

Figure 20-1

DUE DILIGENCE CHECKLIST¹

*** Designates that the due diligence information should have been requested, reviewed and used as part of the preparation or confirmation of the practice valuation.**

Completed Not Completed Inapplicable

A. Compatibility of Purchaser and Seller

- | | | | |
|-------|-------|-------|---|
| _____ | _____ | _____ | *1. Contrast seller'(s) practice mission and philosophy to yours; |
| _____ | _____ | _____ | *2. Contrast seller'(s) personal values and work ethic to yours; |
| _____ | _____ | _____ | *3. Assess seller'(s) reason for departure from active practice; |
| _____ | _____ | _____ | 4. Assess reputation of the practice and practice owner(s) within the community and among colleagues; and |
| _____ | _____ | _____ | 5. Assess willingness of seller(s) to transfer ownership of the practice. |

B. Financial Information

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|-------|-------|-------|--|
| _____ | _____ | _____ | *1. Obtain federal income tax returns of the practice for the lesser of the last five fiscal years or the number of years in practice; |
| _____ | _____ | _____ | *2. Obtain financial statements and balance sheets (assuming that they are prepared for the practice) for the lesser of the last five fiscal years or the number of years in practice and the current fiscal year to date; |

¹ William P. Prescott, M.B.A., J.D., The Practice Acquisition Handbook, Randall K. Berning and Affiliates, Naples, Florida, 1997, Appendix I.

Figure 20-1

<u>Completed</u>	<u>Not Completed</u>	<u>Inapplicable</u>	
_____	_____	_____	*3. Obtain an aged trial balance of all practice accounts receivable and the historical practice collection records for the lesser of the last five fiscal years or the number of years in practice and the current fiscal year to date;
_____	_____	_____	4. Obtain appropriate certificates of payment from state authorities evidencing proper payment of or provision for sales taxes, workers' compensation premiums and unemployment compensation premiums;
_____	_____	_____	5. Obtain list of bank accounts and lenders for the practice;
_____	_____	_____	6. Obtain copies of any equipment lease and/or loan agreements or line of credit agreements with lenders for the practice and a list of those individuals guaranteeing said agreements;
_____	_____	_____	7. Obtain specific amounts of gross production and collections by individual doctor and hygienist(s) for the lesser of the last five fiscal years or the number of years in practice and the current year to date;
_____	_____	_____	8. Obtain listing of all accounts receivable written off and/or sent to any collection agency or attorney in each of the lesser of the last five fiscal years or the number of years in practice and the current fiscal year to date; and
_____	_____	_____	9. Obtain itemized list of all leasehold improvement costs made in the current practice facility and the date(s) said leasehold improvements were made.
_____	_____	_____	10. Your accountant should prepare your financial budget for the practice being acquired.
_____	_____	_____	11. Your accountant should assist you in the preparation of your personal financial statement to assess your current financial situation and ability to obtain financing for the purchase price of the practice.

Figure 20-1

<u>Completed</u>	<u>Not Completed</u>	<u>Inapplicable</u>
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C. Practice Facility

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- *1. Obtain floor plan of the practice facility;
- *2. Obtain an itemized list and the fair market value of all dental equipment being acquired by treatment room, plus darkroom, utility room, sterilization area, X-ray area and laboratory;
- *3. Obtain an itemized list and the fair market value of all office equipment and furniture being acquired;
- *4. Obtain an itemized list and the fair market value of all tangible assets, personal and other items located in the practice facility not being acquired;
- *5. Obtain an itemized list and the fair market value of all tangible assets (dental equipment, office equipment and furniture) leased by the practice or located in the practice facility to which the practice does not hold clear title;
- *6. Obtain maintenance records for all dental and office equipment from the date of purchase through the current date;
7. Assess overall appearance, aesthetics and condition of practice facility;
8. Determine whether dental equipment is right or left handed in light of your ability to practice comfortably and efficiently;
9. Review your ability to expand the current practice facility; and
10. Assess current parking availability.

Figure 20-1

<u>Completed</u>	<u>Not Completed</u>	<u>Inapplicable</u>
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D. Lease and Real Estate Matters

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|-------|-------|-------|---|
| _____ | _____ | _____ | *1. Obtain copy of any current lease, any renewal amendments and any document evidencing recording of the lease; |
| _____ | _____ | _____ | *2. Obtain copies of any deed, documents and/or agreements relating to the practice owner's (or family members') ownership of the practice real estate; |
| _____ | _____ | _____ | 3. Obtain copies of any surveys, plans, blueprints, specifications and other technical documents relating to the practice real estate, improvements, sewerage, etc.; |
| _____ | _____ | _____ | 4. Obtain copies of any environmental or other regulatory permits, proceedings, abatement proceedings or any other regulatory matter affecting the practice real estate; |
| _____ | _____ | _____ | 5. Obtain copies of any title insurance policies and environmental audits relative to the practice real estate; |
| _____ | _____ | _____ | 6. Obtain copies of any contracts to sell, purchase or lease the practice real estate; |
| _____ | _____ | _____ | 7. Obtain copies and/or list of any insurance policies for the practice real estate; |
| _____ | _____ | _____ | 8. Obtain list of any zoning, public health, building code or other violations for the practice real estate for the lesser of the last five calendar years or the number of years the seller owned the practice real estate and the current year to date; and |
| _____ | _____ | _____ | 9. Obtain list of any material easements, licenses or other rights-of-way granted relative to the practice real estate. |

Figure 20-1

<u>Completed</u>	<u>Not Completed</u>	<u>Inapplicable</u>
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E. Operational Matters

