

TRANSCEND SERVICES

Moderator: Larry Gerdes
April 30, 2009
10:00 am CT

Operator: Welcome to the encore replay of the Transcend Services conference call with Larry Gerdes as the speaker occurring on April 30th, 2009, at 11:00 a.m. Eastern Time. This is the encore replay for conference id 96346015.

After the tone, please state and spell your first and last name and company name, followed by the pound key.

Good morning, my name is (Jackie) and I will be your conference operator today.

At this time, I would like to welcome everyone to the Transcend first quarter earnings conference call. All lines have been placed on mute to prevent any background noise.

After the speaker's remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star then the number 1 on your telephone keypad. If you would like to withdraw your question, press the pound key.

Thank you, Mr. Gerdes; you may begin your conference.

Larry Gerdes: Thank you, (Jackie). Good morning. My name is Larry Gerdes. I'm Chairman of the Board, President, and Chief Executive Officer of Transcend Services Inc.

Joining me today for this conference is Lance Cornell, Transcend's Chief Financial Officer, and also Sue McGrogan, our Chief Operating Officer and Leo Cooper, our Executive Vice President of Sales and Marketing will join us for the question and answer period.

This investor call is regarding Transcend's operating results for the quarter ended March 31, 2009. After we discuss our financial and operating results, we'll conduct a question and answer period and we encourage your questions.

Now, I'll ask Lance to state our disclaimer.

Lance Cornell: Good morning.

We would like to ensure that everyone understands that our commentary and responses during this conference call may contain forward-looking statements dealing with topics such as our business strategy, our anticipated future results, our service offerings, our relationships with other companies or customers, and our ultimate role in the market.

There is a risk that these forward-looking statements or predictions may differ materially from results because of factors such as company decisions, market conditions, business relationships, and/or performance of various third party associated with Transcend including, but not limited to their access of capital and their financial condition.

Please realize that will not necessarily provide updates to any such statements other than as required by law. Finally, more information about potential risk factors is included in the first quarter press release and the periodic reports that the company files from time to time with the Securities and Exchange Commission including the company's form 10-K for the year ended December 31, 2008.

Larry?

Larry Gerdes: Thanks, Lance.

I'm very proud of the way our people executed our business plan in the first quarter. We generated diluted earnings per share of 18 cents which is a 20% increase over the 15 cents we earned in the first quarter of last year. We made substantial progress in integrating the January 1, 2009, acquisition of Deventure Health Partners which has an average annual run rate of approximately \$4.8 million of revenue.

On April 1, 2009, we completed the acquisition of the domestic medical transcription business of Transcription Relief Services which has an annual revenue run rate of approximately \$7.2 million. Needless to say, we have been very busy these last few months. These two acquisitions add approximately \$12 million per year of revenue to Transcend at their current run rates.

Of which we expect at least \$10 million to be realized in 2009. As most of you know, we expanded the sales force last year and the investment paid dividends in the first quarter. The sales team closed new business during the first quarter which we estimate will generate between \$3.4 million and \$4.2 million of annual revenue once fully implemented.

Approximately 60% of this new business will be implemented on our BeyondTXT platform and 40% on third party platforms licensed by the customers. I was very pleased with these results. We had been selling in the range of \$2.4 million to \$3.1 million per quarter recently. So this was a nice uptick for us.

We've also seen an increase in the number of opportunities and sales in which hospitals are outsourcing their in-house transcription departments to us. We're encouraged by this and hope it becomes a long-term trend. I am pleased to report that our customer retention remains very high.

Only one customer left in the first quarter and that was due to a corporate decision unrelated to our service at the local customer level. Our commitment to excellent customer service will always be our top priority. Even though it's unrealistic to expect to keep all of our customers forever, it pains us to lose even one.

Over the long-term, consistently providing excellent service is the key to high retention and our ultimate success in the market. Now, I'd like to turn the call back over to Lance to discuss our financial results.

Lance Cornell: Thanks, Larry.

Transcend's revenue for the first quarter of 2009 was \$14,930,000, an increase of \$3.2 million or 27% over first quarter 2008 revenue of \$11.7 million. The Deventure acquisition contributed \$1.2 million of revenue in the first quarter of 2009.

On a pro forma basis, if Deventure had been acquired on January 1, 2008, revenue would have increased 20%. As we entered the second quarter, our revenue run rate including the TRS acquisition was approximately \$67 million. You can calculate this by simply annualizing first quarter revenue and adding \$7.2 million of annual revenue for TRS.

