Please **NOTE-**This *example* report is for a Dental office; however, we can address a similar report for any Medical industry sector.

Performance Review

For the period ending 09/30/2013

Provided By:

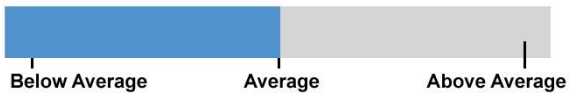
HOLBROOK & MANTER, CPAs
PROFESSIONAL SERVICES FIRM

FINANCIAL REPORT

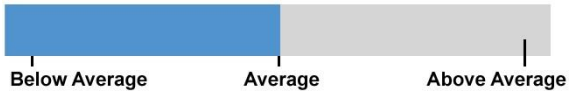
This report is designed to assist you in your business' development. Below you will find your overall ranking, business snapshot and narrative write-up.

Snapshot of: Sample Physician Office
Industry: 621210 - Offices of Dentists
Revenue: $1M - $10M
Periods: 3 months against the 3 months that directly preceded them

Financial Score for



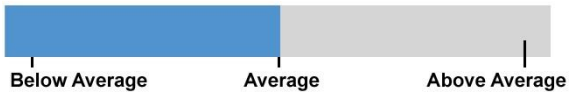
LIQUIDITY -
A measure of the company's ability to meet obligations as they come due.



PROFITS & PROFIT MARGIN -
A measure of whether the trends in profit are favorable for the company.

SALES -
A measure of how sales are growing and whether the sales are satisfactory for the company.

BORROWING -
A measure of how responsibly the company is borrowing and how effectively it is managing debt.

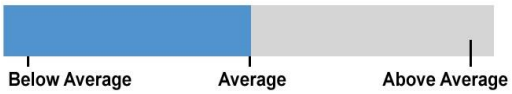


ASSETS -
A measure of how effectively the company is utilizing its gross fixed assets.

Financial Analysis for Sample Physician Office

LIQUIDITY

A measure of the company's ability to meet obligations as they come due.



Operating Cash Flow Results
The company has improved its operating cash flow results this period, as cash flow has increased relative to sales since last period. Cash flow is at a healthy level overall, as are profits, which is always good to see. These results, if continued over time, should help to boost liquidity conditions.

General Liquidity Conditions
Despite lower sales and lower profits, the company's liquidity position has stayed about the same as it was last period. Liquidity is "**fair**" in several of the ways it is calibrated. Although it is not certain that it will be difficult to meet obligations as a result, it is often the case that only having "fair" scores here means that the firm may possibly have periodic trouble.

More importantly, in this current position the company may concede to the competition the ability to spend more money to grow their businesses. The true benefit of strong liquidity is the ability to invest in the "growth factors" that drive **future** profitability. Profits are necessary to have liquidity, but present liquidity is necessary to push future profits. However, this analysis is limited and is meant simply to bring up points to be considered. Liquidity analysis is generally too limited to make broad conclusions.

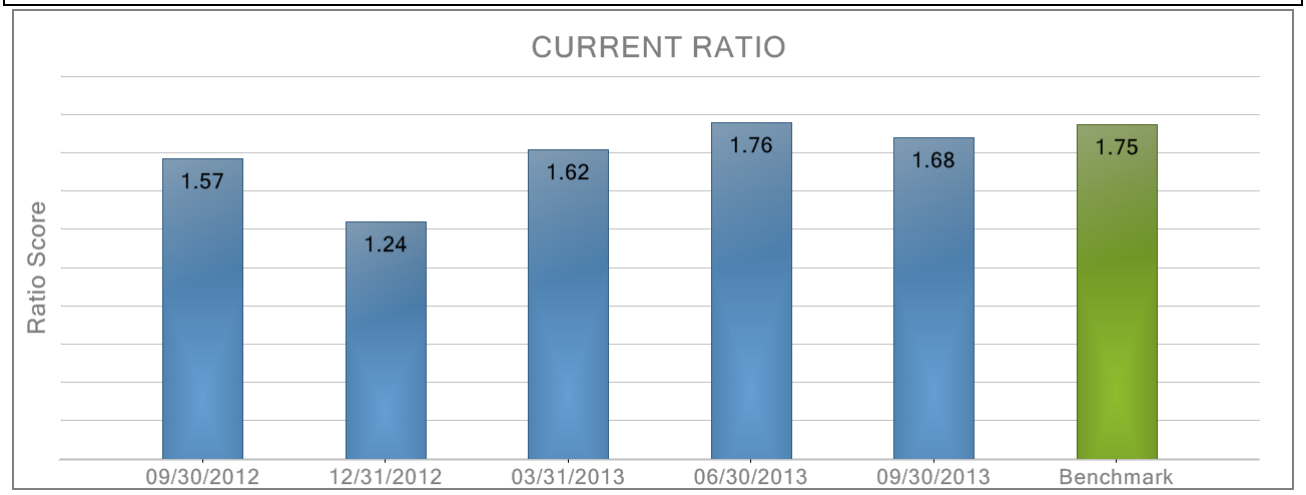
It could be important for the company to monitor its accounts receivable days. Currently, its accounts receivable days ratio is high for this industry, indicating that the company may be slow in collecting the money it is owed/extending excessive credit. This can certainly have an impact on cash over time, so it would be good to keep an eye on this liquidity barometer.

