

**TRANSCEND SERVICES**

**Moderator: Larry Gerdes**  
**July 29, 2009**  
**10:00 am CT**

Operator: Good morning. My name is (Wes). And I will be your conference operator today.

At this time I would like to welcome everyone to the Transcend Services Second Quarter 2009 Earnings conference call.

All lines have been placed on mute to prevent any background noise.

After the speakers' 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 (Wes). 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 call is Lance Cornell, Transcend's Chief Financial Officer.

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 June 30, 2009.

After we discuss our financial and operating results we'll conduct a question and answer period.

Now I'll ask Lance to state our disclaimer.

Lance Cornell: Good morning. We'd 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 the 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 parties associated with Transcend including but not limited to their access to capital and their financial condition.

Please realize that we 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 second 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 of 2008.

Larry.

Larry Gerdes: Thanks Lance. This was an exciting eventful quarter for Transcend. We increased revenue 42% to almost \$17 million and generated diluted earnings per share of 20 cents compared to 16 cents in the second quarter of last year.

Our annual revenue run rate is now in excess of \$67 million.

We have essentially completed the integration of the January 1, 2009 acquisition of DeVenture and we have made substantial progress on integrating the April 1, 2009 acquisition of Transcription Release Services.

The two acquisitions contributed approximately 3 cents to diluted earnings per share in the second quarter including \$118,000 one time transaction cost. We were very pleased with these results.

The Sales Team closed new business during the second quarter which we estimate will generate between \$2.6 million and \$3.2 million of annual revenue once fully implemented. Approximately 55% of this new business will be implemented on our BeyondTXT platform and 45% on third party platforms licensed by the customers.

Leo is very encouraged by the leverage we are getting from our VHA Group Purchasing Organization Agreement and we still have not detected any decreased demand due to the state of the economy.

There's always been plenty of competition in our industry and there are always competitors who will beat us on price from time to time but we continue to be able to sell at prices that allow us to meet our gross margin targets.

Before I go on into more operational detail, I'd like to turn the call back to Lance to discuss our financial results.

Lance Cornell: Thanks Larry. Transcend's revenue for the second quarter of 2009 increased 42% to \$16,966,000 compared to second quarter 2008 revenue of \$11,973,000.

On a pro forma basis if the January acquisition of DeVenture and the April acquisition of TRS had each been completed back on April 1 of 2008, second quarter 2009 revenue would have increased 17%.

As I stated on our first quarter call we expect revenue growth to easily exceed 30% for the full year. Gross profit for the second quarter of 2009 increased 39% to \$6,115,000 compared to second quarter 2008 gross profit of \$4,403,000. Gross profit was 36% of revenue in the second quarter of this year compared to 37% in the second quarter of 2008.

The slight decline in the gross profit percentage is primarily due to increases in some of our semi-variable operations infrastructure cost. Taken together the gross profit percentages from the two acquisitions had almost no impact on our overall gross margins in the second quarter.

Let me update you on the progress we're making with the use of speech recognition and offshore resources which both helped to improve our gross profit margins.

The gross profit margin for a customer on our BeyondTXT platform is typically higher than the margin on other platforms. Approximately 55% of our total revenue was processed on our BeyondTXT platform in the second quarter of 2009 compared to 64% in the second quarter of last year.

The change in the mix relates primarily to the addition of the DeVenture and TRS acquisitions in 2009 and the mix will shift back toward BeyondTXT as we migrate a portion of the newly acquired customers onto our platform.

Of the transcription volume that's processed on BeyondTXT approximately 61% was edited using speech recognition technology in the second quarter of 2009 compared to 47% in the second quarter of 2008 and 53% in the first quarter of this year.

Back in 2005 we established a goal of reaching 60% editing and it's gratifying to see that we have achieved that goal. Our entire team is thrilled with these results and we now believe that 65% editing is probably obtainable in the near future.

We processed 19% of the company's total transcription volume offshore in the second quarter of 2009 compared to 20% in the second quarter of last year. TRS has traditionally processed almost all of its work domestically whereas DeVenture processed about 20% offshore.

Our goal is to steadily increase offshore volume although to the extent that our revenue grows rapidly it could certainly be a challenge to increase the percentage of our total volume that we're processing offshore.

Operating expenses including sales and marketing, research and development, general and administrative and depreciation and amortization expenses increased 50% to \$3,293,000 or 19% of revenue in the second quarter of 2009 compared to \$2,202,000 or 18% of revenue in the second quarter of 2008.