This doesn't take into account new business (sales) but not implemented, net of any attrition we may experience going forward. For 2009, our revenue growth should easily exceed 30% which you can see if you annualize first quarter revenue and add three quarters of the annual revenue run rate for TRS. Again this doesn't take into account the impact of new sales net of any attrition.

Gross profit for the first quarter of 2009 was \$5,343,000, an increase of \$1,189,000 or 29% over first quarter 2008 gross profit of \$4,154,000. As a percentage of revenue, gross profit increased to 36% in the first quarter of 2009 from 35% in the first quarter of 2008. This was down 1 point compared to the three most recent quarters due to the impact of the Deventure acquisition on the company's gross profit margins.

Two of our primary strategies to improve our gross profit margins are increasing the use of speech recognition technology and increasing the volume of work processed offshore. These strategies apply to newly acquired companies as well as our existing business. We expect that newly acquired businesses will often have lower gross margin until we can fully integrate them and deploy these strategies.

Let me update you on our speech recognition initiative. Our ability to drive gross margin improvement depends, in part, on the mix at work processed on our BeyondTXT platform versus customer platforms. The higher the

BeyondTXT percentage the greater the opportunity to impact gross profit margins by using speech recognition technology.

Approximately 62% of the company's total revenue was processed on our BeyondTXT platform in the first quarter of 2009 compared to 54% in the first quarter of 2008. The change in the mix relates to the addition of Deventure in 2009.

Now of the volume processed on BeyondTXT, approximately 53% was added at using speech recognition technology in the first quarter of 2009 compared to 38% in the first quarter of 2008. The company's goal is to increase this percentage to at least 60% over the next 12 months. Now, on the offshore front a percentage of the company total volume processed offshore was 19% in the first quarter of 2009 compared to 16% in the first quarter of 2008.

Deventure's offshore percentage is comparable to ours. Our goal is to steadily increase offshore volume although to the extent that revenue grows rapidly. It can, at times, be difficult for us to see increases in the percentage of total volume processed offshore.

Operating expenses consisting of sales and marketing, research and development, general and administrative and depreciation and amortization expenses increased \$809,000 or 41% to \$2,797,000 or 19% of revenue compared to \$1,988,000 or 17% of revenue in the first quarter of last year. Approximately \$235,000 of the increase was related to Deventure operating expenses and acquisition related transaction costs.

Another \$201,000 was related to the expansion of the sales organization during 2008. And the remainder was due to higher operating expenses resulting from overall growth in the business. Operating income increased

18% to \$2,546,000 or 17% of revenue in the first quarter of 2009 compared to \$2,166,000 or 18% of revenue in the first quarter of 2008.

EBITDA was \$2,801,000 or 19% of revenue in the first quarter of 2009 compared to \$2,362,000 or 20% of revenue in the first quarter of last year. In both cases, the 1 point reduction relates primarily to the acquisition of Deventure.

The company's effective tax rate was 37% for the first quarters of both 2009 and 2008. Since the company had a net operating loss carry forward, income tax expense is largely a non-cash expense until our federal net operating loss carry forwards are fully utilized which we do expect to occur sometime in the second quarter of 2009.

Net income increased 16% to \$1,578,000 in the first quarter of 2009 compared \$1,360,000 in the first quarter of last year. Diluted earnings per share as Larry already mentioned was 18 cents in the first quarter of this year compared to 15 cents in the first quarter of last year, an increase of 20%.

The operating results contributed by Deventure, net of onetime acquisition related transaction costs had virtually no impact on the first quarter 2009 diluted earnings per share. Transcend ended the first quarter of 2009 with \$9.7 million of cash and cash equivalents on hand after using \$4.25 million of cash in January to purchase Deventure.

The company had 42 days of sales outstanding and accounts receivable. As of the end quarter which is in line with company goals. Now, I'd like to turn the call back over to Larry.

Larry Gerdes: Thanks, Lance.

I'd like to take a minute or two to discuss Transcend's perspective on the electronic medical record or EMR and how it impacts the medical transcription industry. Sue McGrogran recently brought together a group of our customers and others for an advisory board meeting at which we discussed their perspectives on the EMR.

Their input was very valuable and we intend to do it in other regions of the country. And it's become clear to us first of all that the EMR will continue to gain traction over the years to come. And of course, all of you have been reading about that but we also believe that the market's so large and that there's so many hospitals that still rely on paper and older systems that whatever does happen will occur gradually.