Tips For Improvement
Here are some possible actions that management might consider if appropriate (these are ideas that might be

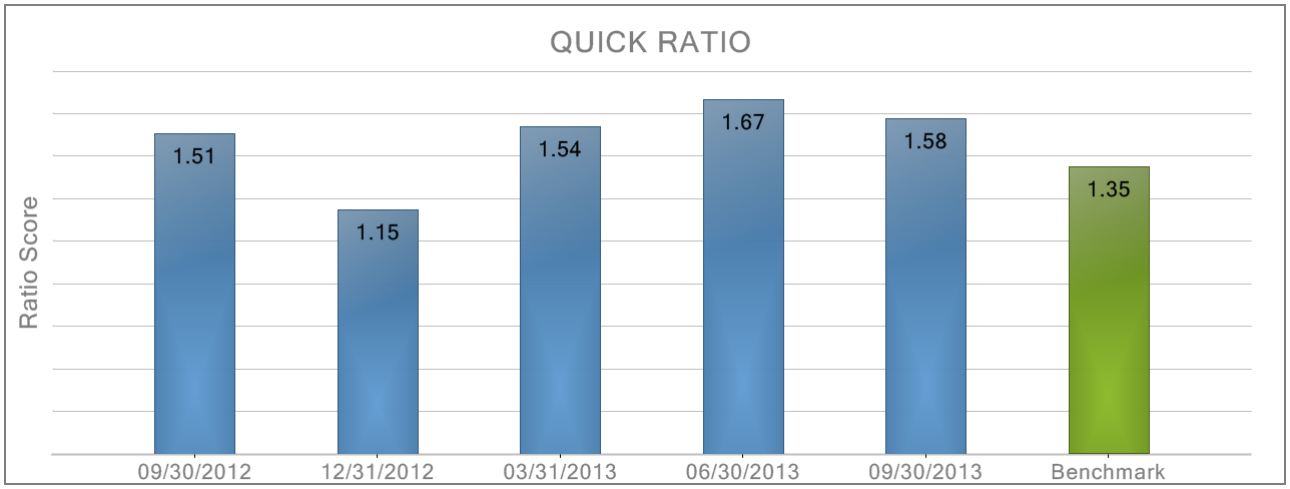
thought about):

- Hire office staff that has a background in medical billing. This can improve the efficiency of the billing process for insurance companies, thus allowing the business to collect funds faster.
- Monitor the impact that tax payments may have on cash. Set aside enough money to be able to meet future tax obligations based on earnings.
- Avoid pre-paying expenses or Accounts Payable to keep funds inside the business (potentially earning interest) for as long as possible. Discounts offered for early payment may be an exception.
- Accept multiple forms of payment, such as credit and debit cards, to cut down on the number of denied payments (bad checks). Watch the payment terms of credit cards, since longer terms will delay collection.

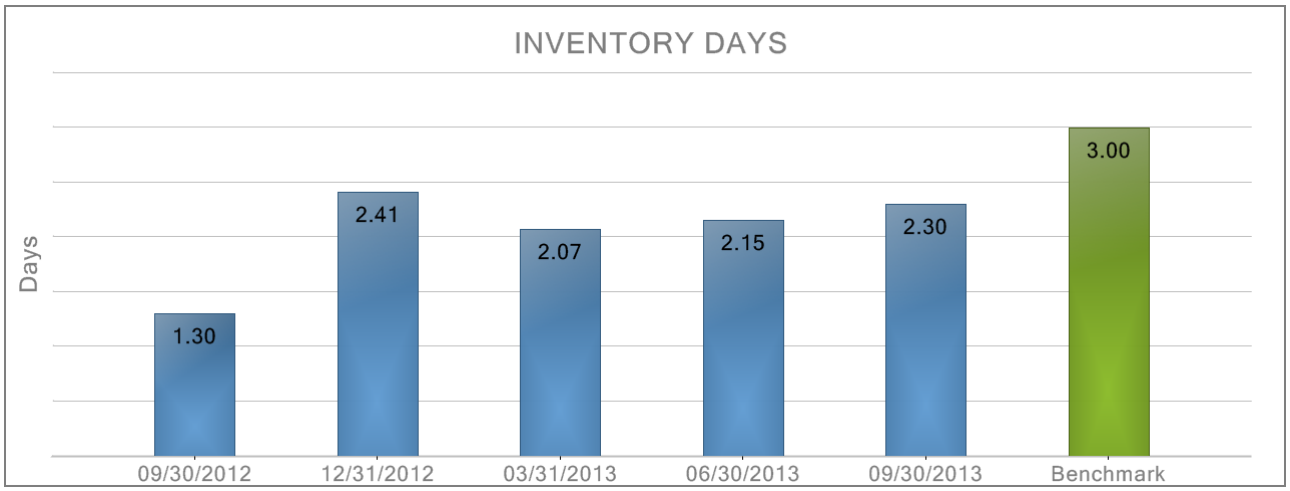
LIMITS TO LIQUIDITY ANALYSIS: Keep in mind that liquidity conditions are volatile, and this is a general analysis looking at a snapshot in time. Review this section, but do not overly rely on it.



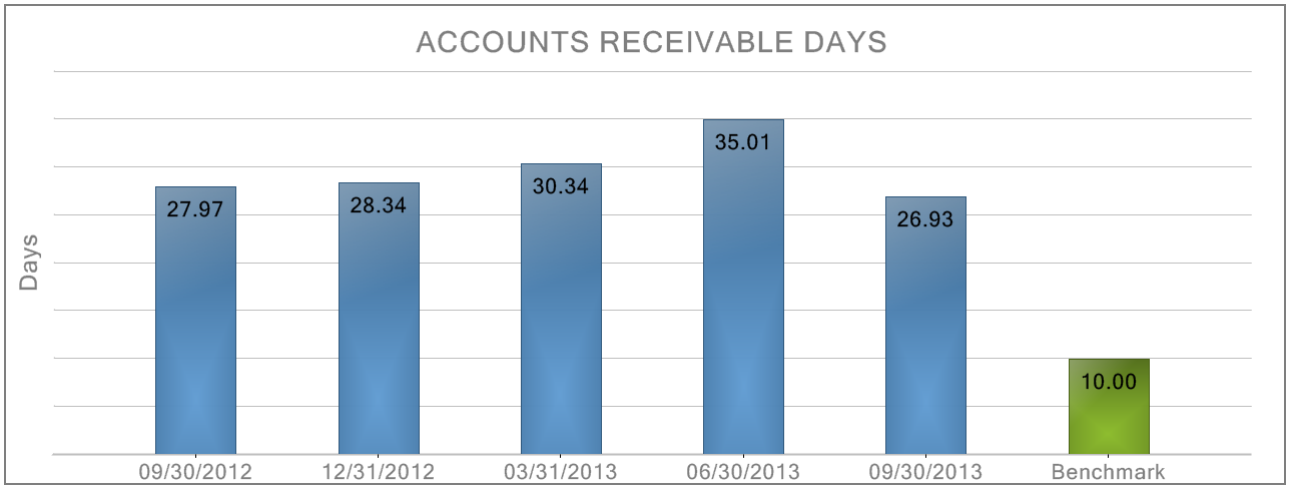
Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company is.



