



Valuation Experts For Doctors and Their Advisors

623 Kenyon Street, NW, Suite 2
Washington, DC 20010

August 24, 2017

[REDACTED]

Dear Doctor [REDACTED]:

In accordance with your goal to assess the otolaryngology medical practice known as [REDACTED] (Subject Practice), appraise EBITDA and determine the debt-free fair market value (FMV) of the Subject Practice for the purpose of offering a yet to be named associate physician an employment agreement with an option to purchase an ownership interest in the Subject Practice, the Practice Valuation Group, LLC (Consultant) reviewed Form 1120 U.S. Corporation Income Tax Return, Compilation Profit-and-Loss Statements as well as business records, statistical data, management reports and other pertinent financial reports.

Consultant has given careful consideration to the macroeconomic and practice-specific risk factors that affect value and, it is my opinion that, as of June 30, 2017, the FMV of the Subject Practice is one million seven hundred forty thousand dollars (\$1,740,000).

The FMV of the Subject Practice does not include the value of the accounts receivable or the real estate located at [REDACTED] and [REDACTED]. These assets should be valued separately.

I hereby certify, to the best of my knowledge and belief, that the statements of fact contained in this report are true and correct, and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice of The Appraisal Foundation and the Principles of Appraisal Practice and Code of Ethics of the American Society of Appraisers.

Sincerely,

Practice Valuation Group, LLC

Vincent M. Brinly
Director of Valuation Services

VMB/h



June 30, 2017

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EXECUTIVE SUMMARY

Date of Valuation: June 30, 2017

Standard of Value: Fair Market Value.

Purpose of Valuation:

Practice Valuation Group, LLC (Consultant) has been retained by [REDACTED], MD (Client) to assess [REDACTED] (Subject Practice), [REDACTED] appraise EBITDA for the purpose of offering a yet to be named associate physician an employment agreement with an option to purchase an ownership interest in the Subject Practice.

Description of Subject Practice:

The Subject Practice is a well-established office-based primary care otolaryngology medical practice with a secondary emphasis on ear, nose, and throat (ENT) surgery, head and neck surgery and pediatric ENT medicine.

Gross physician charges are on par with comparable practices in the MGMA Physician Compensation and Production Survey, Otorhinolaryngology (Physician Owned) 2016 Report Based on 2015 Data.

Fiscal 2016 gross physician charges are on par with the 60th percentile of physician charges per full time equivalent (FTE) physician.

	[REDACTED], MD	MGMA 2016 Report
Gross Physician Charges per FTE Provider	\$1,974,788	\$1,972,268

NOTE 1: Fiscal 2016, 2.63 FTE: [REDACTED], MD, \$2,163,963; [REDACTED], MD, \$1,500,466; [REDACTED], MD, \$1,023,031; [REDACTED], PA \$124,694; [REDACTED], PA, \$381,160.

Fiscal 2016 collections per FTE are on par with the 49th percentile of collections for physician charges per full time equivalent (FTE) physician in the MGMA Survey.

	[REDACTED], MD	MGMA 2016 Report
Collections per Full Time (FTE) Provider ¹	\$978,949	\$987,843

NOTE 1: Fiscal 2016, 2.63 FTE: [REDACTED], MD, \$940,134; [REDACTED], MD, \$730,458; [REDACTED], MD, \$583,959; [REDACTED], PA \$79,021; [REDACTED], PA, \$142,063.

The following table indicates the mix of services rendered:

Examination, Re-examination, Office Services	53.0%
Surgical Procedures	29.7%
Hospital Admits/Follow-ups	3.0%
Diagnostic Procedures	11.7%
Sublet Income	1.7%
Ancillary Services	1.1%

At the present time, the active chart population is approximately 9,500 to 10,000; the total number of patient charts is approximately 70,000.

The payer profile of the Subject Practice is as follows:

Blue Shield	10%
Commercial Insurance	25%
Managed Care Organizations	40%
Medicare	20%
Medicaid	<2%
Self-pay	<2%

The Subject Practice is an in-network provider that contracts with a number of non-capitated MCO's as a member of [REDACTED] Partners, [REDACTED], and [REDACTED].

Form 1120 U.S. Corporation Income Tax Return indicates the Subject Practice generated the following collections. The gross charges and contractual disallowances were provided by the Subject Practice.

<u>YEAR ENDED</u>	<u>GROSS CHARGES</u>	<u>CONTRACTUAL DISALLOWANCES</u>	<u>COLLECTIONS</u>
12/31/12	NA	NA	\$1,627,565
12/31/13	NA	NA	\$1,776,753
12/31/14	NA	NA	\$1,862,686
12/31/15	NA	NA	\$2,001,342
12/31/16	\$5,200,166	\$2,597,853	\$2,577,846

Seasonally adjusted annualized fiscal 2017 gross physician charges, \$4,798,833, decreased 7.7% vs. fiscal 2016. Seasonally adjusted annualized fiscal 2017 collections for provider charges, \$2,497,700, decreased 3.1% compared to fiscal 2016. Declines in production and collections are a one-off occurrence due to departure of Doctor [REDACTED].