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| _____ | _____ | _____ | *1. Obtain number of active patients (patients treated in the past twenty-four consecutive months), as well as the number of inactive patients (those patients not having any dental services rendered within the last twenty-four consecutive months); |
| _____ | _____ | _____ | *2. Obtain a summary of the number of new patients in each consecutive month for the lesser of the last five fiscal years or the number of years in practice and the current fiscal year to date; |
| _____ | _____ | _____ | *3. Obtain the number of the current patients (and percentage of the practice) in recall, if applicable; |
| _____ | _____ | _____ | *4. Obtain a current fee schedule and a summary of fee increases for the lesser of the last five fiscal years or the number of years in practice and the current fiscal year to date; |
| _____ | _____ | _____ | *5. Obtain a specific list of those procedures performed by the practice and those referred to specialists, if applicable; |
| _____ | _____ | _____ | *6. Provide your written evaluation of the area demand and potential for economic growth for a dentist/specialist in the geographical area where you intend to practice; |
| _____ | _____ | _____ | 7. Obtain reports demonstrating practice compliance with OSHA and State Dental Board Regulations; |
| _____ | _____ | _____ | 8. Assess stability of the practice and surrounding community; |
| _____ | _____ | _____ | 9. Assess competition in the geographical location of the practice; |
| _____ | _____ | _____ | 10. Assess practice location; |
| _____ | _____ | _____ | 11. Review demographic characteristics of patients (location, age and income); |

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_____	_____	_____	12. Determine availability of seller assisted financing;
_____	_____	_____	13. Determine the number of hours and days worked per month by the dentist(s)/hygienist(s);
_____	_____	_____	14. Determine the amount of time taken off by the practice owner yearly;
_____	_____	_____	15. Determine the number and percentage of patients in the practice covered by insurance/managed care/medicaid/other;
_____	_____	_____	16. Assess availability of public transportation;
_____	_____	_____	17. Review all current patients' charts, manner of payments, patient demographics, etc.;
_____	_____	_____	18. Review quality of the manner in which patient records and charts are retained in the practice;
_____	_____	_____	19. Review effectiveness of management systems;
_____	_____	_____	20. Review entity type/completeness of legal and accounting records;
_____	_____	_____	21. Obtain list of all contracts or other agreements to which the practice is a party;
_____	_____	_____	22. Obtain copies of all insurance policies for the practice;
_____	_____	_____	23. Obtain copies of any current third-party payment contracts;
_____	_____	_____	24. Copies of all licenses, permits, registrations, certificates, consents, accreditations and approvals needed to conduct the operation of the practice;
_____	_____	_____	25. Obtain list of all names, trade names, d/b/a, etc. used in the practice for the lesser of the last five fiscal years or the number of years in practice;

Figure 20-1

<u>Completed</u>	<u>Not Completed</u>	<u>Inapplicable</u>
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26. Obtain copy of any broker, finder or other contract requiring the payment of a fee in connection with the sale of the practice;
27. Calculate the current percentage of case acceptance rate as a percentage of all cases presented for treatment in the practice; and
28. Obtain copies of any shareholder or member operational agreements (e.g. buy/sell agreements, deferred compensation agreements, employment agreements or close corporation agreements, etc.);

F. Employment Relations and Benefits

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- *1. Obtain a census of all employees of the practice, the hours worked, compensation levels, positions, responsibilities and dates of hire (including former employees) for the lesser of the last five fiscal years or the number of years in practice and the current fiscal year to date;
- *2. Obtain copies of all employee handbooks, job descriptions and/or other publications distributed to employees of the practice;
3. Obtain copies of all employee benefit plans (and summary plan descriptions) for the practice, including defined benefit, defined contribution, medical, severance, sick pay, vacation, retirement or any other plan, whether or not included in a formal plan;
4. Obtain copies of all IRS determination letters and similar governmental approvals and filings for any employee benefit plans;
5. Obtain all recent actuarial reports relating to employee benefits, if applicable;
6. Obtain list of all insurance plans relating to employees of the practice;

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7. Obtain list of all employment discrimination claims of the practice and/or any other employee claims or disputes against the practice for the lesser of the last five fiscal years or the number of years in practice and current fiscal year to date;
8. Obtain specific details relating to any doctor(s) formerly working in the practice since its inception; and
9. Assess feasibility and likelihood of each staff member remaining with the practice after the ownership change.

G. Litigation — Pending/Threatened

1. Obtain copies of pleadings for any pending litigation, arbitrations, grievances, other judicial or administrative proceedings;
2. Obtain list of any pending and threatened litigation since the inception of the practice relating to litigation, claims and assessments;
3. Obtain description of all outstanding judgments, assessments, penalties or fines;
4. Obtain list and copies of all demand letters, notices or claims received within the lesser of the last five years or the number of years in practice; and
5. Obtain copies of any audits performed or other governmental filings relative to the practice, including, but not limited to, ERISA and employee benefits/Department of Labor, State Dental Board, OSHA, Internal Revenue Service or State Department of Taxation since the inception of the practice.

Figure 20-1

<u>Completed</u>	<u>Not Completed</u>	<u>Inapplicable</u>
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H. Organizational Matters

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1. Obtain charter and all amendments certified by the State;
2. Obtain articles of incorporation or organization certified by corporate officer or member, if applicable;
3. Obtain list of current directors and officers (or members and managers);
4. Obtain list of shareholders/members and shares/units owned;
5. Obtain current stock or membership transfer records, certificates and shares or units owned;
6. Obtain record of directors' and shareholders' (or members') actions since the inception of the practice (e.g., corporate record book); and
7. Obtain all professional annual reports for the lesser of the last five fiscal years or the number of years in practice.