And regardless of which administration's in charge in Washington or how much money is allocated towards the issue, it'll take some time. Secondly, we believe that no data input mechanism is more efficient for physicians than dictation. Many of the solutions offered such as (point click) EMR templates can have negative impacts on physician productivity.

Stories abound of physicians who are frustrated because they spend so much time on clerical work that it takes them away from providing care. Templates also can't capture all the details and subtleties of a dictated report. We believe that dictation will remain the solution of choice for physicians.

This is not to say there won't be changes. For example, transcription may become more integrated into the EMR solutions. In other words, physicians would use a combination of discrete data entry and dictation. Also, some claim that physicians will simply edit the documents themselves after using speech recognition technology to create draft reports.

We have already seen attempts to do this in the radiology departments which are likely targets because the radiologists are already in front of the computer most of the day. But even in radiology, the productivity in the physician declines. Time that could've been spent reading another image is instead spent doing clerical work.

As a result, we see limited option of physician self edit solutions. Finally, we see opportunities for more dictation in the future, not less. Part of this is related to the increased demand created by the aging of the baby boomer generation. Also, as use of electronic medical records increases it becomes increasingly important to ensure that more documentation is stored electronically which we believe will lead to an increase in the use of transcription.

In Sue's advisory board meeting, there was a lot of discussion about the need to (get up) more information transcription and more data in the transcribed documents. I can't begin to the EMR topic justice on this call but we're always happy to address any questions you might have in this area.

Suffice it to say that we believe the market for medical transcription services will continue to grow for the foreseeable future. I'd also like to comment on our acquisitions and our integration efforts.

We continue to work on other potential transactions and our acquisition pipeline. But I can't predict exactly when or if we might close another transaction. Our strategy is to space the acquisitions far enough apart that we can ensure the integrations are done well.

In that regard I couldn't be more pleased with the progress we are making on the integrations of Deventure and TRS. Our people are working well together and we've gotten over most of the initial hurdles related to the myriad of human resource issues that pop up in any merger. We spent a lot of time getting to know our new customers and maintaining or improving our service to them by giving them access to a much larger team of medical language specialists.

We also believe that customer transition is going very well. We should complete the migration of several of the Deventure clients onto our BeyondTXT platform in the next 30 days or so. We'll spend the rest of the year migrating up to half of the TRS business to Beyond TXT.

In conclusion, I want to thank all of our employees including the former employees of Deventure and our new compatriots from TRS for all of their hard work and delivering excellent results in this past quarter. I also want to welcome our new employees from TRS to the team and thank them for all the work that they've already completed to integrate our companies while continuing to serve the former TRS customers with the excellence they've come to know and deserve.

Now, I'd like to ask Sue McGrogan and Leo Cooper to join us for the question and answer period. At this point, we'd like to open up the lines for your questions.

Operator: At this time, I would like to remind everyone in order to ask a question please press star then the number 1 on your telephone keypad.

We'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Mark Zinski with 21st Century Equity.

Mark Zinski: Good morning.

Larry Gerdes: Hi, Mark.

Mark Zinski: Hi. First question is in regards to the TRS acquisition.

Is there any way you're going to give any color in terms of how TRS compares to Deventure? For instance, does TRS do the same amount of offshoring?

Larry Gerdes: Mark, I'm going to let Sue talk to it.

One thing I would say is both Deventure and TRS have the same cultures as far as their commitment to their customers and employees. And that's what makes the fit so good. But when you get down into the granularity of the specific way in which they deliver, your question's a good one. Sue, you might take that.

Sue McGrogan: Sure. Hi, Mark.

Mark Zinski: Hi.

Sue McGrogan: TRS actually has more customers. It's about 50 or greater percent that can be migrated over to BeyondTXT. TRS also has a great management team as Deventure did as well but TRS is a very industry knowledgeable veteran which really - I'm really excited about and it's very scalable to meet our growth.

Larry Gerdes: And what percent of both companies work is done offshore?

Lance Cornell: Deventure's roughly 20% offshore and TRS is just about zero.

Mark Zinski: Okay.

Larry Gerdes: Does that answer the question mark?

Mark Zinski: Yes, I mean would TRS then be a pretty immediate candidate for offshoring or are you going to kind of see how it plays out?

Larry Gerdes: Well, one thing you have to remember. We always have to respect the contracts and the commitments they've made to their customers. So first of all, we've got to make sure that the customers are comfortable doing it and then as we've told all of you on phone calls in the past. What Sue's found most effective is a blended approach.

