

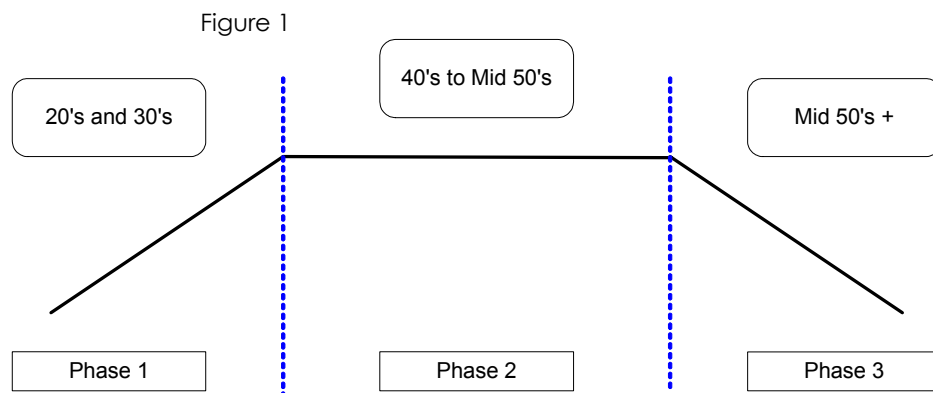
This article will show you how it is possible to increase your pre-tax cash flow over the last five years of practice by as much as one million dollars. A recent review of articles on the various approaches to retirement and practice disposition has revealed the absence of what for most dentists could be the most lucrative and satisfying strategy of all, a **Transition**.

Common Myths of Practice Sales

Before we look at the **Transition** option let's consider two of the more "popular" strategies. The most often suggested option is the "**Work & Sell**" strategy. This method suggests that dentists should work until they are ready to retire and then sell their practice. It's easy; no associates or partners to deal with, one transaction and you're gone. The second option is the "**Sell & Work**" strategy which suggests that a dentist's peak productivity occurs during their forties and the best strategy is to sell the practice at its peak, invest the proceeds, and finish his/her career as an associate or locum.

Either of these strategies could leave you hundreds of thousands of dollars short of your potential and at least one could end your career very early. Before we analyze either approach, we should consider a few known facts about how professional practices grow.

All professional practices have a natural growth or evolution pattern. They grow, they plateau and they decline. During the professional's twenties and thirties the practice grows, during their forties and early fifties it plateaus and during the late fifties and early sixties, declines. Figure 1 illustrates this progression.



This pattern happens to dentists, lawyers, accountants, and, in fact, to most professionals for fairly obvious reasons. The young professional works hard to build the practice. Once an acceptable level of success and lifestyle is achieved, they begin to enjoy the fruit of their labour and take more time for family and leisure activities. During their late fifties and early

sixties, energy levels start to diminish, family responsibilities begin to change as they become empty nesters and leisure or travel time begins to play an important role. These lifestyle changes cause less attention to be focused on the practice. The logical but unfortunate conclusion to this evolution, as the ADA has suggested, is that practices are not operating at their peak when it comes time for the owner to stop practicing.

If we analyze the “**Work & Sell**” strategy in light of the normal practice growth pattern, we can see that the practice would be sold during Phase 3. The problem with this strategy is that during Phase 3 the practice is producing less and is worth less. The longer the practitioner retains the practice, the less income he or she makes and the less the practice is worth. We will demonstrate how much less in this article and we will show how a **Transition** approach allows the original owner to both slow down and make more.

If we analyze the “**Sell & Work**” strategy we see that the practice is sold during Phase 2. In a non-transition environment this is likely to be the time when the practice is most productive and profitable and therefore worth the most. The “**Sell & Work**” strategy suggests that the owner sell his or her practice, invest the proceeds and work as an associate. However, there are a number of problems with this strategy. The major concerns are:

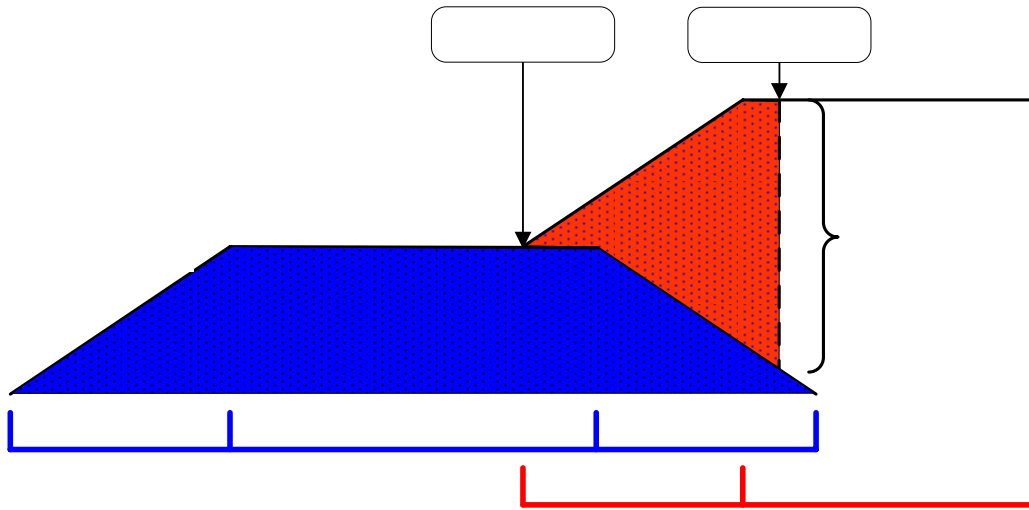
1. An investment in a dental practice provides a return of 20% to 40% after the dentist pays himself an associate fee of 40% of his production. . It is hard to think of an investment in current or past economic climates that can compete with the return generated by a dental practice.
2. The selling of a dental practice in most cases will generate a variety of costs. Including; an income tax cost, commission costs and possibly severance costs. The tax cost will be approximately 30% of the sale price, the commission will be 8% to 10% of the sale price and severance will depend on the employees' length of employment but could easily be a five figure amount. Clearly, this leaves the seller with much less than the full value of their practice to invest.
3. The “**Sell & Work**” strategy calls for the seller to be a long-term associate. It is well known that there are few guarantees that assure such a relationship will proceed to the planned conclusion. Owners, not associates, choose who works in the practice. Many dentists have sold their practice believing they would remain as an associate for an extended time period, only to find them self quickly out of a job and possibly, depending on their age, out of a career.