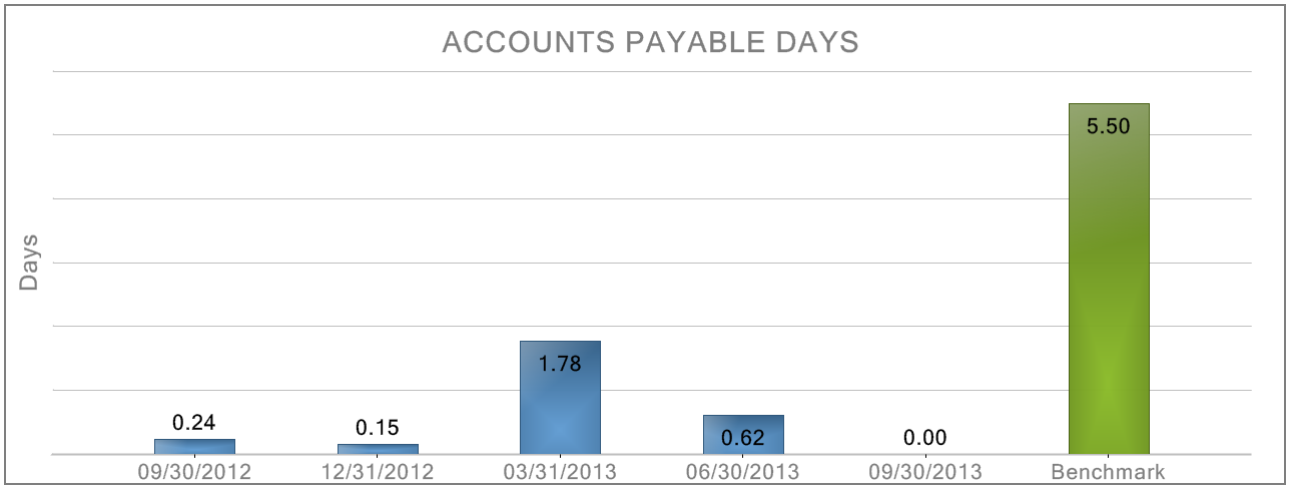
This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the company has to pay the amount listed in the denominator (current liabilities). The higher the number, the stronger the company.



This metric shows how much inventory (in days) is on hand. It indicates how quickly a company can respond to market and/or product changes. Not all companies have inventory for this metric. The lower the better.



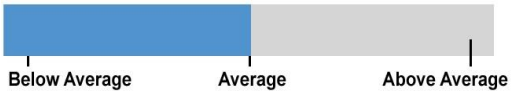
This number reflects the average length of time between credit sales and payment receipts. It is crucial to maintaining positive liquidity. The lower the better.



This ratio shows the average number of days that lapse between the purchase of material and labor, and payment for them. It is a rough measure of how timely a company is in meeting payment obligations. Lower is normally better.

PROFITS & PROFIT MARGIN

A measure of whether the trends in profit are favorable for the company.



Despite declines in most of its profitability metrics this period, the company has achieved a net profit margin that is fairly strong. Strong means that the company's net margin is good both overall and relative to the net margins that are being earned by competing firms in this industry. This is depicted in the graph area of the report; the company is basically very profitable. The net profit margin is important because it measures how effectively the company is balancing its costs and its sales revenues. Earning an above-average net margin may allow the company to make investments in its future growth, which would provide it with a competitive advantage over time.

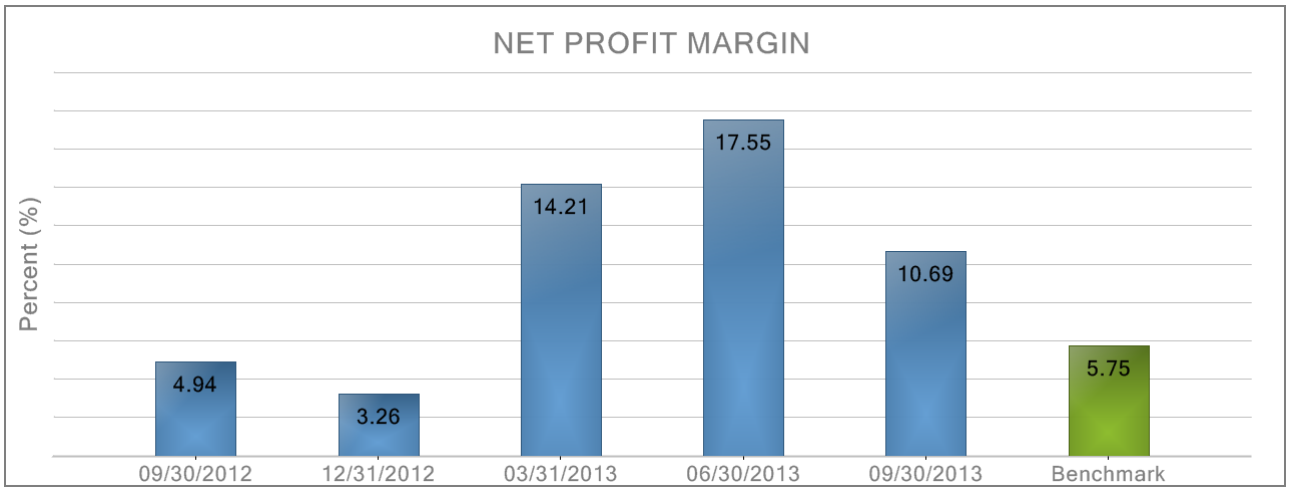
However, the company should note that net profits, net profit margins, and sales have all fallen in the same financial period. These dynamics could indicate a potential trend of managing a lower level of sales revenue less effectively, which is unfavorable. Generally, companies prefer to compensate for sales declines by cutting costs and operating more efficiently -- the most important time for a company to control its costs is when sales are falling.

Much of the company's profitability declines this period can be attributed to the sales decrease of 6.50%. It is not always true that profit declines are caused by sales declines. Indeed, sometimes sales increases can actually cause profit problems. In this case, it looks like profits have fallen at least partially due to the drop in sales. Companies usually try to keep sales increasing every financial period. The logic behind this challenge is that even when the company is not growing its sales, its competitors are growing their sales. A firm should always be maintaining its current customer base and adding new customers to it, hence increasing sales revenue.