The following table summarizes fiscal operating performance of the Subject Practice:

\$000s)	12/31/16	%	12/31/16¹	%
Gross Charges	\$5,200,166	NA	\$5,200,166	NA
Contractual Disallowances	\$2,597,853	50.0	\$2,597,853	50.0
Collections	\$2,577,846	100.0	\$2,577,846	100.0
Total Practice Expenses	\$1,288,594	50.0	\$1,125,577	43.7
Gross Practice Income	\$1,289,252	50.0	\$1,452,269	56.3
EBITDA ²	(\$48,264)	-1.9	\$429,629	16.7

NOTE 1: Normalized Statement of Revenue and Expense.

NOTE 2: After aggregate provider compensation, \$990,551.

Overall normalized practice overhead expense ratios lag the MGMA Cost Survey for Single Specialty Practices, Nonsurgical (Physician Owned) Median: 2016 Report based on 2015 Data.

Professional compensation is on par with comparative MGMA benchmarks; normalized EBITDA is strong.

	[REDACTED], MD	MGMA 2016 Report
Total Practice Overhead Expense Ratio	43.7%	52.2%
Cost of Goods Sold	2.4%	0.9%
Staff Payroll	17.0%	20.8%
Office Supplies and Expense	1.2%	1.0%
Rent	4.1%	4.9%
Insurance: Malpractice	3.2%	1.2%
Non-Primary Expenses	15.8%	23.4%

NOTE 1: Computation basis for normalizing expense ratios is fiscal 2016 collections.

As of June 30, 2017, gross outstanding accounts receivable were \$534,318.

The following table compares the fiscal period ended, June 30, 2017, accounts receivable aging of the Subject Practice with the MGMA Cost Survey for Single-Specialty Practice (Nonsurgical, Physician Owned) Median: 2016 Report Based on 2015 Data.

	[REDACTED], MD	MGMA 2016 Report
Accounts Receivable Aging ¹		
Current	27.2%	66.8%
31-60 Days	11.8%	12.1%
61-90 Days	7.9%	5.4%
91+ Days	53.2%	12.9%

NOTE 1: It is not known if the accounts receivable have been adjusted for non-qualifying charges.

The fiscal 2016 gross collection ratio, 49.6%, exceeds the MGMA Cost Survey Median of 45.09%. Seasonally adjusted annualized fiscal 2017 gross collection ratio, 52.0% also exceeds the benchmark.

Fiscal 2016 adjusted collection ratio, 99.1% exceeds the survey benchmark of 95.6%. Seasonally adjusted annualized fiscal 2017 ratio, 109.5% also exceeds the benchmark.

Contractual disallowances for fiscal 2016, \$2,597,853 or 50.0% of gross physician charges lag the MGMA benchmark median, 59.7%. Seasonally adjusted annualized fiscal 2017 contractual disallowances, \$2,517,228 or 52.5% of gross physician charges also lag the benchmark.

Accounts receivable management is uneven.

It is apparent that the Subject Practice possesses the internal and external dynamics to drive it to higher levels of production, gross practice income and EBITDA.

The socio-economic profile of the catchment area is strong; patient demographics are excellent; and the primary and secondary catchment areas are wide ranging.

The case mix and payer profile show the breadth and broad scope of the Subject Practice. The active and total chart populations are sizable.

Practice development and patient management is strong.

OTOLARYNGOLOGY

<u>SERVICES/MONTH</u>	<u>FISCAL 2016</u>	<u>INTERIM 2016</u>	<u>INTERIM 2017</u>
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Office Services:

New Patient/Month	465.3	463.7	488.8
Established Patients/Month	487.1	476.0	546.0
Total Patient Visits/Month	952.4	939.7	1,034.8

Hospital Services:

Initial Hospital Visits/Month	2.8	3.8	5.7
Subsequent Visits/Month	1.9	2.5	6.0
Consultations/Month	2.0	2.2	10.5

Patient service capacity is extensive marked by the physical capacity of the [REDACTED] Office, 1,700 square feet, and patient services hours, 39, and the [REDACTED] Office, 1,100 square feet, and patient service hours, 15. The credentials of the Subject Practice doctors and physician assistant are notable which expands patient service capacity.

Worker's compensation claim history is excellent.

According to the Subject Practice, [REDACTED], PA is a co-defendant with [REDACTED], Doctor [REDACTED], in a pending professional liability claim.

In spite of the strong above-mentioned factors, several practice-specific and macroeconomic risk factors combine to challenge the future earning capacity of the Subject Practice: payer profile, accounts receivable management, disparate production.

Since the payer profile emphasizes MCO and Commercial Insurance, the Subject Practice could be susceptible to an exaggerated contracting risk.

Accounts receivable management is below average. The seasonally adjusted annualized fiscal 2017 adjusted collection ratio, 109.5%, is likely a one-off event and not sustainable. Accounts receivable aging over 90 days, which exceeds the benchmark, is likely due to not writing off uncollectable debts.

Full-time equivalent provider productivity is disparate and uneven. Patient service capacity is underutilized due to the departure of Doctor [REDACTED].