Mark Zinski: Okay.

Larry Gerdes: Sue, would you add anything to that?

Sue McGrogan: Yeah, we utilize offshore and we pretty much can talk to most customers about it as a supplement to our domestic staff for night and weekend coverage.

Mark Zinski: Okay. In terms of the VHA contract, how is that progressing?

Larry Gerdes: I'm glad you asked that. Leo, could you respond?

Leo Cooper: Yes, Mark, this is Leo Cooper.

Mark Zinski: Yep.

Leo Cooper: We are very pleased with the current state of that relationship. As you may recall, the actual announcement was made mid-January to roll the program out and we are still well into the actual roll out phase just in terms of training all of their sales folks, getting the Web site up and running.

And of course, we just recently had a massive member communications piece that went out to all - over 1400 hospitals. So we're already seeing some very positive early returns in terms of folks knowing that we're out there now. Knowing that we're a reliable partner and we're very, very pleased with what's going on.

Mark Zinski: Okay, so for Q1, you have not recognized any revenue from this contract, is that correct?

Leo Cooper: We - our first actual sale that was affected by the relationship occurred last quarter. We have not recognized revenue. Lance, I think soon we go live on that one. No we have recognized revenue haven't we?

Sue McGrogan: Yes.

Leo Cooper: That's the Chicago contract.

Sue McGrogan: Yes, yes it is.

Leo Cooper: Yes, we have.

Sue McGrogan: It's actually more than we thought it was.

Larry Gerdes: Yeah so - the good news is we're making real progress. VHA's turned out to be a great partner. We're starting to be referred into their customers. I think the first one that came as a direct result of the relationship came awfully quickly with the relationships like this. But the other thing; I don't want it to be lost on you; a lot of the new customers were getting our VHA members in any regard.

Mark Zinski: Okay. So like the new business range that you gave or the 3 points (unintelligible) of \$4.2 million. Would that - that include some VHA business then?

Leo Cooper: Yes it would.

Lance Cornell: That's correct.

Mark Zinski: Okay. And then in terms of your pricing with your offshore subcontractors, is that - does that remain pretty stable, given the strength of the US dollar? Any color on the pricing there would be helpful?

Larry Gerdes: Sure.

Most of the contracts that we entered into were at rates somewhat comparable to where the rupee is right now. And in 2007, those vendors had a real tough time because of course, the contracts were denominated in dollars and the rates move against them. In 2008, it came back the other way and they've benefited from that and are doing fine.

Our stance has been through that swing to keep our contractual rates the same because really we're more or less back to what we originally agreed to now. They're happy, we're happy.

Mark Zinski: Okay.

Okay and then I guess the last question in terms of the sales and marketing ramp up, have you been hiring essentially veteran sales personnel in any kind of, you know, input as to, you know, the timeframe it takes for new sales folks to ramp up would be helpful.

Larry Gerdes: I don't know, Leo?

Leo Cooper: Oh go ahead I'm sorry boss.

Larry Gerdes: Yeah, go ahead Leo.

Leo Cooper: Mark, yes, we absolutely hire veterans. Our least experienced team member has seven years in the industry. The cornerstone of the recruiting effort has been towards those that have experience directly in outsourcing transcription and several of our team members have - not only have extensive backgrounds in transcription outsourcing but have sold (premise) based systems.

Companies like (Pictaphone) previously. So they've got a very well rounded, you know, background in terms of understanding all sides of the equation.

Larry Gerdes: And Leo, how quickly can they come up to speed in your - generally speaking?

Leo Cooper: You know, it's, you know Larry, it's going to certainly run six to nine months to get that pipeline built up, Mark, to the levels that we would want to build it to. You know, there's always a chance that they could come in and be in the right place at the right time and pick up some big wins.

But traditionally speaking, you're looking at six to nine months lead time for bringing someone on board even with experience. Because they have to cultivate that region which currently is not sitting there, you know, with a whole bunch of leads just waiting for somebody to pick up. So it has to be cultivated. That's what takes so long.

Mark Zinski: Okay.

Leo Cooper: And that combined with the sales cycles themselves which are not necessarily short. Some can be but traditionally they're a little bit longer sale cycle. So when you combine the ramp up of the pipeline development combined with the sales cycles of sales it's going to take some time.

Mark Zinski: Okay, great and then just a final question. Lance, do you have a DSO number for 2008 Q1 for year-over-year comparison?

Lance Cornell: I think it was 39 a year ago which is abnormally low. And historically we tend to track right around 40, 41, 42 in there.