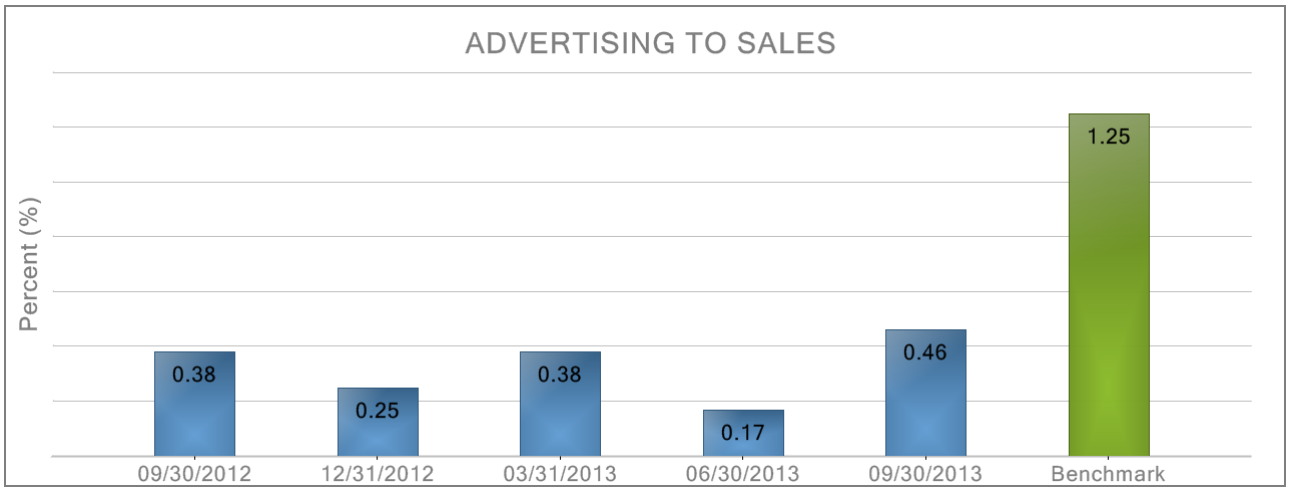
Tips For Improvement

Good profit managers make continuous and small adjustments to improve their businesses. Managers might possibly consider the following to improve profits over time:

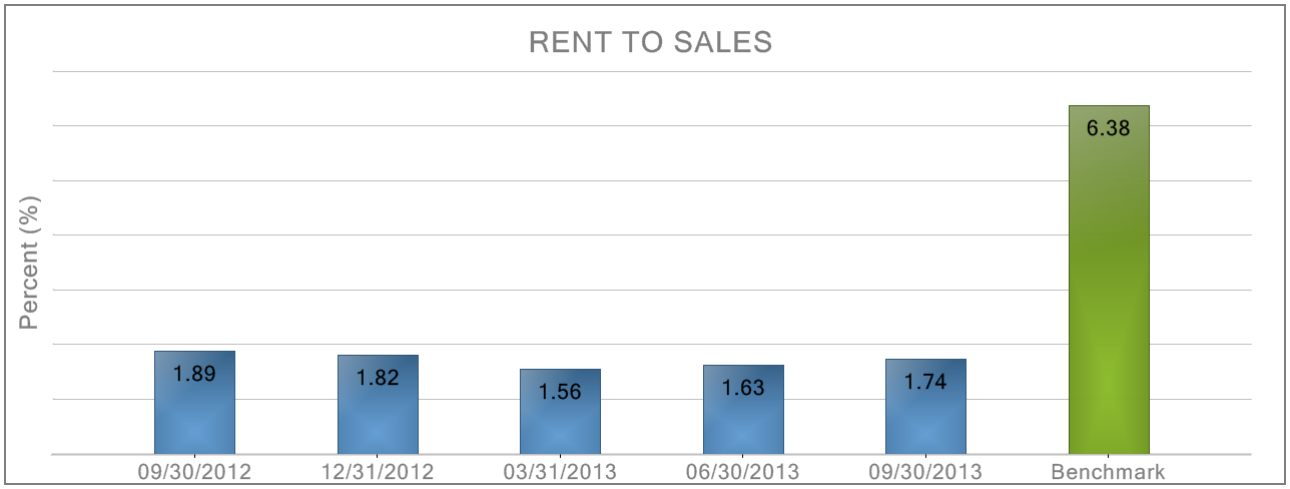
- Have an attractive web presence that provides an extra forum for the dentistry to feature its services. Consider providing an online dental hygienist option where patients can email questions or attain information about specific dental issues.
- Consider employing hygienists and office personnel who work for a number of practices. This can help reduce payroll costs and ensure that employees are available in times of high demand.
- Create good monthly budgets with cost reduction goals that are broken down by account and put right into the accounting system. This gives management the ability to pull "variance reports".
- Send confidential surveys to patients to ask them how the business might better meet their needs. The surveys should ask both specific and general questions about how to improve the customer experience. This will increase sales/revenue over time.



This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts. The higher the better.



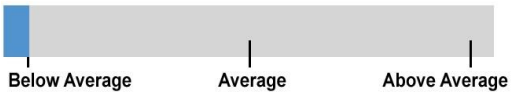
This metric shows advertising expense for the company as a percentage of sales.