It is apparent the aforementioned economic factors have not impeded past performance nor have they impinged the amount and quality of current earnings but, rather, they may test the future earning capacity of the Subject Practice.

Value of Subject Practice

Upon careful examination and analysis of the factors that affect value, it is the opinion of Consultant, that, as of June 30, 2017, the FMV of the Subject Practice is one million seven hundred forty thousand dollars (\$1,740,000).

The FMV of the Subject Practice does not include the value of the accounts receivable or the real estate located at [REDACTED] and [REDACTED]. These assets should be valued separately.

APPRAISAL

Standard of Value

The fair market value of a professional practice such as a medical, veterinary, chiropractic, podiatry, dental or other health care practice is the price at which a subject practice 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. The hypothetical buyer and seller are assumed to be able as well as willing to trade and are informed about the property and the market for such property.

Fair market value takes into account the special advantages of an established practice such as clinical credentials, patient service capacity, physician productivity, patient and administrative management, payer profile, clinical focus, new patient referents and total patient encounters which contribute to earning capacity and indicate the likelihood patients of record will continue to seek medical services from the subject practice as long as the quality of patient care is satisfactory and the professional standards of the practice are maintained.

Method of Appraisal

There is a wide array of generally accepted methods of appraisal an appraiser can use to opine on the value a closely held company, small business or professional practice such as Income Approach, Market Method, Cost Approach and Debt Capacity Method et cetera.

1. Income Approach

The income approach either capitalizes current earnings or discounts future earnings in order to determine the value of the future earning capacity of a closely held company, small business or professional practice.

A. Capitalized Return Method

The capitalized return method is used to determine the value of a closely held company et al when its historical operating trend or annual rate of growth (decline) is representative of its future operating trend.

The capitalized return method converts a current stream of earnings into a standard of value such as fair market value. The capitalization rate is the earnings multiplier an analyst uses to calculate the value of the future earnings.

The capitalization rate is equal to the market rate of return for risk free investments plus a company specific risk premium that reflects the macroeconomic and company-specific risk factors. Accordingly, the analyst must provide the intended user with sufficient information to substantiate the grounds for the above-mentioned risk premium and valuation conclusion

B. Discounted Cash Flow Method (DCF)

The discounted future cash flow method is used to determine the value of a closely held company et al when the future operating trend of the subject company is expected to differ significantly from its historical operating trend.

DCF discounts a projected stream of earnings in order to calculate the present value of the future earning capacity of a subject company. Since the DCF method relies on a forecast of adjusted net cash flow or EBITDA, it can be quite speculative and, as a result, the valuation conclusion may be neither credible nor realistic.

C. The Excess Earnings Method

The excess earnings method uses two capitalization rates. The first capitalizes the adjusted free net cash flow or EBITDA over and above the tangible asset return required to attract debt or equity capital. The second capitalizes the excess earnings at the market rate of return for risk free investments plus a premium for capital risk assumption and lack of liquidity.

Since the excess earnings method uses two different subjective capitalization rates, it is difficult to apply and has a history marked by controversy and misuse.

2. Market Approach

The market approach assumes the value of a closely held company, small business or professional practice can be determined by means of the ratio of the sale price to the total income collected of guideline companies that have recently been sold.

However, since few, if any, closely held companies, small business or in particular professional practices are comparable, the market approach has severe limitations.

3. The Cost Approach

The focus of the cost approach is the value of the tangible assets.

A. Net-Worth Method

The net-worth method equates value to the fair market, book or replacement value of the tangible assets minus short and long-term liabilities.

B. Liquidation Method

The liquidation method assumes value is equal to the liquidation value of the tangible assets less total liabilities.

Since the cost approach does not take into account adjusted free net cash flow or EBITDA, it disregards the value of the intangible assets or goodwill.

4. The Debt Capacity Method

The debt capacity method is a mathematical finance model that enables analysts and appraisers to calculate the maximum amount of debt a closely held company et al can amortize.

Since a significant number of sales of closely held companies, small businesses and professional practices require institutional or private funding, debt capacity is a generally accepted financial metric to measure the affordability of a sale transaction.

In his book, *Valuing Small Businesses and Professional Practices, Third Edition*, Shannon P. Pratt, D.B.A., C.F.A., C.F.P., A.S.A., C.R.A. says that "Arguably, the most effective reality check for a business valuation estimate is the ability of the subject business or practice to generate adequate cash flow to cover debt service."

In order to pass the Pratt reality check, the valuation conclusion must meet two tests: affordability and reasonableness.

The debt service coverage multiple (DSCR) is a generally accepted financial yardstick analysts and appraisers as well as closely held companies et al use to measure affordability and reasonableness and, for that reason, it is a common arbiter of fair market value. Accordingly, analysts and appraisers must provide intended users with sufficient information to substantiate the grounds for the DSCR and co-incident valuation.

PURPOSE OF APPRAISAL

[REDACTED] retained the Practice Valuation Group, LLC to assess [REDACTED] (Subject Practice), [REDACTED], appraise EBITDA and opine on the debt-free fair market value of the Subject Practice for the purpose of offering a yet to be named associate physician an employment agreement with an option to purchase an ownership interest in the Subject Practice.