Of the \$1,091,000 increase \$544,000 relates to growth in Transcend business, 429,000 relates to the operating expenses of the two acquired companies and \$118,000 relates to one time acquisition cost.

Operating income increased 28% to \$2,822,000 or 17% of revenue in the second quarter of this year including the one time transaction cost compared to \$2,201,000 or 18% of revenue in the second quarter of 2008.

EBITDA increased 30% to \$3,131,000 or 18% of revenue in the second quarter of 2009 again including the transaction cost compared to \$2,402,000 or 20% of revenue in the second quarter of 2008.

The company's effective tax rate was 37% for the second quarter of this year compared to 35% for the second quarter of last year. We did utilize all of our remaining federal net operating loss carryforwards during the second quarter and we've now joined the ranks of normal corporate taxpayers.

Net income increased 22% to \$1,756,000 or 20 cents per diluted share in the second quarter of 2009 compared to \$1,435,000 or 16 cents per diluted share in the second quarter of 2008.

Briefly, for the six months ended June 30, revenue increased 35% to \$31.9 million. The gross profit margins stayed constant at 36% compared to the same period last year and net income increased 19% to \$3.3 million compared to 2.8 million for the First Half of 2008.

Diluted earnings per share for the six months ended June 30 was 38 cents compared to 31 cents for the same period in 2008.

Transcend ended the second quarter of 2009 with \$7.8 million of cash and cash equivalents on hand after using \$4.6 million of cash for the two acquisitions. The company had 40 days of sales outstanding in accounts receivable as of June 30.

And I was extremely pleased with both our cash position and our DSO results this quarter especially given the fact that we were able to complete the two acquisitions in the first half of the year without incurring any bank debt.

As reported this morning TRS experienced some customer attrition that we had planned for based on our due diligence. The TRS revenue run rate is now approximately \$6.5 million compared to \$7.2 million when we acquired them. And customer base is stable and customer satisfaction is high.

We factored all of the potential attrition into the purchase price which does include an earnout of up to \$3 million based on fourth quarter 2009 revenue in sales. So the risk to Transcend was eliminated.

And we continue to have an active acquisition pipeline and hope to continue to acquire profitable transcription companies with at least \$5 million in revenue and satisfied customers as we go forward in the future.

And now I'd like to turn the call back over to Larry.

Larry Gerdes: Thank you Lance. Let me take a few minutes to focus on operations. Lance already mentioned one of the highlights for the quarter which was surpassing the 60% threshold for the portion of our BeyondTXT volume that is edited using speech recognition technology.

I couldn't be more pleased with this achievement and I want to personally congratulate all the people in Transcend that are involved with the progress that puts us at the head of the industry in this particular area.

After a long run with extraordinarily low customer attrition we did report that we lost three customers in the second quarter. This was due to one corporate decision. The customers themselves didn't want to make this change.

We're projecting that our customer retention rate will be somewhere in the range of 92% for this year which is below our goal of 95%. Fortunately we still believe that we can achieve an organic revenue growth rate in the 15% range and add to that with acquisitions.

We don't believe this is indicative of any particular trend. It's just the normal ebb and flow of the business. We'd like to be above average forever but that's not very realistic but at least we are far above the industry's average for the large service providers.

During the second quarter Sue's team focused on several initiatives to improve our already strong level of service. First we concentrated on improving our turnaround times and successfully improved our performance in this key area.

Secondly, we formed a team to review our quality assurance practices. They came back with several recommendations that we are implementing. The new process will ensure that we exceed industry standards for quality.

Finally we continue to invest significant time in developing our Management Team as we grow. We particularly focused on bringing our new Managers from DeVenture and TRS into the Transcend fold and getting them up to speed in our values and our model for providing excellent service.

We are well positioned for growth in a very dynamic industry. In our last call I discussed the impact of the electronic medical record in some detail. We create a large portion of the information that populates the electronic medical record. We are excited about the potential to more fully integrate our technology and services into EMR solutions in the future.

Healthcare is a large market and we believe the demand for traditional outsourced transcription services will continue to grow as the Baby-Boomers age and hospitals reduce in-house transcription cost in favor of an outsourced approach.

In conclusion I want to thank all of our employees including the former employees of both TRS and DeVenture for all their hard work in delivering excellent customer service and financial results this past quarter.