The **Transition** Alternative

There is another option that can provide the senior dentist with substantially greater cash flow, and an enhanced working environment. This option is a **Transition**. Considering what we know about how professional practices grow, we can explain a **Transition** as the combination of the growth pattern of a senior and younger dentist.

Figure 2 provides a graphic illustration of how a **Transition** strategy can work.

Figure 2



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As a senior dentist approaches Phase 3 of his career he sells part of his practice to a junior dentist who becomes his partner. The junior dentist is just starting Phase 1 his career and will use the foundation of patients and systems developed by the senior dentist to exponentially grow the whole practice. Towards the end of the senior dentist's 3rd Phase he sells the balance of the practice to his partner for a substantially greater value than he would have, if he had had a partner. We call this difference **The Transition Advantage**. The senior partner will often provide the junior partner with a credit for a portion of the increase in the value of the goodwill. Thereby, the junior partner is not left feeling that he has purchased goodwill that he has solely been responsible for creating. This eliminates the associate's concern that "the harder he works, the more he has to pay."

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As I will show, using a **Transition** strategy, as opposed to the "**Work & Sell**" or the "**Sell & Work**" ideology can actually increase a senior partner's pre-tax cash flow by more than one million dollars during the last five years of the senior dentist's career.

Making the Most of Your Last Five Years

As amazing as it might seem, the difference in cash flow set out in Figure 3, represents the disparity between the "**Work & Sell**," the "**Sell & Work**" and the **Transition** approach to the last five years of practice. The overall success of the **Transition** approach is that it combines the strength of the senior and junior dentist in a synergistic way that benefits both parties.

Figure 3

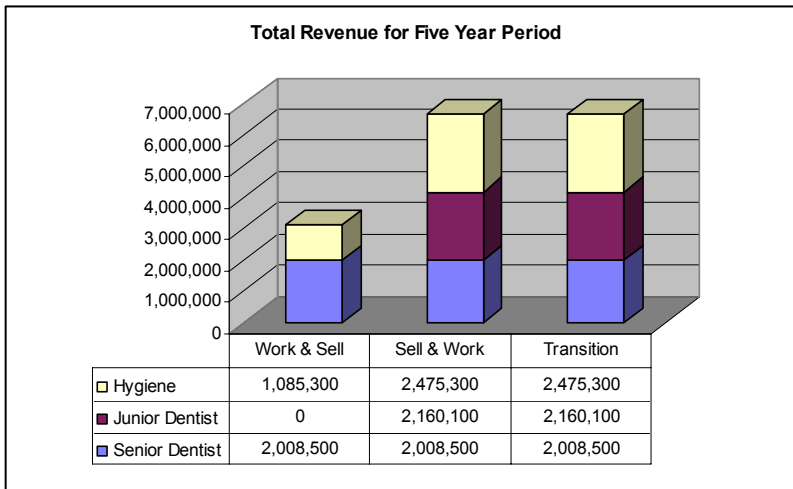
	Option 1 Work/Sell	Option 2 Sell/Work	Option 3 Transition
Revenue	1,247,200	800,700	1,692,800
Sale Price	<u>134,600</u>	<u>491,600</u>	<u>718,400</u>
Total	<u><u>1,381,800</u></u>	<u><u>1,292,300</u></u>	<u><u>2,411,200</u></u>
<u>The Transition Advantage</u>			
Advantage over Work & Sell	1,029,400	74%	
Advantage over Sell & Work	1,118,900	87%	

To illustrate our point we have taken an example practice and applied each of the three retirement options to the example. Surprisingly, the numbers above are based on an actual client situation and are not atypical. The attachments at the end of this article highlight the details of how these results were achieved.

The significant practice statistics and assumptions that apply to the three examples are as follows:

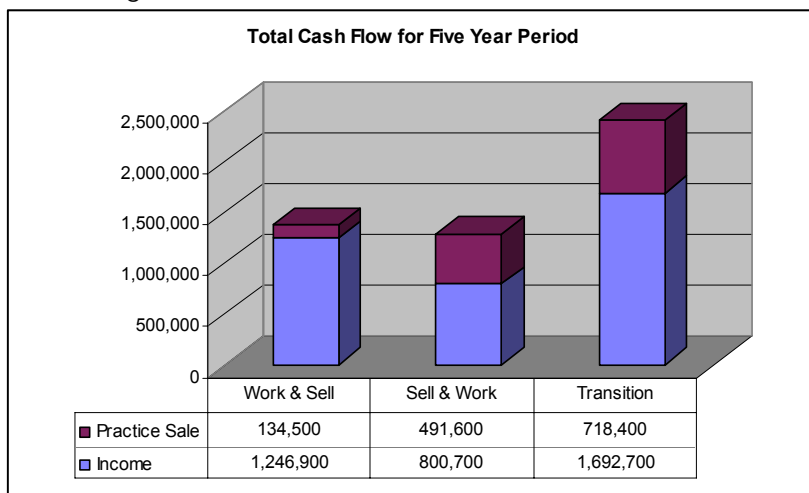
1. The senior dentist is 60 and wants to retire at age 65 but would like to slow down and take more holidays over the next five years. We have made the same production assumptions for the senior dentist in all three scenarios. We have projected the reduction of annual production as 5%, 7.5%, 10%, 12.5% and 15% respectively during the course of the five year projections and have done so for each of the three retirement options.
2. The practice has 2,500 active patients and is attracting 100 new patients per year. In the “**Work & Sell**” scenario we have assumed that the senior dentist stops accepting new patients during year 4 and 5.
3. For the “**Sell & Work**” scenario and the **Transition** scenario we have added the production of an additional dentist (owner/partner). We have also increased the hygiene revenue because the practice would have two dentists to supervise hygiene as opposed to one. The projected revenue streams for both of these two scenarios have been kept the same as shown in Figure 4.