The effective date of the appraisal is June 30, 2017; the date of the report is August 24, 2017.

DISCOVERY

In order to assess the Subject Practice, appraise EBITDA and opine on FMV, Consultant reviewed 1120 U.S. Corporation Income Tax Return, Internal Compilation Profit-and-Loss Statements, business records, statistical data, management reports and other financial documents.

Consultant did not review the above-mentioned tax returns, profit-and-loss statements of the Subject Practice or other financial documents, statistical data and management reports for any subsequent fiscal or interim period.

DOCUMENTS

1. 1120 U.S. Corporation Income Tax Return for [REDACTED], MD, Incorporated d/b/a [REDACTED] for [REDACTED] for the fiscal year ended December 31, 2012 prepared by [REDACTED].
2. 1120 U.S. Corporation Income Tax Return for [REDACTED], MD, Incorporated d/b/a [REDACTED] for [REDACTED] for the fiscal year ended December 31, 2013 prepared by [REDACTED].
3. 1120 U.S. Corporation Income Tax Return for [REDACTED], MD, Incorporated d/b/a [REDACTED] for [REDACTED] for the fiscal year ended December 31, 2014 prepared by [REDACTED].
4. 1120 U.S. Corporation Income Tax Return for [REDACTED], MD, Incorporated d/b/a [REDACTED] for [REDACTED] for the fiscal year ended December 31, 2015 prepared by [REDACTED].
5. 1120 U.S. Corporation Income Tax Return for [REDACTED], MD, Incorporated d/b/a [REDACTED] for [REDACTED] for the fiscal year ended December 31, 2016 prepared by [REDACTED].
6. [REDACTED], MD, Incorporated d/b/a [REDACTED] Compilation Profit & Loss Statement for the fiscal period ended December 31, 2017 prepared by [REDACTED].
7. [REDACTED], MD, Incorporated d/b/a [REDACTED] Compilation Profit & Loss Statement for the six-month interim period ended June 30, 2017 prepared by [REDACTED].
8. General Ledger for [REDACTED], MD, Incorporated d/b/a [REDACTED] for the fiscal period ended December 31, 2016.
9. General Ledger for [REDACTED], MD, Incorporated d/b/a [REDACTED] for the six-month interim period ended June 30, 2016.
10. General Ledger for [REDACTED], MD, Incorporated d/b/a [REDACTED] for the six-month interim period ended June 30, 2017.
11. Financial Report for [REDACTED], MD, Incorporated d/b/a [REDACTED] by Provider for six-month interim period ended June 30, 2017.
12. Procedure Utilization Report for [REDACTED], MD, Incorporated d/b/a [REDACTED] for the fiscal period December 31, 2016.
13. Procedure Utilization Report for [REDACTED], MD, Incorporated d/b/a [REDACTED] for six-month interim period ended June 30, 2016.

DOCUMENTS (Continued)

14. Procedure Utilization Report for [REDACTED], MD, Incorporated d/b/a [REDACTED] for six-month interim period ended June 30, 2017.
15. [REDACTED], MD, Incorporated d/b/a [REDACTED] Accounts Receivable Aging Report for the fiscal year ended December 31, 2016.
16. W-2 Wage & Tax Statement for [REDACTED], MD Incorporated d/b/a [REDACTED] for the fiscal year ended December 31, 2016.
17. Employee Summary Earnings Report for [REDACTED], MD, Incorporated d/b/a [REDACTED] for six-month interim period ended June 30, 2017.
18. Employee HR Report for [REDACTED], MD, Incorporated d/b/a [REDACTED].
19. Agreement for Employment Services by and between, [REDACTED], MD, Incorporated d/b/a [REDACTED] and [REDACTED], PA.
20. Agreement for Employment Services by and between, [REDACTED], MD, Incorporated d/b/a [REDACTED] and [REDACTED], MD.
21. Premises Lease by and between [REDACTED] and [REDACTED].
23. MGMA Physician Compensation and Production Survey, Otorhinolaryngology (Physician Owned) 2016 Report Based on 2015 Data.
24. Practice Valuation Group, LLC Information Questionnaire & Document, Effective Date: July 12, 2017.
25. *Valuing Small Businesses & Professional Practices Third Edition* by Shannon P. Pratt, Managing Director, Willamette Management Associates, Robert F. Reilly, Managing Director and Robert P. Schweihs, Managing Director, Willamette Management Associates.
26. *The right price for a business* by Alan J. Scharfstein, The CPA Journal Online, January 1991.
27. *Use the Best Business Valuation Formula for Your Business*, Business Owners Toolkit, Biz Filings, March 5, 2014.
28. *What is a Debt Service Coverage Ratio* by Holly Magister, CPA, CFP, Exit Promise Blog.
29. *Principles of Appraisal Practice and Code of Ethics*, American Society of Appraisers, Revised June 2015.
30. *Uniform Standards of Professional Appraisal Practice (USPAP) 2015-2016 Edition*, by Appraisal Standards Board, The Appraisal Foundation.