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

Operator: Ladies and gentlemen if you would like 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.

And your first question comes from Jeremy Hellman of Singular Research.

Jeremy Hellman: Morning.

Larry Gerdes: Morning Jeremy.

Jeremy Hellman: I wanted to start out on gross margin and make sure I heard what you guys were saying properly and reconciled out with what was in the press release.

And I just want to first off, Lance did I hear you say that gross margin was unaffected by the TRS and DeVenture acquisitions in the quarter?

Lance Cornell: There is a very negligible positive increase but essentially unaffected.

Jeremy Hellman: Okay. Because reading the press release I came out with the impression where you talk about BeyondTXT accounting for 55% of your total revenue down from 64% a year ago, that kind of got me a little bit backwards on where your margins were.

Thinking about gross margins then kind of throughout the rest of the year, do you expect anymore improvement of margin or you're looking for it to stay flat from here forward?

Lance Cornell: Yeah, generally speaking first of all on the two acquisitions, the TRS gross margins are actually very strong, slightly above ours. The DeVenture gross margins are below our overall average.

And blending the two of them together they ended up pretty close to our overall gross margin and didn't move the needle much one way or the other.

Second part of your question going forward, you know, as we've said before clearly the - a lot of the low-hanging fruit has been picked in terms of the improvement in our gross margins from the mid-teens up into the - to the mid 30s. We do still think that there's some opportunity for improvement. We're encouraged by, for example the increase in the editing percentages on BeyondTXT.

But a lot of it depends on ultimately on the shift in the mix between the BeyondTXT customers, the other platform customers, and our ability to utilize offshore resources and a whole host of other things.

But we still think there's some room for improvement there.

Jeremy Hellman: Okay, thanks. And then Larry at the end of your comments you mentioned an organic growth target of 15%.

And the number I've had in my head for sometime as an organic growth target was 20%. Just wanted to double check that I'm right on those two figures and if so, why the slight reduction in your organic growth target.

Larry Gerdes: You know we - for those of you who were around a year ago we were growing the top line in total about 14 to 15%.

And we knew as Leo grew the sales organization we can improve on that. We've said for a while that, you know, we felt that we ought to organically grow between 15 to 20%. Fifteen is obviously at the low end of that range but we want to be conservative. We were happy this quarter that we grew at 17.

When you look pro forma at how the companies would have grown if they had been in existence in both periods.

So, you know, I still would like to aspire for 20. I think 15% is realistic. And this quarter we happened to be right in the middle.

And I think in this industry and in a recurring service model 15% on the organic line is awfully good.

And of course we - Leo will answer this or speak to it later. We still have a relatively small sales force in an awfully big market and he's still coming up the curve on leveraged sales relationships like VHA.

So I hope we exceed the 15 actually.

Jeremy Hellman: Okay. So do I. Next on your class ranking, any updates on that? Is that something that gets updated annually, should that be somewhere in this timeframe?

Larry Gerdes: We - it gets updated at the end of each year. During the year class continues their surveys and we continue to get feedback on how we're doing on various factors.

You know we've always felt like first of all it's helped us tremendously being number one in the industry for the last year to 18 months. We want to make sure our scores improve overall. And we want to stay as one of the top companies in the industry.

We think we're still tracking as one of the leaders but it wouldn't surprise me at all to see us end up in the top two or three or four of the industry.

But I think of the large companies we've got a significant (enough) margin. I think we'll remain the top large company even when we come to yearend even though there's a lot of time left that has to go on.

So, you know, we still feel good about where we are with class. As a matter of fact Sue is monitoring some of the metrics she uses in her customer performance and she can possibly even comment to that because I think she's felt real good about some of the ranking.

Oh Leo I'll let you respond to it too.

Leo Cooper: Just that the fact that, you know, we're out there talking to perspective customers all the time.

And we focus on our consistency, you know, being at the top of the stack year in and year out. And that's really what - why our customers and prospects get excited about seeing us number one. They really do place the most value in our consistency year-over-year.

So we stress that in our discussion with prospective buyers and clients, again consistency is what we're striving for. We'd love to be number one but the much smaller transcription companies have such a smaller client base that has to be surveyed that the numbers tend to play against you over the long term in terms of being able to hit that high percentage.

But we expect to be among the top and we're doing a lot of things here internally to make sure that we're right there.

Jeremy Hellman: Thanks for that perspective. One more for me and then I'll give someone else a turn.