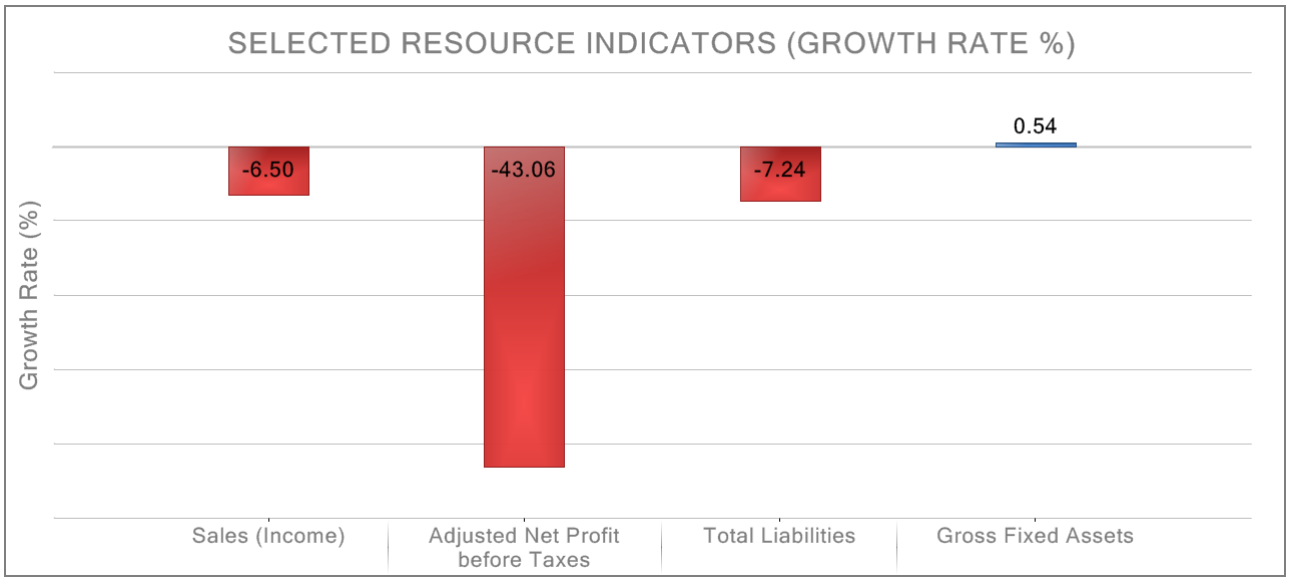
This metric shows rent expense for the company as a percentage of sales.

SALES

A measure of how sales are growing and whether the sales are satisfactory for the company.

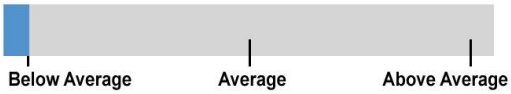


The company's sales have fallen this period, while fixed assets remained relatively stable. This dynamic could negatively affect net profitability if sales continue to fall in the future. Typically, companies want to see revenue increasing over time; this is true because the cost of business continually increases, no matter what the inflation rate is. Of course, as mentioned in the previous section, managers will want to look for longer-term results in this area -- profitability is more important than sales generally.



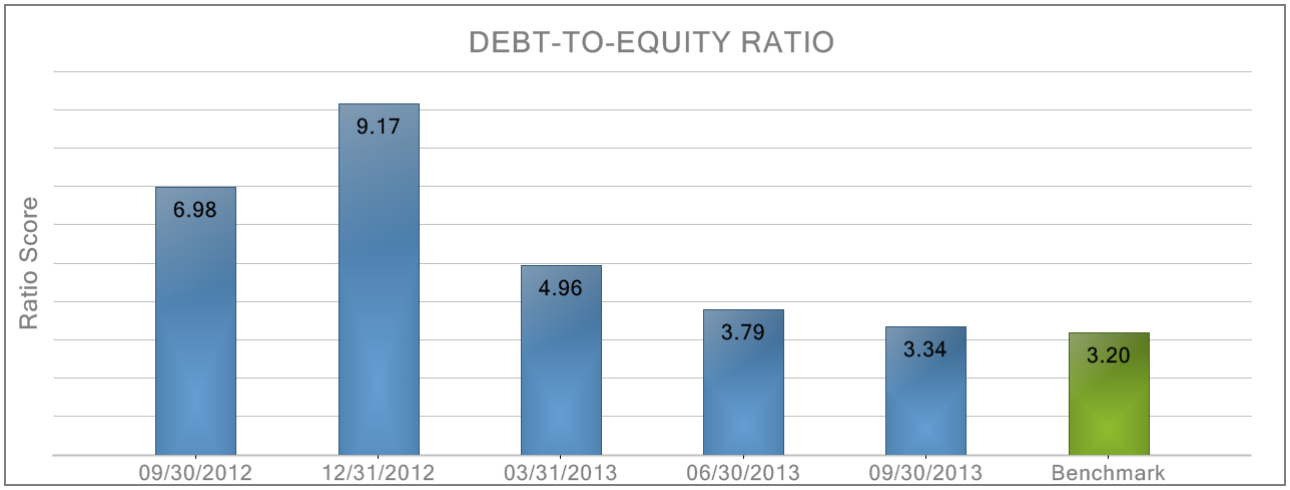
BORROWING

A measure of how responsibly the company is borrowing and how effectively it is managing debt.