VALUATION

Fair Market Value

Upon careful examination and analysis of the relevant macroeconomic and practice-specific risk factors, it is the opinion of Consultant that, as of June 30, 2017, the FMV of the Subject Practice is one million seven hundred forty thousand dollars (\$1,740,000).

The FMV of the Subject Practice does not include the value of the accounts receivable or the real estate located at [REDACTED]. These assets should be valued separately.

Consultant assumes the assets of the Subject Practice are owned free and clear of all liens and encumbrances¹.

Note 1: [REDACTED], MD, Incorporated d/b/a [REDACTED]
[REDACTED] 2016 Form 1120, Schedule L- Current Liabilities, \$273,403; Long Term Liabilities \$0.

1. EBITDA ¹	\$429,629
2. DSCR ²	1.23
3. Equivalent Capitalization Rate (Rounded) ³	25%
4. Investment Horizon ⁴	4.1 Years

Note 1: EBITDA equals the adjusted net cash flow available for debt service.

Note 2: According to Shannon P. Pratt, D.B.A., C.F.A., C.F.P., A.S.A., C.R.A. "The amount of debt service coverage that is required depends largely on the degree of risk in the company's expected cash flow. To the extent that the expected cash flow is highly uncertain or volatile from year to year, the amount of debt service coverage should be higher."

The Pratt definition of DSCR is:

$$\text{Debt Service Coverage Multiple} = \frac{\text{Cash Available for Debt Service}}{\text{Annual Debt Service Payment}}$$

Pratt also states that "two factors greatly influence what is considered an adequate debt coverage multiple: industry benchmarks and lender requirements."

Although commercial banks and other lenders such as the US Small Business Administration, equipment lessors and commercial finance companies make use of individual criteria, the generally accepted finance industry standard DSCR benchmark is 1.25.

Note 3: The equation for the equivalent capitalization rate is:

$$\text{ECR} = \text{DSCR} / \text{Amortization Factor}^A$$

Note A: Amortization factor is equal to the percentage of each loan payment applied to principal multiplied by the term or repayment period of the loan.

Note 4: Investment Horizon is the number of years or months it will take a buyer to recover 100% of their investment in a subject practice.

The equation for the investment horizon is:

$$\begin{aligned}\text{IH (Years)} &= 1 / \text{Equivalent Capitalization Rate} \\ \text{IH (Months)} &= \text{IH (Years)} \times 12\end{aligned}$$

Breakeven Point

Break Even Point analysis projects the amount of total income collected that must be generated from patient-service activities to meet all fixed and variable practice expenses, pay the provider(s) a fair market rate of compensation for rendering professional services and amortize the maximum amount of debt that the normalized free cash flow of the practice will support.

$$\text{BREAK EVEN POINT} = \frac{\text{TOTAL FIXED COST}}{1.0 - \% \text{ VARIABLE COST}}$$

DEFINITIONS:

Total Fixed Cost: Expenses such as fixed practice expenses, professional compensation and loan amortization that do not vary with patient visits. Fixed practice expenses include items such as rent, staff salary, insurance, and utilities and telephone.

Variable Cost: Expenses such as cost of clinical supplies and laboratory fees et cetera that vary with patient visits. % Variable Cost is the ratio of variable expenses to total income collected.

ASSUMPTIONS:

FAIR MARKET VALUE

\$1,740,000

1. Fixed Practice Expense	\$1,040,137
2. Physician Compensation	\$ 990,551
3. Pension and/or Profit Sharing	\$ 55,534
3. Loan Amortization	<u>\$ 349,554</u>

Total Fixed Expense	\$2,435,776
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Assuming the FMV of the Subject Practice is one million seven hundred forty thousand dollars (\$1,740,000), the Subject Practice must generate collections for physician charges of two million four hundred ninety-five thousand seven hundred ninety-seven dollars (\$2,495,797) or 96.8% of fiscal 2016 collections to break even.

Notes to the Adjusted 12/31/16 Statement of Revenue and Expense

NOTE 1: Gross Physician Charges

According to the Practice Valuation Group Information Questionnaire & Document Request completed by the Subject Practice, the six-month interim period ended June 30, 2017 indicates Production was \$2,338,562 vs. \$2,588,321 for interim 2016, a decrease of 7.7%.

Seasonally adjusted annualized fiscal 2017 charges are \$4,798,833 compared to \$5,200,166 for the prior fiscal year.

NOTE 2: Contractual Disallowances

According to the Practice Valuation Group Information Questionnaire & Document Request completed by the Subject Practice, the six-month interim period ended June 30, 2017 indicates contractual disallowances were \$1,249,876 vs. \$1,289,908 for interim 2016, a decrease of 3.1%.

Seasonally adjusted annualized fiscal 2017 contractual disallowances of \$2,517,228 are 52.5% of gross provider charges compared to 50.0% for the prior fiscal period.

NOTE 3: Collections for Physician Charges

According to the Practice Valuation Group Information Questionnaire & Document Request completed by the Subject Practice, the six-month interim period ended June 30, 2017 for Subject Practice indicates collections for physician charges were \$1,228,988 vs. \$1,268,424 for the prior interim period, a decrease of 3.1%.