Figure 4



4. In calculating income for the **“Sell & Work”** option we have assumed a 5% return on after tax proceeds (70%) of the initial sale and have added this to the income of the senior dentist.
5. All valuations have been based on a 22.5% Capitalization Rate of profit after the payment of Professional Compensation (associate fees) awarded at 40% to all producers and after tax at 43%.
6. Expenses have been treated as fixed and variable and have been adjusted to reflect the impact of increased and decreased production where appropriate and are set out in the attached schedules.
7. In calculating the final buy-out price in the Transition scenario we have provided the buyer with a 20% discount to account for and offset the perception that the buyer may be purchasing his own goodwill.

Figure 5



It is clear that the results of a **Transition** are financially superior to those of the “**Work & Sell**” or the “**Sell & Work**” strategies. Figure 5, graphically illustrates the benefit of the **Transition** strategy.

The **Transition** strategy provides 36% (\$445,000) more income and a sale price that is 400% (\$584,000) greater than the “**Work & Sell**” strategy. Noticeably, in this scenario we have two dentists against one which is not really a fair fight.

The **Transition** strategy provides 111% (\$892,000) more income and a sale price that is 46% (\$226,800) greater than the “**Sell & Work**” strategy. The main difference is that for the five year example period the senior dentist is only receiving associate compensation and is not sharing in the profits of the practice. This difference is after we have factored into the senior dentist's income his return on the invested proceeds from the initial sale. It is important to remember that there is no difference between the revenue, expenses and overall profit of the **Transition** and the “**Work & Sell**” strategies. The only difference is who receives the profit.

Although this article does not directly address the plentiful advantages that accrue to the Junior Partner during the **Transition** scenario, I will mention a few. The greatest advantage is the virtual elimination of risk. The Junior Partner will join a practice with an established team, positive cash flow, no risk of patient attrition, a full schedule, and a mentor. Financially, the Junior Partner will experience significantly better than average growth in both revenue and capital appreciation. In the example presented herein when the Junior Partner acquires 100% of the practice his investment will be \$718,400 into a practice that will have a market value of \$1,181,000. This amounts to an appreciation of \$462,600 over the five year transition period.

In conclusion, the magic of the **Transition** strategy lies in the union of the senior dentist's experience and strong foundation in the practice and the junior dentist's energy and advantageous place in the growth pattern. It is a synergistic strategy that benefits the senior and junior dentist and the practice. The **Transition** strategy is not without its own challenges, which certainly includes recruiting the right candidate and may also include changing certain systems to take advantage of the synergies inherent in the **Transition** process. If executed at the appropriate time in the growth pattern however, it will allow the senior dentist to avoid the impending over-supply of sellers and will allow the junior dentist to quickly accumulate capital appreciation. **Transition** strategies need to be carefully planned, but that is a topic for another day.

In planning your retirement from dentistry, make sure you consider all of your options. A **Transition** strategy could provide you with many unexpected payoffs.

Derek Hill is President of The Hill Kindy Group, a company specializing in dental practice sales, transitions, and associate/partner placements. If you have any questions regarding this article or the supporting financial projections that follow, we encourage you to contact Derek Hill at dhill@hillkindy.com or toll-free at 1-866-853-5344. He will be happy to answer your questions as expeditiously as possible.

Attachments

Summaries

Schedule A	Practice Sale Comparison
Schedule B	Earnings and Cash Flow Summaries

Option 1 (Work & Sell)

Schedule 1-1	Earnings and Cash Flow Summary
Schedule 1-2	Projected Earnings
Schedule 1-3	Projected Earnings Allocation and Analysis
Schedule 1-4	Capitalization of Projected Earnings
Schedule 1-5	Assumptions to Five Year Projections

Option 2 (Sell & Work)

Schedule 2-1	Earnings and Cash Flow Summary
Schedule 2-2	Projected Earnings
Schedule 2-3	Projected Earnings Allocation and Analysis
Schedule 2-4	Capitalization of Projected Earnings
Schedule 2-5	Assumptions to Five Year Projections

Option 3 (Transition)

Schedule 3-1	Earnings and Cash Flow Summary
Schedule 3-2	Projected Earnings
Schedule 3-3	Projected Earnings Allocation and Analysis
Schedule 3-4	Capitalization of Projected Earnings
Schedule 3-5	Assumptions to Five Year Projections

The Transition Advantage

Schedule A

Practice Sale Comparison

For The Five Years Ended December 31, 2008

	Option 1 Work/Sell	Option 2 Sell/Work	Option 3 Transition
Revenue	1,246,900	800,700	1,692,700
Sale Price	<u>134,500</u>	<u>491,600</u>	<u>718,400</u>
Total	<u>1,381,400</u>	<u>1,292,300</u>	<u>2,411,100</u>

The Transition Advantage

Advantage over Work & Sell	1,029,700	75%
Advantage over Sell & Work	1,118,800	87%

Practice Sale Comparison

Schedule B

For The Five Years Ended December 31, 2008

Option 1 - Work and Sell

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Revenue						
Senior Doctor (100% Owner)	489,300	452,600	407,300	356,400	302,900	
Junior Doctor (none)	0	0	0	0	0	
Hygiene	264,300	244,500	220,000	192,500	164,000	
	753,600	697,100	627,300	548,900	466,900	
Expenses	402,300	394,400	385,900	357,100	307,200	
Net Earnings	351,300	302,700	241,400	191,800	159,700	
Cash Flow to Senior Doctor						
Revenue	351,300	302,700	241,400	191,800	159,700	1,246,900
Capital	0	0	0	0	134,500	134,500
	351,300	302,700	241,400	191,800	294,200	1,381,400

Option 2 - Sell and Work

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Revenue						
Senior Doctor (Associate @ 40%)	489,300	452,600	407,300	356,400	302,900	
Junior Doctor (100% Owner)	300,000	360,000	432,000	496,800	571,300	
Hygiene	347,800	417,300	500,800	575,900	633,500	
	1,137,100	1,229,900	1,340,100	1,429,100	1,507,700	
Expenses	658,100	684,500	716,600	723,900	703,700	
Net Earnings	479,000	545,400	623,500	705,200	804,000	
Cash Flow to Senior Doctor						
Revenue (includes return on invested capital)	193,100	179,000	161,900	143,000	123,700	800,700
Capital	491,600	0	0	0	0	491,600
	684,700	179,000	161,900	143,000	123,700	1,292,300