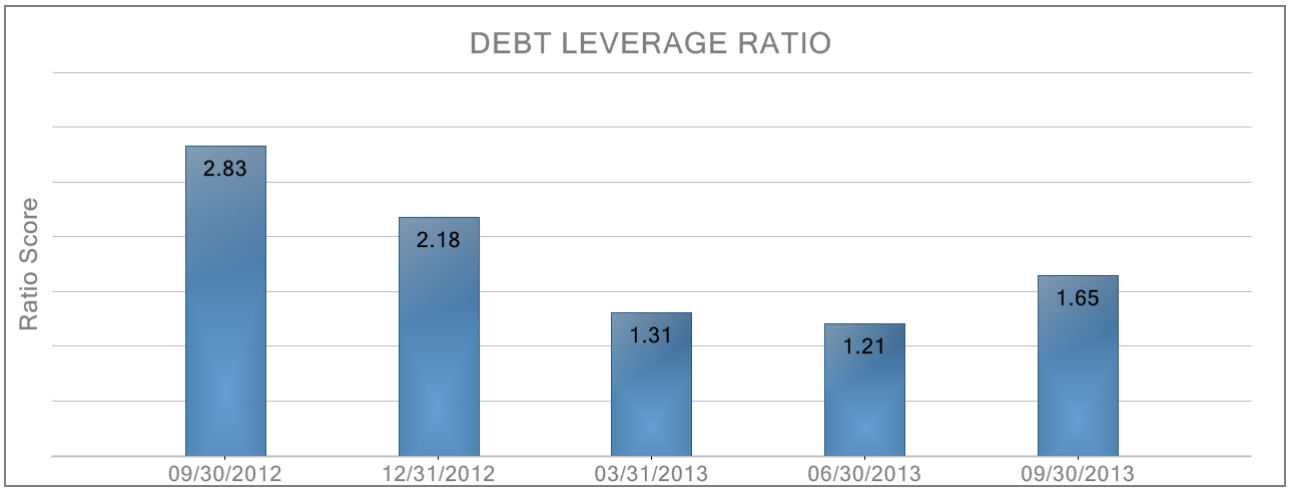


These results are somewhat unfavorable. Borrowing (total debt) went down, but net profitability dropped by 43.06%. In fact, profitability dropped at a faster rate than debt. It is also worth mentioning the drop in net profit margins. It is difficult to tell what this means for the future. It does mean that the company probably will want to reverse the lower profitability, as discussed in the Profitability area. Since the reduction of debt did not improve profitability, the company **may** not be able to use this action further as a tool for the immediate future. It is difficult to tell, but as always, careful evaluation is necessary. It may be best to simply concentrate on Income Statement management for the present time.

Although the company has not received the best overall score in this area of the report, it is generating solid earnings (before interest and non-cash expenses) relative to its debt obligations. This is positive and perhaps the trend noted between debt and profitability is a one-time event. However, it could also be that the system is detecting early unfavorable trends, in which case management may want to further evaluate this area. Otherwise, please place less emphasis on the overall score in this area.



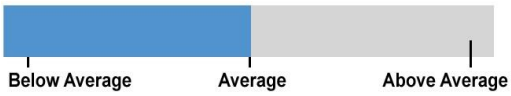
This Balance Sheet leverage ratio indicates the composition of a company's total capitalization -- the balance between money or assets owed versus the money or assets owned. Generally, creditors prefer a lower ratio to decrease financial risk while investors prefer a higher ratio to realize the return benefits of financial leverage.



This ratio measures a company's ability to repay debt obligations from annualized operating cash flow (EBITDA).

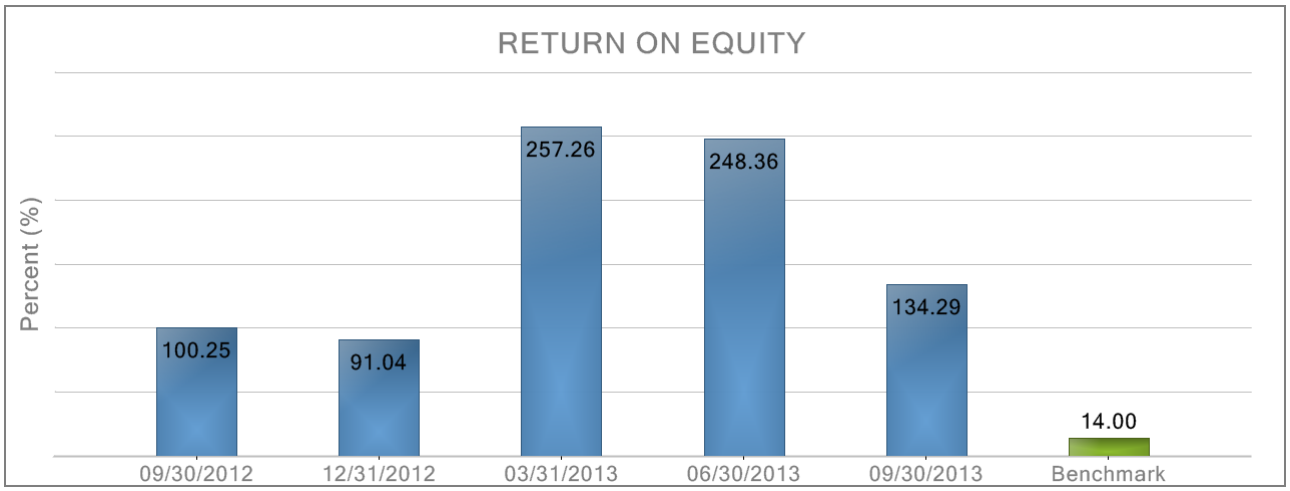
ASSETS

A measure of how effectively the company is utilizing its gross fixed assets.

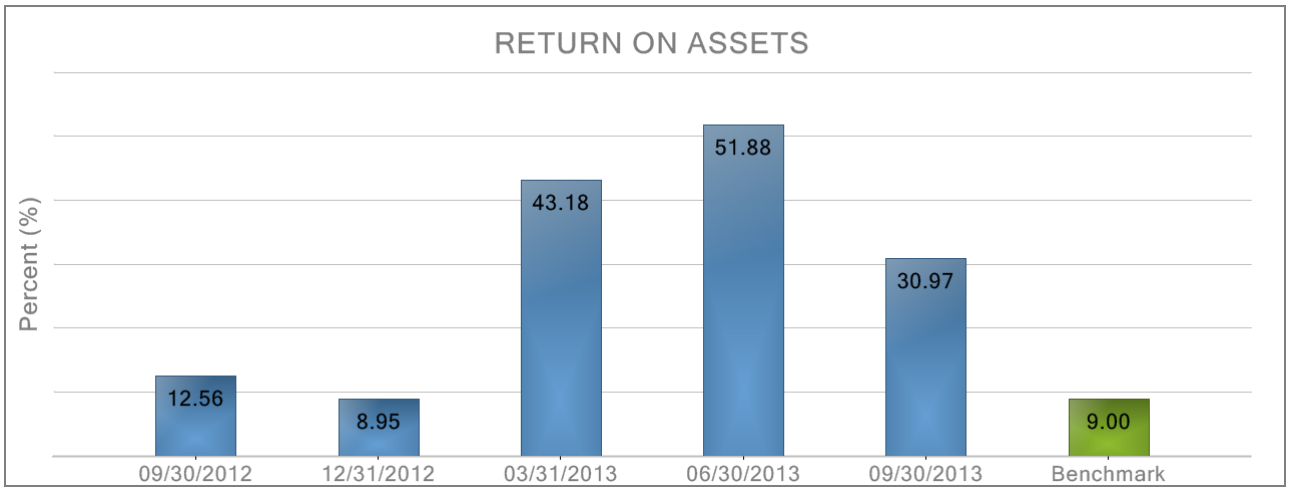


The results in this area are not very positive. Less profitability is moving through a relatively unchanged fixed asset base, which lowers performance in this area. Another way of saying this is the profitability per asset dollar statistic has fallen. This is not a favorable result, particularly because the net profit margin also fell. This means the company is less efficient in overall operations than it was last period.