Just wanted to speak kind of conceptually about electronic medical records and the role of transcription can play kind of at the front-end of that as part of the construct of an electronic medical record.

Along that thought have you guys done anything to try and seek out any kind of government grant money that might be had to just help your R&D efforts or otherwise?

Larry Gerdes: We - I'll respond initially but then I'll ask the others to respond if they see fit.

We haven't specifically asked for government grant money in this effort. We have been reaching out to some of the EMR companies in the industry and most importantly we've been out talking to customers left and right.

And we've been asking those customers where they see the role of transcription in that overall record as they implement the various electronic records that are out there.

For the most part we are hearing that customers are moving some things to the electronic record maybe in the ER area or ambulatory care. But very seldom are we seeing a lot of movement on the main parts of the transcription effort because it still remains, our opinion and our customers, the dictation is a much easier methodology for doctors to employ that doesn't force them to change their behavior to produce that part of the record.

So I would say - the thing I would add to it is we are going to make a pronounced effort to make sure that we're part of the integrated solution for

these EMR companies so that when it comes to the dictation and transcription portion, Transcend's there.

I would add that because of our recognition in the industry and the momentum we've seen the last year or two we're seeing that those discussions are actually increasing. Because I think the electronic medical record HIS companies are seeing the fact that a partnership with a transcription company is going to be very important because of the role we play in that record.

So Sue or Leo would you add anything to that?

Leo Cooper: Just the fact that we'll continue dialogue with them.

And it's a pretty wide swing from EMR companies to EMR companies to have a new transcription.

But we are certainly in touch with quite some number of them right now in terms of partnership.

Jeremy Hellman: Thanks everybody.

Larry Gerdes: Thank you Jeremy.

Operator: Your next question comes from Mark Zinski of 21st Century Equity.

Mark Zinski: Good morning.

Larry Gerdes: Morning.

Lance Cornell: Hi Mark.

Mark Zinski: Hi. I guess this question is for Leo. Leo I was just wondering if you could potentially just comment on how the VHA contract is going and specifically how revenue from that contract in this quarter compares to the prior quarter.

Leo Cooper: Glad to. We are very pleased with the progress that we have made with the VHA contract. I think as you all remember we literally lost that relationship in the early to mid-January. Actually did the training in mid-January.

And so we actually saw an up-tick last quarter. And in contract, (saw) the relationship and we're forecasting additional orders this quarter as a byproduct of the relationship.

So could not be more pleased at where we are right now as compared to where - you know what short period of time we've actually been active out there. It's a big...

((Crosstalk))

Mark Zinski: I think you had mentioned in the last call you did about I think 400,000 in revenue from the contract in Q1.

Are you pretty much at about that same run rate for Q2 or can you comment on that?

Leo Cooper: Do you have any comment on that?

Lance Cornell: I don't know that the revenue run rate from the acquired business, we certainly sold more in the second quarter than we sold in the first quarter. And I think the 400,000 was probably referenced in - to booking a sale.

((Crosstalk))

Leo Cooper: It would be safe to say that we more than doubled that number in the quarter.

Mark Zinski: Oh okay, great. That's helpful. Thank you.

And then are you guys seeing any type of pricing pressure with your offshore subcontractors?

Larry Gerdes: Oh that's a good question. You mean with prices going up from our subcontractors?

Mark Zinski: Yes.

Larry Gerdes: Actually the opposite is true. About two years ago when the exchange rates were working against us they were under margin pressure and there was a risk that we might consider raising their prices.

But since the exchange rate has improved and the dollar has strengthened they've actually had about a 20% improvement on the effective rate that they'd gotten.

And so I would say actually the opposite is true. We're continuing to evaluate. We had chosen for the last several months to allow them to keep that improvement.

But there's a chance that we might actually improve.

Lance would you respond to that?

Lance Cornell: Yeah, I would agree. I think that generally speaking I think it's stable to maybe slightly - some potential for some slight decreases. But generally I'd say it's pretty stable.

Mark Zinski: Okay, great. In terms of acquisition activity, you mentioned this, you know, a revenue minimum of 5 million.

Would there be potentially some larger acquisition opportunities out there?

Lance Cornell: We don't have a maximum on it. We are looking at transactions that are significantly larger than \$5 million and transactions that are down around the \$5 million range. Typically we find that the integration challenges of a larger one can be or for a smaller one can actually in some cases be tougher than some of the larger ones and so we'll look at them all across the board.