Option 3 - Transition

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Revenue						
Senior Doctor (50% Partner)	489,300	452,600	407,300	356,400	302,900	
Junior Doctor (50% Partner)	300,000	360,000	432,000	496,800	571,300	
Hygiene	347,800	417,300	500,800	575,900	633,500	
	1,137,100	1,229,900	1,340,100	1,429,100	1,507,700	
Expenses	547,200	590,300	642,900	691,300	735,300	
Net Earnings	589,900	639,600	697,200	737,800	772,400	
Cash Flow to Senior Doctor						
Revenue	329,000	336,400	344,200	344,100	339,000	1,692,700
Capital	245,800	0	0	0	472,600	718,400
	574,800	336,400	344,200	344,100	811,600	2,411,100

Earnings and Cash Flow Summary
For The Five Years Ended December 31, 2008

	Year Ended 2,004	Year Ended 2,005	Year Ended 2,006	Year Ended 2,007	Year Ended 2,008	Total
Revenue (\$X1000)						
Senior Doctor (Sole Owner)	489.3	452.6	407.3	356.4	302.9	
Junior Doctor (None)	0.0	0.0	0.0	0.0	0.0	
Hygiene	<u>264.3</u>	<u>244.5</u>	<u>220.0</u>	<u>192.5</u>	<u>164.0</u>	
	753.6	697.0	627.3	548.9	466.9	
Expenses	<u>402.3</u>	<u>394.4</u>	<u>385.9</u>	<u>357.1</u>	<u>307.2</u>	
Net Earnings Before Tax	<u>351.3</u>	<u>302.6</u>	<u>241.5</u>	<u>191.8</u>	<u>159.8</u>	
Cash Flow to Senior Doctor						
Revenue	351.3	302.6	241.5	191.8	159.8	1,246.9
Capital	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>134.5</u>	<u>134.5</u>
	<u>351.3</u>	<u>302.6</u>	<u>241.5</u>	<u>191.8</u>	<u>294.3</u>	<u>1,381.4</u>

Option 1 (Work & Sell)

Schedule 1-2

Projected Earnings

For The Five Years Ended December 31, 2008

	Year Ended		Projected Year		Projected Year		Projected Year		Projected Year		Projected Year	
	Dec. 31, 2003		Dec. 31, 2004		Dec. 31, 2005		Dec. 31, 2006		Dec. 31, 2007		Dec. 31, 2008	
	\$X1000	%	\$X1000	%	\$X1000	%	\$X1000	%	\$X1000	%	\$X1000	%
Revenue												
Dental Fees												
Senior Doctor (Sole Owner)	515.0	65	489.3	65	452.6	65	407.3	65	356.4	65	302.9	65
Junior Doctor (None)	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0
	515.0	65	489.3	65	452.6	65	407.3	65	356.4	65	302.9	65
Hygiene Fees												
	278.2	35	264.3	35	244.5	35	220.0	35	192.5	35	164.0	35
	793.2	100	753.6	100	697.0	100	627.3	100	548.9	100	466.9	100
Expenses												
Fixed Costs												
Rent	39.7	5	39.7	5	39.7	6	39.7	6	39.7	7	39.7	9
Occupancy Costs	3.3	0	3.3	0	3.4	0	3.6	1	3.8	1	4.0	1
Supplies & Equipment	3.1	0	3.1	0	3.2	0	3.4	1	3.6	1	3.8	1
Staff Costs	210.5	27	209.0	28	208.2	30	208.0	33	188.4	34	147.8	32
Insurance	1.6	0	1.6	0	1.7	0	1.7	0	1.8	0	1.9	0
Office & Postage	11.9	1	11.9	2	12.4	2	13.0	2	13.6	2	14.5	3
Professional Development	1.4	0	1.4	0	1.5	0	1.5	0	1.6	0	1.7	0
Professional Fees	3.7	0	3.7	0	3.8	1	4.0	1	4.2	1	4.5	1
Promotion	5.8	1	5.8	1	6.0	1	6.3	1	6.7	1	7.0	2
Sundry	4.4	1	4.4	1	4.6	1	4.8	1	5.0	1	5.3	1
Telephone	7.1	1	7.1	1	7.4	1	7.8	1	8.1	1	8.6	2
	292.5	37	291.0	39	291.9	42	293.9	47	276.6	50	238.9	0
Variable Costs												
Laboratory	63.1	8	52.7	7	48.8	7	43.9	7	38.4	7	32.7	7
Dental Supplies	49.3	6	49.0	7	45.3	7	40.8	7	35.7	7	30.4	7
Bank Charges	6.4	1	6.1	1	5.7	1	5.1	1	4.5	1	3.8	1
	118.8	15	107.9	14	99.8	14	89.8	14	78.6	14	66.8	14
Depreciation and Equipment Lease												
Equipment Lease	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0
Equipment Depreciation	4.3	1	3.4	0	2.8	0	2.2	0	1.8	0	1.4	0
	4.3	1	3.4	0	2.8	0	2.2	0	1.8	0	1.4	0
	415.6	52	402.3	53	394.4	57	385.8	62	357.0	65	307.1	66
Net Earnings												
	377.6	48	351.3	47	302.6	43	241.5	38	192	35	159.8	34

Option 1 (Work & Sell)

Schedule 1-3

Projected Earnings Allocation & Analysis For The Five Years Ended December 31, 2008

		Projected Year Dec. 31, 2004 \$X1000	Projected Year Dec. 31, 2005 \$X1000	Projected Year Dec. 31, 2006 \$X1000	Projected Year Dec. 31, 2007 \$X1000	Projected Year Dec. 31, 2008 \$X1000
Income Allocation						
Senior Doctor (Sole Owner)						
Ownership %		100.0%	100.0%	100.0%	100.0%	100.0%
"Salary"	40.0%	174.6	161.5	145.4	127.2	108.1
Profit		<u>176.7</u>	<u>141.1</u>	<u>96.1</u>	<u>64.6</u>	<u>51.7</u>
		<u>351.3</u>	<u>302.6</u>	<u>241.5</u>	<u>191.8</u>	<u>159.8</u>
Junior Doctor (None)						
Ownership %		0.0%	0.0%	0.0%	0.0%	0.0%
"Salary"	40.0%	0.0	0.0	0.0	0.0	0.0
Profit		<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
		<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
		<u>351.3</u>	<u>302.6</u>	<u>241.5</u>	<u>191.8</u>	<u>159.8</u>
Total Ownership		<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Option 1 (Work & Sell)