Mark Zinski: Okay.

Larry Gerdes: And we - generally speaking, Mark, that's - well that's almost 20 days below the industry average. Cause I think it's - because the industry average is closer to 50 to 60 days.

Mark Zinski: Okay. Very good, that's it for me. Thank you very much.

Larry Gerdes: Thank you.

Lance Cornell: Thanks.

Operator: Your next question comes from line of the Kevin Goldstein with Great Gable Partners.

Kevin Goldstein: Morning.

Larry Gerdes: Hi, Kevin.

Lance Cornell: Hello, Kevin.

Kevin Goldstein: I just had a few questions for you about the Deventure acquisition. In the press release it says that it - the deal cost you about 1% of EBITDA margins. So if you back into the suggested Deventure (unintelligible) 10 to 13% EBITDA margin right now.

So I guess my question is, you know, right and then secondly when you bought it where was it? And what's the ultimate goal? I mean your decisions have been running it around 20% EBITDA margin. Do you think given the acquisitions, given the ability to integrate and then work offshore, maybe use BeyondTXT? Can you get EBITDA above company average and how far above?

Larry Gerdes: Sure, good question.

Typically our goal for any acquisition really is to get the EBITDA margins for that operation above ours. And you know, as we had said in our press releases and communication on both of these transactions, typically we expect the first quarter out of the box to somewhat neutral in terms of impact on earnings. And then to be accretive after that.

And that's primarily because for a few reasons. One integration and rationalization of the management team and how we're putting everything together but also the transaction costs which under the new accounting pronouncements now get expensed versus capitalized as part of the acquisition.

So you're in the ball park on Deventure for - I don't have the exact number in front of me. But you're in the ball park. We think we can get that up to our traditional EBITDA margins pretty quickly meaning in the next several months. And hopefully beyond that, you know we'd like to see them sufficiently above that because it's a really - you know they're sharing all of our back office infrastructure.

Kevin Goldstein: Okay and then is there any reason - so I should expect TRS to match though the second quarter the one you're in right now. You'll have a little bit of a gross margin hit to operating expenses but then, going forward, we'll...

Lance Cornell: Yes, TRS actually has probably a better opportunity than Deventure for a couple of different reasons.

First of all, overall their pricing was very good and that obviously helps. And second, the - they have higher percentage that can be moved over to our BeyondTXT platform which will eventually allow us to leverage speech

recognition technology even though that takes a little bit of time. So I think there's actually more potential at TRS.

Kevin Goldstein: Great and just to...

Sue McGrogan: And just to add to that Lance.

Also with Deventure though what they brought is they had more offshore as well and that was primarily the attraction.

Larry Gerdes: Yeah.

Kevin Goldstein: And then my last question is in the first quarter how much onetime transaction costs were there?

Lance Cornell: It's about \$65,000.

Kevin Goldstein: Great, thanks for very much.

Larry Gerdes: Thank you.

Sue McGrogan: Thank you.

Operator: Your next question comes from the line of Stephanie Haggerty with Register Financial.

Stephanie Haggerty: Good morning, guys, nice quarter.

Larry Gerdes: Hi, Stephanie.

Stephanie Haggerty: Well, I guess I'm going just ask my same old question.

I wanted to see if we could get some color from Leo about what kind of sales we had in the quarter? I mean they were up and you said there was a small piece of business in there from VHA contract.

And I wondered with these two acquisitions whether you acquired some sales people and whether you're going to be using any of them. I also wondered from a sales standpoint who services the VHA contract.

Larry Gerdes: Leo? Stephanie, you scared him away?

Stephanie Haggerty: I did. He just had to leave. He's just...

Larry Gerdes: Leo is up at one of our conventions in North Carolina. He may have trouble with the connection.

Leo Cooper: Can you all hear me?

Larry Gerdes: Oh, now we can hear you.

Stephanie Haggerty: Yeah.

Leo Cooper: Sorry about that. Hey, Stephanie, good morning.

Stephanie Haggerty: Hey, how are you, Leo?

Leo Cooper: I'm doing fantastic, thank you.

Let me address those questions. As far as the - that VHA piece of business. It was a sizeable piece for business. The revenue on that particular contract's going to be in excess of \$400,000 in annual revenue. So it was a sizeable contract. It just so happens that during the quarter it was smaller than some of the other ones that we've had.

Stephanie Haggerty: Was the whole thing booked in the quarter? That would be unusual.

