee that any transaction will occur at a price equal to the value opinion provided herein.
- 19) The valuator assumes that the subject practice will be competently managed.
- 20) This valuation does not include an evaluation of management effectiveness.
- 21) The valuator is not responsible for future management decisions upon which future results will depend.
- 22) The valuator assumes that no hidden or unexpected conditions exist that would adversely affect the practice or its value, and does not guarantee that none exist.
- 23) Neither George D. Stollings and Associates, Inc., nor George D. Stollings, D.D.S., is a law or accounting firm. Neither assumes responsibility for legal or tax matters related to its findings. Value is reported without reference to legal or tax claims.
- 24) Neither the client, nor any other person or entity, has the right to publish this report without first obtaining the written permission of George D. Stollings and Associates, Inc., and George D. Stollings, D.D.S.
- 25) If the client, engaging George D. Stollings and Associates, Inc. to provide this valuation, should provide this report to any other party, the client shall inform that party that George D. Stollings and Associates, Inc. has no duty to them, and that no warranty or guarantee is provided by this report. Nothing in this report is intended to substitute for any party's independent judgment, due diligence, or right to, and decision to, seek legal and accounting counsel and valuation.
- 26) George D. Stollings and Associates, Inc. was engaged to provide this valuation report, not George D. Stollings, D.D.S. personally. This report, and all of its contents, are provided by George D. Stollings and Associates, Inc., not by George D. Stollings, D.D.S. personally, and in all ways this report shall be considered the work of George D. Stollings and Associates, Inc.
- 27) This valuation process and report contain a significant amount of data and calculations. George D. Stollings and Associates, Inc. does not guarantee or warranty that an error was not made in data entry or calculations. Readers of this report, who may have financial or other important interest in the result reported, are advised to check and confirm all important data and to check and confirm all critical calculations, for themselves, before relying on the reported value opinion.