Seasonally adjusted annualized fiscal 2017 collections for provider charges are \$2,497,700 compared to \$2,577,846 for the prior fiscal year.

NOTE 4: Medical Supplies: Doctor [REDACTED]

The adjusted statement considers the expense center Medical Supplies: Doctor [REDACTED] a non-recurring expense as Doctor [REDACTED] is no longer employed by Subject Practice as of [REDACTED], 2016.

NOTE 5: Advertising & Promotion

The adjusted statement considers the expense center Advertising & Promotion optional. If the Subject Practice chooses to incur said expenses, cash flow will be reduced accordingly.

NOTE 6: Automobile Expense

The adjusted statement considers the expense center Automobile Expense a personal expense paid for by the Subject Practice which is a component of professional compensation not a practice expense.

NOTE 7: Computer Expenses

The adjusted statement considers the sub-expense center [REDACTED] to be an extra-ordinary and non-recurring expense.

NOTE 8: Insurance: Doctor [REDACTED]

The adjusted statement considers the expense center Insurance: Doctor [REDACTED] a non-recurring expense as Doctor [REDACTED] is no longer employed by Subject Practice as of [REDACTED], 2016.

NOTE 9: Rent

According to Loop.net, comparable professional space within the footprint of the Subject Practice i.e., [REDACTED] lets for \$39.00 per square foot net.

The office of the Subject Practice located at [REDACTED] consists of 1,700 square feet.

The adjusted statement also considers the sub-expense center Automobile Lease a personal expense paid for by the Subject Practice which is a component of professional compensation not a practice expense.

NOTE 10: Repairs & Maintenance

The adjusted statements considers the sub-expense center, [REDACTED], to be extra-ordinary and non-recurring.

NOTE 11: Salaries & Wages

Form W-2 Wage & Tax Statement for the fiscal year ended December 31, 2016 together with the Employee Summary Earnings for the six-month interim period ended June 31, 2017 indicates a difference between staffers no longer employed and the annualized wages of fiscal 2016 interim hires of \$11,849.

NOTE 12: Taxes & Licenses

The adjusted statement normalized the expense center Taxes: Payroll to conform to the adjusted fiscal 2016 payroll expense center: Salaries & Wages.

NOTE 13: Taxes: Property

The adjusted statement considers the expense center Taxes: Property a personal expense paid for by the Subject Practice which is a component of professional compensation not a practice expense.

NOTE 14: Travel and Entertainment Expense

The adjusted statement considers the expense center Travel & Entertainment a personal expense paid for by the Subject Practice which is a component of professional compensation not a practice expense.

NOTE 15: Miscellaneous

The adjusted statement considers the expense center Miscellaneous optional. If the Subject Practice chooses to incur said expenses, cash flow will be reduced accordingly.

NOTE 16: Professional Compensation

Gross income is made up of two components: professional compensation and net income.

Professional compensation, which includes, but is not limited to wages, bonus, incentive compensation, management fee and voluntary contributions to a 401(k), 403(b), Keogh or Section 125 plan, but not employer contributions to pension, profit-sharing or other retirement accounts, life and disability insurance, automobile and other expense reimbursements, is the annual income earned by a provider for rendering medical services.

Market conditions determine the amount of professional compensation.

Net income before taxes is the earning capacity of the practice. It is profit that accrues to the practice owner(s) which compensates for capital risk. Entrepreneurship and expertise in management, marketing et cetera determine the amount of net income before taxes.

In order to determine professional compensation, Consultant reviewed the following professional compensation surveys: MGMA Cost Survey for Single-Specialty Practice: Nonsurgical (Physician Owned) All Categories: 2016 Report Based on 2015 Data and MGMA Physician Compensation and Production Survey for Otorhinolaryngology (Physician Owned): 2016 Report based upon 2015 Data.

Upon careful examination of the aforementioned data, it is the opinion of Consultant that aggregate professional compensation is \$990,551 or 38.4% of fiscal 2016 collections for physician charges.

Normalized aggregate compensation for owner, [REDACTED], MD, is \$602,641.

Physician compensation for associate [REDACTED], MD, \$286,910, conforms to associate employment agreement.

Provider compensation for associate [REDACTED], PA, \$101,000, conforms to associate employment agreement.

NOTE 17: Compensation of Associate Physician: [REDACTED], MD

Per the Subject Practice, [REDACTED], MD is no longer employed as of [REDACTED], 2016.

NOTE 18: Miscellaneous Income

The adjusted statement assumes the profit center Miscellaneous Income is not a direct result of patient service activities.

NOTE 19: Interest Expense

The adjusted statement assumes the Subject Practice assets are owned free and clear of liens and encumbrances.

NOTE 20: Loan Amortization

The adjusted statement of revenue and expense assumes the following terms and conditions for the requisite term debt:

Interest Rate:	Prime plus 200 basis points
Repayment Period:	7 Years

As of the date of valuation, June 30, 2017, the commercial bank prime rate of interest as reported in the Wall Street Journal was 4.25%.