Leo Cooper: It was - no it was not revenue. That would be the annual run rate.

Stephanie Haggerty: You said run rate, okay got it.

Leo Cooper: Yes ma'am. Also Stephanie as far as the acquisitions are concerned, we did pick up a really, really talented individual in one of the acquisitions from Deventure. And as you probably know, the Deventure group has (unintelligible) very heavily into the eScripton environment. So we were able to gain certainly a very experienced rep who has focused predominantly on the eScripton model to date. And we're very pleased with the progress that we're making there.

We have four additional geographically reps. And in answer to your second question in regards to the territory, the VHA relationship is managed by the four regional sales directors for their particular area.

Stephanie Haggerty: Okay, I wasn't sure how you were doing that.

Leo Cooper: Yes, doing it geographically.

They're spread very nicely across the country in all the regions. So it works out really well. It gives us a chance also Stephanie, to focus four times faster

and four times more efficiently as well because the reps are out where the prospective customers would be. And our guys already have been working those hospitals in many cases as well. So it's working out to be a nice compliment.

Stephanie Haggerty: So make it clear for me. How many actual feet on the street do you have now?

Leo Cooper: We have five feet on the street.

Stephanie Haggerty: Okay. And...

(Crosstalk)

Stephanie Haggerty: That didn't count you, Leo, did it?

Sue McGrogan: And Stephanie, (unintelligible) on the feet the street too.

Leo Cooper: Yeah, Stephanie, exactly. Well you know I'm out there. So let's make it six.

Stephanie Haggerty: Well I know Sue's out there and I know Larry's out there and so.

Leo Cooper: And don't forget Lance either.

(Crosstalk)

Leo Cooper: Don't forget Lance, Stephanie.

Lance Cornell: Someone's got to get the contracts done.

Leo Cooper: Because he's involved in every one of these big deals, I promise you.

Stephanie Haggerty: Okay. Okay.

Leo Cooper: Yeah, so yeah counting me we've got six. I've got five just really outstanding team members. So I'm very pleased with the sales team and...

Stephanie Haggerty: But only one picked up from the acquisition?

Leo Cooper: Just one.

Stephanie Haggerty: Okay.

Leo Cooper: At this stage.

Larry Gerdes: Stephanie, I would add though with TRS their CEO and one of their senior managers are continuing to drive their business through the rest of the year. And are setting a great stage for us in taking advantage of what Sue mentioned before, the great industry reputations they have. And Leo's working very closely with them. And they might even continue that relationship with us next year because they like the momentum Transcend's providing them.

Stephanie Haggerty: Well, that's great plus, you know, the job market ain't so great either.

Larry Gerdes: Yeah, there you go. Well, they've got their Barbados initiative too that they're working hard on. So that's keeping them busy on the other side.

Stephanie Haggerty: Well, just keep those sales coming. Thank you.

Larry Gerdes: Stephanie, I'd add one other thing that Leo and Sue and rest of the team accomplished the first quarter that I'm particular excited about. And they mentioned it earlier in the comments - we're starting to see hospitals with large in-house staff looking to Transcend as the ultimate solution including the people.

And we sold one of the biggest transactions we've ever sold. And we're in the process of implementing right now. It had over 40 people in the hospital that we've offered jobs to. It's hard to tell how many will come with us but just a wonderful partnership and the integration of that department with Transcend is - it's almost like an acquisition in itself.

And it's just a - it's a great thing to watch because hospitals are looking at their own costs and how to cut costs. And it's great opportunity for both of us.

Stephanie Haggerty: That's great.

Larry Gerdes: Yeah.

Stephanie Haggerty: In a deal like that, what is usually the length of the contract?

Larry Gerdes: Leo, how long is that one?

Leo Cooper: On average they're about three years, on average.

Stephanie Haggerty: That's what I figured. Okay.

Leo Cooper: Yeah.

Larry Gerdes: Great, thanks Stephanie.

Stephanie Haggerty: Thank you very much.

Sue McGrogan: Thanks, Stephanie.

Operator: Your next question comes from the line of Lenny Dunn with Freedom Investors.

Lenny Dunn: Good morning, good quarter.

Larry Gerdes: Hi, Lenny thanks.

Lenny Dunn: And it looks we could actually see better growth going forward than we saw this particular quarter. Unless I'm misreading the numbers.

Larry Gerdes: No, I think you're right about that.

Lenny Dunn: Okay, now, I had a question that I asked on the last call because you had alluded to, you know, partnering with companies and embedding the Transcend services in their offerings. And wanted to know how that's coming?