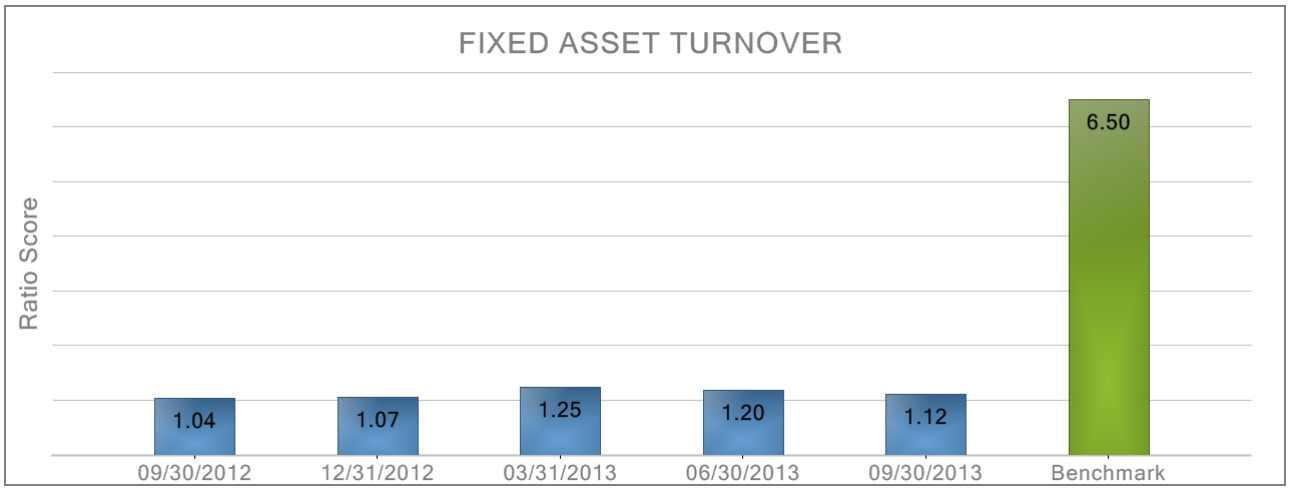
Notice that the company generated a relatively strong return on assets and equity this period. This is a positive result for both investors/owners and creditors of the company. Assets generally represent a cost to the company that is expected to reap future benefits, so it is good to see the company earning strong profitability relative to its assets.



This measure shows how much profit is being returned on the shareholders' equity each year. It is a vital statistic from the perspective of equity holders in a company. The higher the better.



This calculation measures the company's ability to use its assets to create profits. Basically, ROA indicates how many cents of profit each dollar of asset is producing per year. It is quite important since managers can only be evaluated by looking at how they use the assets available to them. The higher the better.



This asset management ratio shows the multiple of annualized sales that each dollar of gross fixed assets is producing. This indicator measures how well fixed assets are "throwing off" sales and is very important to businesses that require significant investments in such assets. Readers should not emphasize this metric when looking at companies that do not possess or require significant gross fixed assets. The higher the more effective the company's investments in Net Property, Plant, and Equipment are.

RAW DATA

Income Statement Data	09/30/2012	12/31/2012	03/31/2013	06/30/2013	09/30/2013
Sales (Income)	$316,910	$329,013	$384,169	$369,022	$345,020
Cost of Sales (COGS)	$0	$0	$0	$0	$0
Gross Profit	$316,910	$329,013	$384,169	$369,022	$345,020
Gross Profit Margin	100.00%	100.00%	100.00%	100.00%	100.00%
G & A Payroll Expense	$172,072	$192,971	$194,786	$198,450	$175,963
Rent	$6,000	$6,000	$6,000	$6,000	$6,000
Advertising	$1,216	$837	$1,459	$630	$1,599
Depreciation	$18,145	$29,460	$15,756	$15,870	$17,788
Interest Expense	$4,647	$9,402	$9,699	$1,281	$716
Net Profit Before Taxes	$15,657	$10,737	$54,596	$64,764	$36,874
Adjusted Net Profit before Taxes	$15,657	$10,737	$54,596	$64,764	$36,874
Net Profit Margin	4.94%	3.26%	14.21%	17.55%	10.69%
EBITDA	$38,449	$49,599	$80,051	$81,915	$55,378
Net Income	$15,657	$10,737	$54,596	$64,764	$36,874

Balance Sheet Data	09/30/2012	12/31/2012	03/31/2013	06/30/2013	09/30/2013
Cash (Bank Funds)	$24,408	$9,616	$25,879	$20,900	$48,047
Accounts Receivable	$97,143	$102,191	$127,726	$141,580	$101,824
Inventory	$4,500	$8,700	$8,700	$8,700	$8,700
Total Current Assets	$126,051	$120,507	$162,305	$171,180	$159,201
Gross Fixed Assets	$1,214,670	$1,226,693	$1,226,693	$1,227,254	$1,233,933
Total Assets	$498,445	$479,764	$505,806	$499,372	$476,284
Accounts Payable	$845	$556	$7,498	$2,522	$0
Total Current Liabilities	$80,417	$96,987	$99,973	$97,199	$94,880
Total Liabilities	$435,975	$432,590	$420,916	$395,064	$366,448
Total Equity	$62,470	$47,174	$84,890	$104,308	$109,836

COMMON SIZE STATEMENTS

Income Statement Data	09/30/2012	12/31/2012	03/31/2013	06/30/2013	09/30/2013	Industry* (5852)
Sales (Income)	100%	100%	100%	100%	100%	100%
Cost of Sales (COGS)	0%	0%	0%	0%	0%	5%
Gross Profit	100%	100%	100%	100%	100%	95%
G & A Payroll Expense	54%	59%	51%	54%	51%	39%
Rent	2%	2%	2%	2%	2%	5%
Advertising	0%	0%	0%	0%	0%	1%
Depreciation	6%	9%	4%	4%	5%	2%
Interest Expense	1%	3%	3%	0%	0%	1%
Net Profit Before Taxes	5%	3%	14%	18%	11%	16%
Adjusted Net Profit before Taxes	5%	3%	14%	18%	11%	16%
EBITDA	12%	15%	21%	22%	16%	19%
Net Income	5%	3%	14%	18%	11%	16%