Mark Zinski: Okay. And then just last question in terms of the voice recognition technology, are there any mobile applications? I understand there was recently an acquisition in the space.

In other words I guess would doctors have any - would there be capabilities for any kind of, you know, new mobile applications for doctors to dictate at the mobile level or is that pretty much, you know, what's occurring, you know, presently with the voice files? You know would there be any possible advancements there I guess is my question.

Larry Gerdes: You know we've always provided the ability for doctors to use mobile devices like PDAs to doctor or however they want to send the voice files back to us.

So I think that maybe there was an acquisition maybe by Nuance that had some mobile technology. And I also know that our partner in speech has done some things on the iPhone.

But as far as our ability to provide them mobile dictation we can do it now through mobile devices because we can actually capture those voice files a number of ways.

I don't know if that answers your question.

Mark Zinski: Yes. Yeah it does. I just wasn't sure if there was any sort of new technology, you know, out there that I wasn't familiar with or something.

Well very good, thank you very much. That's it for me.

Larry Gerdes: Thank you Mark.

Operator: Your next question comes from (Kevin Goldstein) of Great Gable Partners.

(Kevin Goldstein): Good morning.

Larry Gerdes: Hey morning. How are you doing (Kevin)?

(Kevin Goldstein): I'm okay, thank you.

Larry Gerdes: Good.

(Kevin Goldstein): I have a couple questions on the acquisition front. First with TRS, you know, this is the first quarter that you had this business. So I guess you talked about DeVenture, that the integration largely done.

How far along in TRS are you and how much more in terms of margins you think you can get out of this business?

Lance Cornell: Let me. I'll speak to that one. In the case of TRS there are more customers for us to potentially move over to BeyondTXT.

And our plan is to continue to do that for the rest of this year. So in one sense you can say that the integration will go on for the rest of the year.

From a day-to-day operational perspective, we're fully integrated. Systems are, you know, our back office systems and things like that are all converted.

Everybody is a Transcend employee. The Management Teams are integrated and that sort of thing so all of that is done in essence.

Larry Gerdes: And to your last question about margin potential, I would say there that both acquisitions have exceeded our expectations.

Both in the manner - both in speed of being accretive we're pleasantly surprised but also the overall potential margins I think are going to be in excess of our margins which has always been our goal. But I think we're going to do awfully well in their EBITDA margins.

So I think Lance, if you'd agree, I think we feel very good about that.

Lance Cornell: Yeah, I think there's some potential. You know I'll get a little bit more specific. On TRS if we're able to move say 40% of the volume over to BeyondTXT and we're able to improve the margins for that business by 10

points then, you know, that's a reasonably meaningful - that's a 4 point improvement in their gross margin overall.

And I think something in that general range is very achievable. DeVenture has a smaller portion that we've really completed moving those over to BeyondTXT.

Bu DeVenture was primarily an eScription business and there wasn't much opportunity to move it over.

(Kevin Goldstein): And do you think that you can get some of the TRS business offshore?

Sue McGrogan: This is Sue. (Kevin) this is (Sue).

(Kevin Goldstein): Hi.

Sue McGrogan: Hey guys, I'm on the phone now.

Larry Gerdes: Okay.

Sue McGrogan: I can answer that. Yeah, we haven't even really begun to migrate the accounts to BeyondTXT. And we're starting on the fast track of that.

So when we move it to BeyondTXT that'll give us capability for offshore and editing. So it's going to be a fast move.

(Kevin Goldstein): Okay, the reason I ask is that, you know, you gave these - you referenced in the press release that the deals you have will have about \$67 million in revenue and \$12 million in EBITDA given the current structure.

And that's an 18% EBITDA margin. And that's actually below your company average.

So I'm kind of curious of how you get it to above the company average. And it sounds like it's BeyondTXT, it's offshore. I'm just kind of curious of the timing.

Sue McGrogan: The timing of the migrations. We're starting them actually this week.

And they're going to be moving pretty fast. We've gotten a lot of - we wanted to get a lot of buy-in from the customers to get stability. And we moved a little bit slower than we did with DeVenture.

And but we're on the fast track now for them. And we'll be able to migrate a good percentage of them - some of it offshore in our model.

(Kevin Goldstein): Okay. So where gross margins were unaffected by these two deals and then you had, you know, some gross margin decline because of the semi-variable cost. In the coming quarters we might see gross margins on a sequential basis at least creep up a little bit as this integration happens.