And also my thought would that you'd have all the records that you're producing would be great for data mining which is something that - everything that I read is something medical services ought to be doing.

Larry Gerdes: Well, you're absolutely right about the partnering approaches. And we are talking to partners.

Both to help them deliver continued solutions to their customer bases if they've got a transition plan in place. But also, we are just beginning an initiative on trying to determine where the value of the data that's coming through our records and through our pipelines can best be used by our customer base.

You know, we - these advisory board meetings that Sue's having with customers and noncustomers actually have been very enlightening. Our customers are asking us for data. They're asking us to participate in ways in which they can control costs within the hospital. And there are others out there in that data world too that are possible partners.

So, we are going to continue that. And I think as Transcend gets bigger in this marketplace, of course we'll have more visibility to more potential partners. And that'll make a difference but you're right on target.

Lenny Dunn: I know I like that but the data mining, I just - just seems that's that a natural because you can give them anonymous statistics that certainly would be very helpful both to the medical care of the patient and to better understanding of where their costs are going.

Larry Gerdes: Exactly.

It not only helps them determine how to deliver healthcare in the most efficient manner. It also helps them with the revenue cycles and all their billing activity. It's good all the way around and Sue heard that loud and clear from the customers and the others that were at her advisory board. They get very excited about the fact that we can make data available to them that before no, they had to find - get by hand, I guess Sue.

Sue McGrogan: And we feel it's a value add-in. And it also creates customer stickiness. The more value we can bring to the relationship (unintelligible) with our partners.

Lenny Dunn: That's all I had. Thank you and looking forward to the rest of the year.

Larry Gerdes: Good, thanks Lenny.

Operator: Your next question comes from the line of Jeremy Hellman with Singular Research.

Jeremy Hellman: Hi, good morning everybody.

Larry Gerdes: Hi, Jeremy.

Jeremy Hellman: Hi, guys. Wanted to see what's your IR calendar look like for the upcoming few months in terms of road. Being on the road either with analysts or independently just so, you know, we can help spread the word that - and get you guys in front of people.

Lance Cornell: We got a couple of things coming up. There's a conference in Florida in...

Larry Gerdes: June 8th and 9th, I think.

Lance Cornell: Yeah, and correct the first part of June. We've got a trip to Chicago planned to see a couple of folks. Those are the primary things on the calendar right now.

Jeremy Hellman: Okay.

Larry Gerdes: Should we talk to them about the IR.

Lance Cornell: Sure.

Larry Gerdes: We've loud and clear from lots of folks that we should consider getting outside counsel possibly with our investor relations initiatives. So we are gaining some traction in that regard. And we are strongly considering developing an IR relationship to get the word out just like you said.

Jeremy Hellman: Right and I presume after you guys do sign a formal agreement along those lines then they would probably do a nice, broad sweep with you guys at that point, one would think.

Larry Gerdes: Yeah, I would think so. That'd be part of the strategy.

Jeremy Hellman: All right. Okay, great and then one last just (unintelligible) some. What do you expect for the share count to be by year end this year and also for 2010 (unintelligible) out?

Lance Cornell: I wouldn't expect it to be, you know, (unintelligible) any acquisitions and neutral transactions. I wouldn't expect it to grow too much. You can probably take up gradually to about eight, nine or so. Maybe if the stock price really moved diluted might get as high nine but I think eight, nine is probably a little closer.

Jeremy Hellman: Okay, great. Thanks.

Larry Gerdes: Thank you.

Operator: Again, if you would like to ask a question please press star then the number 1 on your telephone keypad.

Your next question comes from the line of Dick Feldman with Monarch Capital.

Dick Feldman: Good morning.

Larry Gerdes: Morning.

Dick Feldman: My question is about the street - the feet on the street. You've tended to add people in non interval increments. You're experiencing success with your marketing efforts. Do you have any plans to increase the number of sales people?

Larry Gerdes: Dick, that's a question we get asked a lot. I'll let Leo answer that.

Leo Cooper: Yeah, Dick, as we talked about earlier.

The challenge with the sales additions is purely one of resourced revenue and the ramp time that it does take. I think that the driving factor, at this stage of the ball game, as to how fast we add reps will be our ability to generate incremental leads.

We talked about the VHA partnership which is a great way to generate leads. But our ability to continue to expand that program and generate high levels of leads through telemarketing and other areas help augment that curve. And shorten that curve so that it doesn't take us so long to get them up to a highly productive state.