Because the prime rate is subject to change from time to time, there may be differences between the pro forma and actual results and those differences might be material. Practice Valuation Group, LLC assumes no responsibility or liability for said differences.

NOTE 21: Federal and [REDACTED] State Tax Provision

Practice Valuation Group, LLC does not provide accounting advice or legal counsel. Tax questions and provisions of contract law, should be reviewed carefully with accounting and legal professionals.

STATEMENT OF CERTIFICATION, LIMITATION AND CERTIFICATION

The accompanying appraisal report was prepared for [REDACTED], MD for the purpose specified and is only valid for the valuation date set forth. It is not valid for any other valuation date and should not be used for any other purpose.

The information contained in the report has been obtained from sources considered reliable; however, Consultant cannot attest to said reliability.

The opinions expressed herein are dependent upon the accuracy of the information provided, pertain solely to the report and should be not considered outside the context of the report. The appraisal together with its assumptions and opinions are subject to such conditions or circumstances that an investigation of the Subject Practice would disclose.

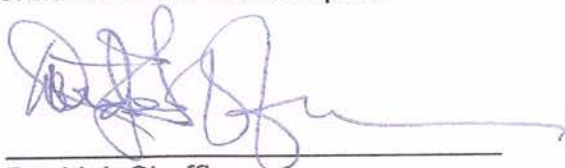
There may be differences between the assumptions and the actual results because events and circumstances frequently do not occur as expected. Those differences may be material. Practice Valuation Group, LLC assumes no responsibility or liability for any deviation in the performance of the Subject Practice subsequent to the effective date.

Tax questions, as well as provisions of contract law, should be reviewed carefully with legal and accounting professionals.

I certify that, according to the best of my knowledge and belief:

1. The analysis and conclusions that are expressed herein are limited only by the above mentioned appraisal qualifications and limitations and is the personal, unbiased, professional opinion of the appraiser.
2. The Practice Valuation Group, LLC nor its members and/or employees have any present or contemplated future interest in the property that is the subject of this report.
3. Neither the members and/ or employees of the Practice Valuation Group, LLC have conducted an on-site visit to the Subject Practice.
4. The fee paid to Practice Valuation Group, LLC for determining the value of the Subject Practice is not contingent upon the amount of an award in a property settlement or court action or conclusion of a purchase and/or sale transaction or other event specified in advance by the client or the amount of the appraised value.

This report and its analytical methods, in whole and in part, constitute confidential proprietary information which Practice Valuation Group, LLC reserves and protects all rights and interests. Beyond the use described by the client, the recipient agrees to keep confidential the entire report.



David J. Shuffler
CEO and Director of Client Services



Vincent M. Brinly
COO and Director of Valuation Services

David J. Shuffler
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David J. Shuffler is the Director of Client Services for Practice Valuation Group, LLC, a valuation specialist offering doctors and their advisors a broad range of valuation products and services which will enable them to respond to strategic questions associated with matters such as Hospital Acquisition, Buying or Selling a Practice, Estate Planning, Loan Acquisition, Practice Start Up, Exit Strategy, Income Division, Merger or Litigation Support.

Mr. Shuffler is an expert in practice appraisal, medical practice finance and business management. He has appraised over 800 doctor practices and has been court appointed to perform practice appraisals and offer expert witness testimony in New Jersey, Alaska, New Hampshire, Pennsylvania, Vermont, Virginia, and Wisconsin. He adheres to the Uniform Standards of Professional Appraisal Practice and Principles of Appraisal Practice and Code of Ethics of the American Society of Appraisers.

Prior to establishing The Practice Valuation Group, LLC, Mr. Shuffler was the Director of Client Services and founder of 7/49 Solutions, LLC. He also started The Paragon Group, Inc., a practice broker and appraiser, Physicians Business Advisors, LLC, a valuation consultant and set up the medical practice finance group at Midlantic Bank and National Westminster Bank, NJ where he developed credit criteria for extending loans to doctors and underwrote over \$175 million in loans.

Mr. Shuffler developed a basket of consulting services for the NJVMA Member Benefit Program and was CFO and Chief Operations Officer of Rockland Veterinary, a three site, \$3.6 million small animal hospital system.

He wrote curriculum and presented seminars for professional societies such Medical Society of New Jersey, New Jersey Association of Certified Public Accountants, New Jersey Veterinary Medical Society, American Academy of Matrimonial Lawyers, Association of Trial Lawyers of American NJ Chapter, American Society of Appraisers Chapter #73 and the Family Law Section: Inns of Court Program. He presented his workshop "The Partnership Track" at the Atlantic Coast Veterinary Conference and spoke to the Society of Medical and Dental Management Consultants on "Setting the Right Price for Your Practice."

His articles on practice appraisal and business management have appeared in *Medical Economics*, *New Jersey Lawyer*, *Journal of the New Jersey Dental Association*, *Becker's ASC Review* and *amednew.com*. His "Practice Hotline" column appeared in the Bergen County Medical Society Medical Report. Mr. Shuffler also authored "The Beginning Physician's Guide for Financing a Practice" and "The Banker's Guide to the Doctor Market: Principles of Medical Risk Analysis."