Sue McGrogan: Yeah.

Lance Cornell: Yeah, it takes a lot of work to move the needle by as much as a point in terms of offshore volume or BeyondTXT volume.

(Kevin Goldstein): Right.

Lance Cornell: But your conclusions are still correct that we've got the potential to move it in a northward direction. And also you got to, you know, keep in mind that we

had the 118,000 of one time cost down in the SG&A. So from an EBITDA or operating income perspective there's, you know, roughly in the neighborhood of a point or so of improvement there.

(Kevin Goldstein): And then just similarly, if TRS finished the year with \$6.5 million in sales as you described, would they hit - would they get that \$3 million earnout?

Lance Cornell: The earnout is structured such that they have to hit, Larry you might have to help me out here, 2.1...

Larry Gerdes: Of fourth quarter revenue.

Lance Cornell: ...of fourth quarter revenue. If they hit 2.1 of revenue in the fourth quarter they, and had some backlog going into next year, they would achieve that. And current run rates (in that) would be, you know, less than that.

But they've got a pretty significant pipeline that we're hoping to close and implement. So, you know, we'll see how it goes.

We - its in all of our best interests to have them maximize that earnout.

Larry Gerdes: TRS. This is Larry. TRS has already had one large customer that was happy enough with them and Transcend that they've given us the rest of their business and totally outsourced.

And they've got two others that are indicating the same thing. So we are hopeful that the ramp will take them to earning all of that earnout. They're very driven to get that done.

And then as you can surmise they'd be at an \$8 million run rate.

And like Lance said they also get some credit that can offset a little bit of that fourth quarter revenue with a backlog. If we entered next year with a backlog of sold but uninstalled business, they get some credit for that.

So, you know, we sincerely hope they earn all of it and it will be the result of improving on that existing \$6.5 million run rate.

(Kevin Goldstein): Okay. And one large customer increased their sale, I guess you wouldn't necessarily have seen those sales yet. But its in the backlog right now.

Larry Gerdes: No. That had been installed the last couple of months, hasn't it?

Lance Cornell: Yeah, we've seen a little bit.

Larry Gerdes: Yeah, a little bit.

Lance Cornell: Last month....

((Crosstalk))

Larry Gerdes: Yeah.

(Kevin Goldstein): Okay. All right, well good luck. Thank you.

Larry Gerdes: Hey thank you.

Operator: Your next question comes from Lenny Dunn of Freedom Investors Company.

Lenny Dunn: Yeah good morning and...

Larry Gerdes: Morning Lenny.

Lance Cornell: Hi Lenny.

Lenny Dunn: Yeah, hi. Good quarter. You know the slippage a little bit in your customer base seems like it's going to get offset later in the year anyhow because a lot of that came from the TRS acquisition which, you know, takes time I guess to get it back to where it's going to be.

But if it's going to get to the \$8 million run rate by the end of the year, you know, more than offset what you lost.

Lance Cornell: Yeah. And let me clarify just for a second Lenny. This is Lance.

((Crosstalk))

Lenny Dunn: Yeah.

Lance Cornell: You know we still think the 2.1 - to achieve 2.1 in the fourth quarter is a stretch for them. To get to the 2.1 run rate maybe by the end of the year isn't so much of a stretch. But it's - they have a, you know, a challenge ahead of them.

But we're really looking at it more in terms of where do we end the year and how do we go into next year.

Lenny Dunn: Okay. And my other question is related I guess to the sales pipeline.

What do you expect to achieve on an install base during the third quarter and the fourth quarter? In other words I understand what you've sold but, you know, I also understand the length of time that it takes to integrate, you know, these systems.

And when you make a sale it's six months down the road by the time you start seeing revenues.

So do you think we'll see the install base of revenue growth grow reasonably well in the third and fourth quarter? What are your expectations for installation of already sold business?

Lance Cornell: Sure. Well if you - I don't have it quantified perhaps quite the way you'd like.

But I'll give you a for instance. If you take the roughly 3.2 million we sold in the - in this past quarter, call it 3 million, we would certainly expect that we'd be up at the full annual run rate for that business by the end of the year.

We usually say that we will see very little revenue from those sales in the third quarter. And in the fourth quarter for general purposes, for forecasting purposes it depends on the individual transaction.

But we usually say that forecasts about half of the full run rate.