Schedule 1-4

Capitalization of Projected Earnings For The Five Years Ended December 31, 2008

	Projected Year Dec. 31, 2004 \$X1000	Projected Year Dec. 31, 2005 \$X1000	Projected Year Dec. 31, 2006 \$X1000	Projected Year Dec. 31, 2007 \$X1000	Projected Year Dec. 31, 2008 \$X1000
Net Earnings Before Tax	<u>351.3</u>	<u>302.6</u>	<u>241.5</u>	<u>191.8</u>	<u>159.8</u>
Adjustments					
Add Back					
Depreciation	<u>3.4</u>	<u>2.8</u>	<u>2.2</u>	<u>1.8</u>	<u>1.4</u>
Deduct					
Professional Compensation	<u>174.6</u>	<u>161.5</u>	<u>145.4</u>	<u>127.2</u>	<u>108.1</u>
	<u>-171.2</u>	<u>-158.8</u>	<u>-143.2</u>	<u>-125.4</u>	<u>-106.7</u>
Adjusted Net Earnings Before Tax	<u><u>180.1</u></u>	<u><u>143.9</u></u>	<u><u>98.3</u></u>	<u><u>66.4</u></u>	<u><u>53.1</u></u>
Adjusted Net Earnings After Tax	57.0% <u><u>102.7</u></u>	<u><u>82.0</u></u>	<u><u>56.0</u></u>	<u><u>37.8</u></u>	<u><u>30.3</u></u>
Capitalized Earnings	22.5% 456.3	364.5	249.0	168.1	134.5
Percentage of Gross	22.5% 60.5%	52.3%	39.7%	30.6%	28.8%

Option 1 (Work & Sell)

Schedule 1-5

Assumptions to Five Year Projections - Revenue and Expenses

For The Five Years Ended December 31, 2008

	Year Ended Dec. 31, 2003	Projected Year Dec. 31, 2004	Projected Year Dec. 31, 2005	Projected Year Dec. 31, 2006	Projected Year Dec. 31, 2007	Projected Year Dec. 31, 2008
Revenue						
New Patient Growth		2.5%	2.5%	2.5%	0.0%	0.0%
Active Patients	2,500	2,600	2,700	2,800	2,800	2,800
Individual Billing Growth						
Senior Doctor (Sole Owner)		-5.0%	-7.5%	-10.0%	-12.5%	-15.0%
Junior Doctor (None)		0.0%	25.0%	25.0%	25.0%	25.0%
Hygiene		-5.0%	-7.5%	-10.0%	-12.5%	-15.0%
Individual Monthly Billing						
Senior Doctor (Sole Owner)	42.9	40.8	37.7	33.9	29.7	25.2
Junior Doctor (None)	0.0	0.0	0.0	0.0	0.0	0.0
Hygiene	23.2	22.0	20.4	18.3	16.0	13.7
Avg Dental Billing/Patient	\$206	\$188	\$168	\$145	\$127	\$108
Avg Hygiene Billing/Patient	\$111	\$102	\$91	\$79	\$69	\$59
Total Average Billing/Patient	\$317	\$290	\$258	\$224	\$196	\$167
Expenses						
General Inflation Factor		4.0%	4.0%	5.0%	5.0%	6.0%
Staff Costs						
Hygiene %		30.0%	30.0%	30.0%	30.0%	30.0%
Avg Assistant Salary (\$X1000)		\$32.5	\$33.8	\$35.5	\$37.3	\$39.5
Avg Admin Salary (\$X1000)		\$32.5	\$33.8	\$35.5	\$37.3	\$39.5
Office Manager Salary		0	0	0	0	0
# of Assistants		2.0	2.0	2.0	2.0	1.0
# of Admin Staff (not including Office Manager)		2.0	2.0	2.0	1.5	1.5
Hygiene		79.0	73.0	66.0	58.0	49.0
Assistants		65.0	67.6	71.0	74.5	39.5
Administrative		65.0	67.6	71.0	55.9	59.3
Other		0.0	0.0	0.0	0.0	0.0
		<u>209.0</u>	<u>208.2</u>	<u>208.0</u>	<u>188.4</u>	<u>147.8</u>

Option 2 (Sell & Work)

Schedule 2-1

**Projected Earnings
For The Five Years Ended December 31, 2008**

	Year Ended 2,004	Year Ended 2,005	Year Ended 2,006	Year Ended 2,007	Year Ended 2,008	Total
Revenue (\$X1000)						
Senior Doctor (Associate)	489.3	452.6	407.3	356.4	302.9	
Junior Doctor (Owner)	300.0	360.0	432.0	496.8	571.3	
Hygiene	<u>347.8</u>	<u>417.3</u>	<u>500.8</u>	<u>575.9</u>	<u>633.5</u>	
	1,137.0	1,229.9	1,340.1	1,429.1	1,507.8	
Expenses	<u>658.1</u>	<u>684.5</u>	<u>716.6</u>	<u>723.8</u>	<u>703.6</u>	
Net Earnings Before Tax	<u>478.9</u>	<u>545.4</u>	<u>623.5</u>	<u>705.3</u>	<u>804.1</u>	
Cash Flow to Senior Doctor						
Revenue (Associate Remuneration)	176.0	161.8	144.7	125.8	106.5	714.9
Return on Net Proceeds @ 5%	<u>17.2</u>	<u>17.2</u>	<u>17.2</u>	<u>17.2</u>	<u>17.2</u>	<u>85.9</u>
	193.1	179.0	161.9	143.0	123.7	800.8
Capital	<u>491.6</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>491.6</u>
	<u>667.5</u>	<u>161.8</u>	<u>144.7</u>	<u>125.8</u>	<u>106.5</u>	<u>1,206.5</u>

Option 2 (Sell & Work)