Balance Sheet Data	09/30/2012	12/31/2012	03/31/2013	06/30/2013	09/30/2013	Industry* (5852)
Cash (Bank Funds)	5%	2%	5%	4%	10%	27%
Accounts Receivable	19%	21%	25%	28%	21%	0%
Inventory	1%	2%	2%	2%	2%	0%
Total Current Assets	25%	25%	32%	34%	33%	43%
Gross Fixed Assets	244%	256%	243%	246%	259%	106%
Total Assets	100%	100%	100%	100%	100%	100%
Accounts Payable	0%	0%	1%	1%	0%	0%
Total Current Liabilities	16%	20%	20%	19%	20%	34%
Total Liabilities	87%	90%	83%	79%	77%	88%

Total Equity	13%	10%	17%	21%	23%	12%

*The industry common size figures shown above were taken from all private company data for companies with industry code 621210 for all years in all areas with yearly sales $1 million to $10 million.

INDUSTRY SCORECARD

Financial Indicator	Current Period	Industry Range	Distance from Industry
Current Ratio = Total Current Assets / Total Current Liabilities	1.68	1.30 to 2.20	0.00%
Explanation: Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company is.			
Quick Ratio = (Cash + Accounts Receivable) / Total Current Liabilities	1.58	0.90 to 1.80	0.00%
Explanation: This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the company has to pay the amount listed in the denominator (current liabilities). The higher the number, the stronger the company.			
Inventory Days* = (Inventory / Sales) * 365	2.30 Days	1.00 to 5.00 Days	0.00%
Explanation: This metric shows how much inventory (in days) is on hand. It indicates how quickly a company can respond to market and/or product changes. Not all companies have inventory for this metric. The lower the better. Note: Sales was used in this calculation instead of Cost of Sales because Cost of Sales was zero for the current period.			
Accounts Receivable Days* = (Accounts Receivable / Sales) * 365	26.93 Days	5.00 to 15.00 Days	-79.53%
Explanation: This number reflects the average length of time between credit sales and payment receipts. It is crucial to maintaining positive liquidity. The lower the better.			
Accounts Payable Days* = (Accounts Payable / COGS) * 365	0.00 Days	1.00 to 10.00 Days	N/A
Explanation: This ratio shows the average number of days that lapse between the purchase of material and labor, and payment for them. It is a rough measure of how timely a company is in meeting payment obligations. Lower is normally better.			
Gross Profit Margin = Gross Profit / Sales	100.00%	80.00% to 95.50%	+4.71%
Explanation: This number indicates the percentage of sales revenue that is not paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it indicates how many cents of gross profit can be generated by each dollar of future sales. Higher is normally better (the company is more efficient).			
Net Profit Margin = Adjusted Net Profit before Taxes / Sales	10.69%	1.50% to 10.00%	+6.90%
Explanation: This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts. The higher the better.			
Advertising to Sales = Advertising / Sales	0.46%	0.50% to 2.00%	+8.00%
Explanation: This metric shows advertising expense for the company as a percentage of sales.			
Rent to Sales = Rent / Sales	1.74%	4.25% to 8.50%	+59.06%
Explanation: This metric shows rent expense for the company as a percentage of sales.			

G & A Payroll to Sales = G & A Payroll Expense / Sales	51.00%	18.00% to 32.00%	-59.38%

Explanation: This metric shows G & A payroll expense for the company as a percentage of sales.

Interest Coverage Ratio = EBITDA / Interest Expense	77.34	5.00 to 16.00	+383.38%

Explanation: This ratio measures a company's ability to service debt payments from operating cash flow (EBITDA). An increasing ratio is a good indicator of improving credit quality. The higher the better.

Debt-to-Equity Ratio = Total Liabilities / Total Equity	3.34	2.20 to 4.20	0.00%

Explanation: This Balance Sheet leverage ratio indicates the composition of a company’s total capitalization -- the balance between money or assets owed versus the money or assets owned. Generally, creditors prefer a lower ratio to decrease financial risk while investors prefer a higher ratio to realize the return benefits of financial leverage.

Debt Leverage Ratio* = Total Liabilities / EBITDA	1.65	N/A	N/A

Explanation: This ratio measures a company's ability to repay debt obligations from annualized operating cash flow (EBITDA).

Return on Equity* = Net Income / Total Equity	134.29%	8.00% to 20.00%	+571.45%

Explanation: This measure shows how much profit is being returned on the shareholders' equity each year. It is a vital statistic from the perspective of equity holders in a company. The higher the better.

Return on Assets* = Net Income / Total Assets	30.97%	6.00% to 12.00%	+158.08%

Explanation: This calculation measures the company's ability to use its assets to create profits. Basically, ROA indicates how many cents of profit each dollar of asset is producing per year. It is quite important since managers can only be evaluated by looking at how they use the assets available to them. The higher the better.

Fixed Asset Turnover* = Sales / Gross Fixed Assets	1.12	3.00 to 10.00	-62.67%

Explanation: This asset management ratio shows the multiple of annualized sales that each dollar of gross fixed assets is producing. This indicator measures how well fixed assets are "throwing off" sales and is very important to businesses that require significant investments in such assets. Readers should not emphasize this metric when looking at companies that do not possess or require significant gross fixed assets. The higher the more effective the company's investments in Net Property, Plant, and Equipment are.

* These formulas have been scaled to approximate annual statistics.

NOTE: Exceptions are sometimes applied when calculating the Financial Indicators. Generally, this occurs when the inputs used to calculate the ratios are zero and/or negative.

READER: Financial analysis is not a science; it is about interpretation and evaluation of financial events. Therefore, some judgment will always be part of our reports and analyses. Before making any financial decision, always consult an experienced and knowledgeable professional (accountant, banker, financial planner, attorney, etc.).