So \$3 million would be half of 750 for the quarter or 375 and then the full 750 in the first quarter of next year. That's just sort of a rule of thumb to use.

And, you know, obviously our goal is to always to try to implement them as quickly as possible.

Larry Gerdes: We do have the phenomenon we've seen in the last few years that there is some seasonality in the third quarter. And then we bounce back in the fourth quarter.

But other than that Lenny what Lance says is true. You know we track with that kind of progress on our sales.

And I would add this to it and let Leo expand on it, we feel very good about the sales momentum both in the last two quarters. And how it's spread among our Sales Team and how we're performing.

And Leo is actually tracking ahead of our original business plans on the sales side which is very encouraging to all of us and I don't expect that to do anything but continue.

Leo would you...?

Leo Cooper: And also the fact that we - and we looked at the forecast for the back part of the year. As Lance mentioned the contribution can still be significant so long as we bring in some of these Q3 deals early on and that's exactly what's happening.

So we're having a good strong start to the quarter and some that can have a significant revenue impact, some of which is in - are in the plan and some of which are not so we're looking for a good strong back half of the year.

Lenny Dunn: Okay. And I remember earlier in the year you're waiting for one of your customers to do some things so you could implement some business that was sold.

Is that up and running now?

Leo Cooper: We have virtually all of the earlier closed business this year either scheduled or already running.

Lenny Dunn: Okay, good. Good, so the third quarter may look a little bit better than it normally does versus the second but we'll look forward to seeing how that evolves.

Larry Gerdes: Great, thanks Lenny.

Operator: Your next question comes from Mike Latimore of Northland Securities.

Mike Latimore: Good morning.

Larry Gerdes: Hi Mike.

Man: Mike.

Mike Latimore: (Folks). Just I'm focusing on your new deals that you won in the quarter. Are all those customers going to be using either your or the other vendors speech recognitions offer?

Lance Cornell: They would be - about 55% of it was BeyondTXT and so that portion would certainly be eligible for speech recognition; 45% of its on other platforms. Some of that will be typed, some of that will be edited. I don't have the exact breakdown there.

Mike Latimore: Okay. And what were the kind of key catalysts for the customer's decision? Was it to replace the internal people? Was it adding another outsourced vendor, a technology decision? What were the, kind of the key decisions?

Leo Cooper: Let me just look kind of gaze at the quarters for just a second. The bulk of business that came in over the quarter is replacing competitive outsourcing companies.

Mike Latimore: Okay.

Leo Cooper: Most of which were driven by the satisfaction levels with quality turnaround time and/or customer service.

Mike Latimore: Okay, very good. And then just last question, you had talked about the, you know, your general use on the EHR markets.

And I'm wondering do you see EHR, you know, the system vendors adding their own speech to text or dictation software into their broader system or do you think that that function will be distinct and, you know, that'd be provided by something like a BeyondTXT or a separate technology vendor?

Leo Cooper: We see their focus right now very heavily on other functionality to compete with other EMR companies. We don't see that as a mainstay in terms of their focus for the foreseeable future.

Also again to comment on EMR, there's two distinctly separate worlds of EMR out there. One is the ambulatory environment, which are EMR systems that go into physician practice groups. Those are the ones that (bake through) the Templeton technology that the questions have been kind of circled around.

In the acute care side of the house where you got your (sure) environment, you're with Millennium, you've got McKesson world, Siemens, Eclipses and those players. We don't see that extent. The Templeton is not that big of a part of the overall solution set that appeals there.

So we don't see a direct hit in that environment overall as a byproduct of transcription being threatened as a general...

((Crosstalk))

Leo Cooper: Now it's interesting that you ask that question because I haven't even mentioned it to the Senior Management Team. I received two calls this week from leading EMR companies that are interested in talking to us about some sort of partnership.

And so it's interesting to see how they continue to reach out to us because I think they discovered at the end of the day that physicians would far prefer to dictate where they can.

Lance Cornell: And I think its important to point out too that we already interface our reports back to - the way that we distribute reports back to hospitals in a lot of cases into one of their healthcare information systems including EMR solutions.

So what we're really talking about here is tighter integration which would allow the EMR vendor to provide - think of it this way, provide a solution whereby the doctor could dictate and the dictation comes back to Transcend just as it always has. But it's a little bit more integrated on the front-end versus picking up the phone and calling.