Mr. Shuffler received a Bachelor of Science in Economics with a concentration in marketing and finance from the Wharton School of Finance and Commerce, University of Pennsylvania.

GUEST SPEAKER:

Medical Society of New Jersey
University of Medicine & Dentistry of NJ
New Jersey Hospital Association
Palmer College of Chiropractic
St. Joseph's Hospital & Medical Center
American Chiropractic Association
St. Mary's Medical Center
N.J. Assn. of Certified Public Accountants
American Academy of Matrimonial Lawyers
Westchester County Medical Society
Atlantic Coast Veterinary Conference
American Society of Appraisers Chapter #73
Hackensack University Medical Center
NJSCPA Education Foundation
South Ocean County Hospital Foundation
NJSCPA Healthcare Conference
Lenoir^Rhyne University Center for Graduate Studies

Mountainside Hospital Medical Center
Englewood Hospital & Medical Center
Bergen County Medical Society
Bronx County Medical Society
Jersey City Medical Center
St. Barnabas Medical Center
Passaic County Medical Society
Middlesex County Medical Society
Union County Dental Society
Association of Trial Lawyers of America NJ Chapter
Bergen County Bar Association
Family Law, Inns of Court Program
N.J. Veterinary Medical Association
Community Medical Center Foundation
Society of Medical and Dental Consultants
Physicians Practice Survival Conference

PUBLICATIONS:

Journal of the American Chiropractic Association

"How to Turn a Successful Associateship into a Successful Partnership"

Chiropractic Showcase Magazine

"What is Your Associate's Worker Status?"

Chiropractic Economics

"The New-Doctor's Associate Employment Agreement"

Medical Economics

"Setting the Right Price for Your Practice" Quoted extensively.

"Do You Need a Broker to Help Sell Your Practice?" Quoted extensively.

The Medical Report

"The Practice Hotline" - A Quarterly Q & A Column for the Bergen County Medical Society.

News and Notes

"The Practice Hotline" - A Quarterly Q & A Column for the Passaic County Medical Society.

New Jersey Lawyer

"How 'Premise of Value' Impacts Health-Care Practice Valuation"

Optometric Economics

"Seeking the Substance of Practice Valuation"

Podiatry Management

"Buying and Selling a Practice"

Journal of the New Jersey Dental Association

"Let's Make a Deal: A Dentist's Guide to Buying and Selling A Practice"

"The Practice Hotline" - A Quarterly Q & A Column.

Becker's ASC Review

"9 Reasons Why Owning ASC Real Estate May Be a Bad Idea" Quoted extensively.

"How to Use Your ASC to Plan Your Estate When Stocks, Real Estate Fall" Quoted extensively.

"5 Mistakes Physicians Make When Choosing a Loan" Quoted extensively.

amednews.com

"5 mistakes doctors make when borrowing money" Quoted extensively.

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Vincent M. Brinly is the CEO & Director of Valuation Services for The Practice Valuation Group, LLC, a valuation specialist offering doctors and their advisors a broad range of valuation products and services that will enable them to respond to strategic questions associated with matters such as Hospital Acquisition, Buying or Selling a Practice, Estate Planning, Equitable Distribution, Loan Acquisition, Practice Start Up, Exit Strategy, Income Division, Merger or Litigation Support.

Mr. Brinly is skilled in practice appraisal, Relative Value Unit (RVU) analysis and business management and is a search engine optimization or SEO expert. He has appraised 70 doctor practices ranging from small solo family practices to large multi-doctor, multi-specialty, multi-location physician groups to solo-and partnership veterinary, podiatric medicine, chiropractic and dental practices. Mr. Brinly has also provided clients with RVU based doctor compensation analysis along with strategic management counsel.

Mr. Brinly, who is expert in macroeconomic and practice-specific risk analysis, represents doctors in thirty-two states including, but not limited to NY, NJ, GA, NC, FL, TX, CA, AK, et cetera and was instrumental in forging a strategic alliance with a regional banking system as well as relationships with national medical lenders. He formed an exclusive partnership with Podiatry Insurance Company of America (PICA) to provide valuation consulting services to its policyholders.

Mr. Brinly adheres to the Uniform Standards of Professional Appraisal Practice and Principles of Appraisal Practice and Code of Ethics of the American Society of Appraisers.

Prior to joining The Practice Valuation Group, LLC, Mr. Brinly was a health insurance underwriting consultant. Mr. Brinly underwrote numerous eminent as well as sensitive medical and dental policy renewals for Humana, Inc. and Coventry Health Care, Inc.

Mr. Brinly received a Bachelor of Science in Business Administration with a concentration in management and international business from the College of Business, University of Louisville.

GUEST SPEAKER:

Florida Podiatric Medical Association – Science & Management Symposium

PUBLICATIONS:

Medical Economics

“Medical practice valuation: How to determine the financial value of your practice” Quoted extensively.

EyeCare Professional Magazine

“Selling Your Practice” Quoted extensively.

Footlights, a Quarterly Publication of Podiatry Insurance Company of America (PICA)