But we do intend, at this stage of the ball game, to probably add reps not any time soon but to focus heavily on lead generation at this stage to give our outstanding people a chance really do well in their perspective regions. But

we will be adding, the question is when and I don't see it in the foreseeable future.

And with acquisitions that changes things and you know, certainly Lance there and Sue may want to comment on that. But there could be - if there are an acquisition is to occur one this year maybe or whatever, there might be some reps associated with that, that we'd have to take a look at that at that time.

Dick Feldman: And you get the lead generation through telemarketing and more recently through the relationship with VHA?

Leo Cooper: Yes. They're a multiplicity of ways that we generate leads. Obviously, customer references are the single best lead generation that is already out there today. So we - we're always working with our customers to give us references.

Our reps are having to do a lot of cold calls. And of course cold calling is difficult, as you know, to get folks on the phone to talk to you and that takes a lot of time. So telemarketing has been very good to us. So we'll continue to leverage telemarketing.

We've also tripled the size of our trade show initiative this year as well as quadruple virtually our media advertising marketing plan this year for 2009. And doing a lot more media advertising.

So we're actually touching all of the buttons, hopefully, that you need to be touching in the marketing initiative to get leads from all different places. But these partnerships are clearly ones that we would like to enhance our relationships with maybe some other partners if we can.

Lance Cornell: Leo, you want to touch on one other thing in terms of lead generation and that would just be the class ranking.

Leo Cooper: Oh yeah. Class is just a fantastic sales vehicle for us. And we've spent a lot in terms of marketing collateral. Some direct mail initiatives that we've put in place. Enhanced the Web site and so yes, we're leveraging that class ranking as we certainly should.

And not only our class ranking for '08 but the fact that we're the most consistent performer across the last three years within class of all (MCSOs). So, yes we are leveraging that.

Sue McGrogan: Leo, do you want to touch on the relationship with (Peter) and the (Saha) agreement that they have and the momentum that they're seeing? Even though Peter's is not one of the Transcend - he's not on the Transcend team. He's part of the team. I mean he's got a lot of momentum there.

So you want to just talk about him a little bit and the traction we're seeing like with our account that we just went live with.

Leo Cooper: Yes, and that's back kind of to Larry's point as well.

We do have an outstanding VP of Sales that is currently a part of the transition that's going on. And his name is (Peter Riley). And (Peter) has done just a phenomenal job in working with existing customers to generate some additional revenue.

As well as two or three current integrated delivery networks or GPOs to put it, that he's been working with. And so he and I are actually going out on the

road starting next week to meet with these other health groups, buy-in groups, and see if we can't expand the relationship based on the fantastic job that they have done so far.

And Sue alluded to one of them. But there are two other ones.

Sue McGrogan: And one of the things, you know, last year we're - we waited awhile to do acquisitions and we really wanted to be sure that we find a good fit culturally. And how the company speaks about their clients. And I really think we hit a home run with these two acquisitions in that regard.

Dick Feldman: Terrific. Okay, thank you.

Larry Gerdes: Thanks, Dick.

Operator: At this time, we have no further questions.

Larry Gerdes: Good, I'll just wrap it up if I could.

We're very excited about the momentum we're seeing at Transcend. And we're particularly excited about the fact that we are, again, now successfully finding great acquisition partners. And we're growing our top line the way we'd like to.

We still are committed as team to get this company to the size that we are a meaningful leader in the industry. But we want to do it the right way and continue to pay attention to our customer service, obviously first and foremost and financial performance et cetera.

We couldn't be happier with the people that we've partnered with at Deventure and TRS. They are great team members and great people to work with. And my hats off to the Transcend people as well as the people from those companies on how this integration of these two great acquisitions have gone.

We are going to continue to keep our eyes opened for acquisition opportunities, small and large. But we'll do them the right way. We are positioned for a great 2009. We've got nice momentum both on our internal sales as well as the partnerships we're starting to develop.

So as I always say, we appreciate everyone's support. We do need to get the name out and get more people aware of Transcend in the marketplace. And we're spending a little more time than we were before talking to investors. And we're happy to go. Lance and I and Sue too - Sue went on the last trip with me.

We're happy to go to talk to any potential investors that are out there. So thanks for your support. We look forward to talking to you as we complete our second quarter and obviously, we'll announce any other news that comes our way.

Thank you.

Sue McGrogan: Thank you.

Operator: Thank you. This concludes today's conference call. You may now disconnect.

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