Schedule 2-2

**Projected Earnings
For The Five Years Ended December 31, 2008**

	Year Ended		Projected Year		Projected Year		Projected Year		Projected Year		Projected Year	
	Dec. 31, 2003		Dec. 31, 2004		Dec. 31, 2005		Dec. 31, 2006		Dec. 31, 2007		Dec. 31, 2008	
	\$X1000	%	\$X1000	%	\$X1000	%	\$X1000	%	\$X1000	%	\$X1000	%
Revenue												
Dental Fees												
Senior Doctor (Associate)	515.0	65	489.3	43	452.6	37	407.3	30	356.4	25	302.9	20
Junior Doctor (Owner)	0.0	0	300.0	26	360.0	29	432.0	32	496.8	35	571.3	38
	515.0	65	789.3	69	812.6	66	839.3	63	853.2	60	874.2	58
Hygiene Fees												
	278.2	35	347.8	31	417.3	34	500.8	37	575.9	40	633.5	42
	793.2	100	1137.0	100	1229.9	100	1340.1	100	1429.1	100	1507.8	100
Expenses												
Fixed Costs												
Rent	39.7	5	39.7	3	39.7	3	39.7	3	39.7	3	39.7	3
Occupancy Costs	3.3	0	3.3	0	3.4	0	3.6	0	3.8	0	4.0	0
Supplies & Equip Costs	3.1	0	3.1	0	3.2	0	3.4	0	3.6	0	3.8	0
Staff Costs	210.5	27	234.0	21	260.2	21	292.0	22	303.4	21	288.8	19
Insurance	1.6	0	1.6	0	1.7	0	1.7	0	1.8	0	1.9	0
Office & Postage	11.9	1	11.9	1	12.4	1	13.0	1	13.6	1	14.5	1
Professional Development	1.4	0	1.4	0	1.5	0	1.5	0	1.6	0	1.7	0
Professional Fees	3.7	0	3.7	0	3.8	0	4.0	0	4.2	0	4.5	0
Promotion	5.8	1	5.8	1	6.0	0	6.3	0	6.7	0	7.0	0
Sundry	4.4	1	4.4	0	4.6	0	4.8	0	5.0	0	5.3	0
Telephone	7.1	1	7.1	1	7.4	1	7.8	1	8.1	1	8.6	1
	292.5	37	316.0	28	343.9	28	377.9	28	391.6	27	379.9	0
Variable Costs												
Laboratory	63.1	8	79.6	7	86.1	7	93.8	7	100.0	7	105.5	7
Associate Remuneration	0.0	0	176.0	15	161.8	13	144.7	11	125.8	9	106.5	7
Dental Supplies	49.3	6	73.9	7	79.9	7	87.1	7	92.9	7	98.0	7
Bank Charges & Interest	6.4	1	9.2	1	10.0	1	10.9	1	11.6	1	12.3	1
	118.8	15	338.7	30	337.9	27	336.5	25	330.4	23	322.3	21
Depreciation and Equipment Leases												
Equipment Lease	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0
Equipment Depreciation	4.3	1	3.4	0	2.8	0	2.2	0	1.8	0	1.4	0
	4.3	1	3.4	0	2.8	0	2.2	0	1.8	0	1.4	0
	415.6	52	658.1	58	684.5	56	716.6	53	723.8	51	703.6	47
Net Earnings												
	377.6	##	478.9	42	545.4	44	623.5	47	705	49	804.1	53

Option 2 (Sell & Work)

Schedule 2-3

Projected Earnings Allocation & Analysis For The Five Years Ended December 31, 2008

		Projected Year Dec. 31, 2004 \$X1000	Projected Year Dec. 31, 2005 \$X1000	Projected Year Dec. 31, 2006 \$X1000	Projected Year Dec. 31, 2007 \$X1000	Projected Year Dec. 31, 2008 \$X1000
Income Allocation						
Senior Doctor (Associate)						
Ownership %		100.0%	100.0%	100.0%	100.0%	100.0%
"Salary"	40.0%	0	0	0	0	0
Profit		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Junior Doctor (Owner)						
Ownership %		0.0%	0.0%	0.0%	0.0%	0.0%
"Salary"	40.0%	107.9	128.7	153.5	175.4	200.9
Profit		<u>371.0</u>	<u>416.6</u>	<u>470.0</u>	<u>529.9</u>	<u>603.2</u>
		<u>478.9</u>	<u>545.4</u>	<u>623.5</u>	<u>705.3</u>	<u>804.1</u>
Total Earnings		<u>478.9</u>	<u>545.4</u>	<u>623.5</u>	<u>705.3</u>	<u>804.1</u>
Total Ownership		<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Option 2 (Sell & Work)

Schedule 2-4

Capitalization of Projected Enhanced Earnings For The Five Years Ended December 31, 2008

		Projected Year Dec. 31, 2004 \$X1000	Projected Year Dec. 31, 2005 \$X1000	Projected Year Dec. 31, 2006 \$X1000	Projected Year Dec. 31, 2007 \$X1000	Projected Year Dec. 31, 2008 \$X1000
Net Earnings Before Tax		<u>478.9</u>	<u>545.4</u>	<u>623.5</u>	<u>705.3</u>	<u>804.1</u>
Adjustments						
Add Back						
Depreciation		<u>3.4</u>	<u>2.8</u>	<u>2.2</u>	<u>1.8</u>	<u>1.4</u>
Deduct						
Professional Compensation		<u>283.9</u>	<u>290.6</u>	<u>298.2</u>	<u>301.3</u>	<u>307.5</u>
		<u>-280.4</u>	<u>-287.8</u>	<u>-296.0</u>	<u>-299.5</u>	<u>-306.1</u>
Adjusted Net Earnings Before Tax		<u><u>198.5</u></u>	<u><u>257.5</u></u>	<u><u>327.5</u></u>	<u><u>405.8</u></u>	<u><u>498.1</u></u>
Adjusted Net Earnings After Tax	57.0%	<u><u>113.1</u></u>	<u><u>146.8</u></u>	<u><u>186.7</u></u>	<u><u>231.3</u></u>	<u><u>283.9</u></u>
Capitalized Earnings	22.5%	502.8	652.4	829.7	1028.1	1261.8
Percentage of Gross	22.5%	44.2%	53.0%	61.9%	71.9%	83.7%

Option 2 (Sell & Work)

Schedule 2-5

Assumptions to Five Year Projections - Revenue and Expenses For The Five Years Ended December 31, 2008

	Year Ended Dec. 31, 2003	Projected Yr Dec. 31, 2004	Projected Yr Dec. 31, 2005	Projected Yr Dec. 31, 2006	Projected Yr Dec. 31, 2007	Projected Yr Dec. 31, 2008
Revenue						
New Patient Growth		2.5%	2.5%	2.5%	2.5%	2.5%
Active Patients	2,500	2,600	2,700	2,800	2,900	3,000
Individual Billing Growth						
Senior Doctor (Associate)		-5.0%	-7.5%	-10.0%	-12.5%	-15.0%
Junior Doctor (Owner)		0.0%	20.0%	20.0%	15.0%	15.0%
Hygiene		25.0%	20.0%	20.0%	15.0%	10.0%
Individual Monthly Billing						
Senior Doctor (Associate)	42.9	40.8	37.7	33.9	29.7	25.2
Junior Doctor (Owner)	0.0	25.0	30.0	36.0	41.4	47.6
Hygiene	23.2	29.0	34.8	41.7	48.0	52.8
Avg Dental Billing/Patient	\$206	\$304	\$301	\$300	\$294	\$291
Avg Hygiene Billing/Patient	\$111	\$134	\$155	\$179	\$199	\$211
Total Average Billing/Patient	\$317	\$437	\$456	\$479	\$493	\$503
Expenses						
General Inflation Factor		4.00%	4.00%	5.00%	5.00%	6.00%
Staff Costs						
Hygiene %		30.00%	30.00%	30.00%	30.00%	30.00%
Avg Assistant Salary		\$32.5	\$33.8	\$35.5	\$37.3	\$39.5
Avg Admin Salary		\$32.5	\$33.8	\$35.5	\$37.3	\$39.5
Office Manager Salary		0	0	0	0	0
# of Assistants		2.0	2.0	2.0	2.0	1.0
# of Admin Staff (not including Office Manager)		2.0	2.0	2.0	1.5	1.5
Hygiene		104.0	125.0	150.0	173.0	190.0
Assistants		65.0	67.6	71.0	74.5	39.5
Administrative		65.0	67.6	71.0	55.9	59.3
Other		0.0	0.0	0.0	0.0	0.0
		<u>234.0</u>	<u>260.2</u>	<u>292.0</u>	<u>303.4</u>	<u>288.8</u>

Option 3 (Transition)

Schedule 3-1

**Earnings and Cash Flow
Summary****For The Five Years Ended December 31, 2008**

	Year Ended 2,004	Year Ended 2,005	Year Ended 2,006	Year Ended 2,007	Year Ended 2,008	Total
Revenue (\$X1000)						
Senior Doctor (50% Partner)	489.3	452.6	407.3	356.4	302.9	
Junior Doctor (50% Partner)	300.0	360.0	432.0	496.8	571.3	
Hygiene	<u>347.8</u>	<u>417.3</u>	<u>500.8</u>	<u>575.9</u>	<u>633.5</u>	
	1,137.0	1,229.9	1,340.1	1,429.1	1,507.8	
Expenses	<u>547.2</u>	<u>590.3</u>	<u>642.8</u>	<u>691.1</u>	<u>735.3</u>	
Net Earnings Before Tax	<u><u>589.8</u></u>	<u><u>639.6</u></u>	<u><u>697.3</u></u>	<u><u>738.0</u></u>	<u><u>772.4</u></u>	
Cash Flow to Senior Doctor						
Revenue (Prof Comp plus Share of Profit)	329.0	336.4	344.2	344.2	339.0	1,692.8
Capital	<u>245.8</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>472.6</u>	Note 1 <u>718.4</u>
	<u><u>574.7</u></u>	<u><u>336.4</u></u>	<u><u>344.2</u></u>	<u><u>344.2</u></u>	<u><u>811.6</u></u>	<u><u>2,411.1</u></u>

Note 1. Includes a 20% discount on account of Goodwill attributed solely to Junior Partner

Option 3 (Transition)

Schedule3-2

Projected Earnings

For The Five Years Ended December 31, 2008

	Year Ended		Projected Year		Projected Year		Projected Year		Projected Year		Projected Year	
	Dec. 31, 2003		Dec. 31, 2004		Dec. 31, 2005		Dec. 31, 2006		Dec. 31, 2007		Dec. 31, 2008	
	\$X1000	%	\$X1000	%	\$X1000	%	\$X1000	%	\$X1000	%	\$X1000	%
Revenue												
Dental Fees												
Senior Doctor (Associate)	515.0	65	489.3	43	452.6	37	407.3	30	356.4	25	302.9	20
Junior Doctor (Owner)	0.0	0	300.0	26	360.0	29	432.0	32	496.8	35	571.3	38
	515.0	65	789.3	69	812.6	66	839.3	63	853.2	60	874.2	58
Hygiene Fees	278.2	35	347.8	31	417.3	34	500.8	37	575.9	40	633.5	42
	793.2	100	1137.0	100	1229.9	100	1340.1	100	1429.1	100	1507.8	100
Expenses												
Fixed Costs												
Rent	39.7	5	39.7	3	39.7	3	39.7	3	39.7	3	39.7	3
Occupancy Costs	3.3	0	3.3	0	3.4	0	3.6	0	3.8	0	4.0	0
Supplies & Equipment Costs	3.1	0	3.1	0	3.2	0	3.4	0	3.6	0	3.8	0
Staff Costs	210.5	27	299.0	26	327.8	27	362.9	27	396.6	28	427.0	28
Insurance	1.6	0	1.6	0	1.7	0	1.7	0	1.8	0	1.9	0
Office & Postage	11.9	1	11.9	1	12.4	1	13.0	1	13.6	1	14.5	1
Professional Development	1.4	0	1.4	0	1.5	0	1.5	0	1.6	0	1.7	0
Professional Fees	3.7	0	3.7	0	3.8	0	4.0	0	4.2	0	4.5	0
Promotion	5.8	1	5.8	1	6.0	0	6.3	0	6.7	0	7.0	0
Sundry	4.4	1	4.4	0	4.6	0	4.8	0	5.0	0	5.3	0
Telephone	7.1	1	7.1	1	7.4	1	7.8	1	8.1	1	8.6	1
	292.5	37	381.0	34	411.5	33	448.8	33	484.8	34	518.1	0
Variable Costs												
Laboratory	63.1	8	79.6	7	86.1	7	93.8	7	100.0	7	105.5	7
Dental Supplies	49.3	6	73.9	7	79.9	7	87.1	7	92.9	7	98.0	7
Bank Charges & Interest	6.4	1	9.2	1	10.0	1	10.9	1	11.6	1	12.3	1
	118.8	15	162.7	14	176.0	14	191.8	14	204.5	14	215.8	14
Depreciation and Equipment Leases												
Equipment Lease	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0
Equipment Depreciation	4.3	1	3.4	0	2.8	0	2.2	0	1.8	0	1.4	0
	4.3	1	3.4	0	2.8	0	2.2	0	1.8	0	1.4	0
	415.6	52	547.2	48	590.3	48	642.8	48	691.1	48	735.3	49
Net Earnings												
	377.6	48	589.8	52	639.6	52	697.3	52	738	52	772.4	51

Option 3 (Transition)

Schedule 3-3

Projected Earnings Allocation & Analysis For The Five Years Ended December 31, 2008

		Projected Year Dec. 31, 2004 \$X1000	Projected Year Dec. 31, 2005 \$X1000	Projected Year Dec. 31, 2006 \$X1000	Projected Year Dec. 31, 2007 \$X1000	Projected Year Dec. 31, 2008 \$X1000
Income Allocation						
Senior Doctor (50% Partner)						
Ownership %		100.0%	100.0%	100.0%	100.0%	100.0%
"Salary"	40.0%	176.0	161.8	144.7	125.8	106.5
Profit		<u>153.0</u>	<u>174.5</u>	<u>199.5</u>	<u>218.4</u>	<u>232.5</u>
		<u>329.0</u>	<u>336.4</u>	<u>344.2</u>	<u>344.2</u>	<u>339.0</u>
Junior Doctor (50% Partner)						
Ownership %		0.0%	0.0%	0.0%	0.0%	0.0%
"Salary"	40.0%	107.9	128.7	153.5	175.4	200.9
Profit		<u>153.0</u>	<u>174.5</u>	<u>199.5</u>	<u>218.4</u>	<u>232.5</u>
		<u>260.9</u>	<u>303.3</u>	<u>353.0</u>	<u>393.8</u>	<u>433.4</u>
Total Ownership		<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Total Earnings		<u>589.8</u>	<u>639.6</u>	<u>697.3</u>	<u>738.0</u>	<u>772.4</u>

Option 3 (Transition)

Schedule 3-4

Capitalization of Projected Enhanced Earnings For The Five Years Ended December 31, 2008

		Projected Yr Dec. 31, 2004 \$X1000	Projected Yr Dec. 31, 2005 \$X1000	Projected Yr Dec. 31, 2006 \$X1000	Projected Yr Dec. 31, 2007 \$X1000	Projected Yr Dec. 31, 2008 \$X1000
Net Earnings Before Tax		<u>589.8</u>	<u>639.6</u>	<u>697.3</u>	<u>738.0</u>	<u>772.4</u>
Adjustments						
Add Back						
Depreciation		<u>3.4</u>	<u>2.8</u>	<u>2.2</u>	<u>1.8</u>	<u>1.4</u>
Deduct						
Professional Compensation		<u>283.9</u>	<u>290.6</u>	<u>298.2</u>	<u>301.3</u>	<u>307.5</u>
		<u>-280.4</u>	<u>-287.8</u>	<u>-296.0</u>	<u>-299.5</u>	<u>-306.1</u>
Adjusted Net Earnings Before Tax		<u><u>309.4</u></u>	<u><u>351.8</u></u>	<u><u>401.3</u></u>	<u><u>438.5</u></u>	<u><u>466.4</u></u>
Adjusted Net Earnings After Tax	57.0%	<u><u>176.4</u></u>	<u><u>200.5</u></u>	<u><u>228.7</u></u>	<u><u>250.0</u></u>	<u><u>265.8</u></u>
Capitalized Earnings	22.5%	783.9	891.2	1,016.5	1,110.9	1,181.4
Percentage of Gross	22.5%	68.9%	72.5%	75.9%	77.7%	78.4%

Option 3 (Transition)

Schedule 3-5

Assumptions to Five Year Projections - Revenue and Expenses

For The Five Years Ended December 31, 2008

	Year Ended Dec. 31, 2003	Projected Yr Dec. 31, 2004	Projected Yr Dec. 31, 2005	Projected Yr Dec. 31, 2006	Projected Yr Dec. 31, 2007	Projected Yr Dec. 31, 2008
Revenue						
New Patient Growth		2.5%	2.5%	2.5%	2.5%	2.5%
Active Patients	2,500	2,600	2,700	2,800	2,900	3,000
Individual Billing Growth						
Senior Doctor (50% Partner)		-5.0%	-7.5%	-10.0%	-12.5%	-15.0%
Junior Doctor (50% Partner)		0.0%	20.0%	20.0%	15.0%	15.0%
Hygiene		25.0%	20.0%	20.0%	15.0%	10.0%
Individual Monthly Billing						
Senior Doctor (50% Partner)	42.9	40.8	37.7	33.9	29.7	25.2
Junior Doctor (50% Partner)	0.0	25.0	30.0	36.0	41.4	47.6
Hygiene	23.2	29.0	34.8	41.7	48.0	52.8
Avg Dental Billing/Patient	\$206	\$304	\$301	\$300	\$294	\$291
Avg Hygiene Billing/Patient	\$111	\$134	\$155	\$179	\$199	\$211
Total Average Billing/Patient	\$317	\$437	\$456	\$479	\$493	\$503
Expenses						
General Inflation Factor		4.0%	4.0%	5.0%	5.0%	6.0%
Staff Costs						
Hygiene %		30.0%	30.0%	30.0%	30.0%	30.0%
Avg Assistant Salary		32.5	33.8	35.5	37.3	39.5
Avg Admin Salary		32.5	33.8	35.5	37.3	39.5
Office Manager Salary		0.0	0.0	0.0	0.0	0.0
# of Assistants		3.0	3.0	3.0	3.0	3.0
# of Admin Staff (not including Office Manager)		3.0	3.0	3.0	3.0	3.0
Hygiene		104.0	125.0	150.0	173.0	190.0
Assistants		97.5	101.4	106.5	111.8	118.5
Administrative		97.5	101.4	106.5	111.8	118.5
Other		0.0	0.0	0.0	0.0	0.0
		<u>299.0</u>	<u>327.8</u>	<u>362.9</u>	<u>396.6</u>	<u>427.0</u>