Larry Gerdes: And one thing I will add that we're at the final throws of and I think we've mentioned this on these calls before. We've had some customers who've asked us to consider providing a solution where the draft can go back to the doctor to give that doctor the choice of whether he wants to edit his own draft which predominantly isn't the case. But in radiology that is a factor.

And so we're in the final stages of partnering with two of our customers on the development of something that we call right now Real Time or Front-End Speech, which means it goes through the same workflows that all of our other work does but it provides that one little additional point of flexibility, and that is the physician can review and edit that document if the physician chooses.

In radiology the reports are shorter enough that there is a chance the physician might want to review it. In the longer documents that predominantly make up the health information management area of hospitals, that won't nearly as often be the case. They'll still want us to edit that draft.

Mike Latimer: Great, very helpful. Thank you.

Larry Gerdes: Thank you.

Operator: Your next question...

Sue McGrogan: And if I can add - can I add something as well?

Larry Gerdes: Sure.

Sue McGrogan: I'm out in the field about 50% of the time visiting our customers.

And one of the things that I can in this environment is that it's really enhancing our partnerships with our customers. They're asking us for different things. We're becoming more of a consultative vendor and partner for them.

So there's really a lot of opportunities. And we're really excited about where we're going right now.

Larry Gerdes: In fact Sue you might as well tell them. Today you're at one of our larger system customers who are looking at how Transcend can partner in delivering our services across their entire system.

Sue McGrogan: Exactly. And really it's because we have the technology. You know we're first and foremost a service company but we're seeing how decisions we've made years ago in terms of our technology has really brought - bore fruit right now.

Larry Gerdes: Yeah.

Operator: Your next question comes from (Mike Henney) of Benchmark.

(Mike Henney): Good morning. Thanks. Actually all my questions have been answered.

Larry Gerdes: Okay, that's great (Mike).

(Mike Henney): That's what happens when you're slow with the keypad.

Larry Gerdes: There you go.

Operator: Your next question comes from (Wayne Komasar), private investor.

(Wayne Komasar): Hi, great quarter.

Larry Gerdes: Thanks (Wayne).

(Wayne Komasar): I wish every company - I bet every company wishes they could grow 17% in this environment.

Larry Gerdes: There you go, I appreciate.

(Wayne Komasar): Unfortunately the first thing the Dow Jones Newswire picked up and reported off of your press release was only the negative news. And I thought that was really unfair.

Larry Gerdes: Yeah, I...

((Crosstalk))

(Wayne Komasar): They reported the customer attrition, not just in this quarter but in the second half of the year and they chose to highlight the negative from your press release.

And I'm just wondering if you could be very specific about the exact amount of revenue that you see is going to be lost both from this quarter and - or how much revenue were these customers generating and how much does that really represent to you in terms of lost revenue.

Lance Cornell: Well the losses in the - for the first half of the year probably take us down to roughly at 95% customer retention level, and so if you take 5% of our first quarter revenue that would give you an idea of the impact.

Now, you know, obviously that's before new sales come on board and add back to that.

And, you know, the second half of the year we'll just see. We were being pretty conservative to say that we would expect to lose a couple more in the second half of the year, maybe too conservative.

But, you know, that's the reality. We plan for that. We don't retain all o four customers forever.

So but in terms of which customers and how much volume, it remains to be seen.

Larry Gerdes: Well and I - let me add a couple of things to this because I think your points are well taken. We wanted to be as transparent as we could.

And of course long ago we started talking about the advantages of customer retention. And the fact that our retention is so much higher than the industry's it's a real advantage to us.

But I would say this. We've also mentioned in the past that when we lose customers, they often times have an opportunity to come back to us. It's actually happened to us twice where customers have gone because overall corporate decisions and then they couldn't raise enough (cane) in their new environment that they've asked to come back.

Sue is actually in contact with the customers that have left us just to make sure that their satisfaction levels and their requirements for service are being met.

And we've done a very good job of keeping the dialogue open so they know we'd be happy to have them back. So it's not to say that may not happen too.

But I do find it interesting that people always focus on the negative and our attempt at being transparent was the headline.

(Wayne Komasar): So.

Sue McGrogan: Yeah, (Wayne), and that's - I agree. Its unfortunate that that is the headline and I do want to stress that, you know, we're delivering the same service if not better. I think we get better everyday.

And its unfortunate to lose any customers. We don't want to lose any but we know that's not realistic.

And we have not lost any customers due to dissatisfaction which, you know, we don't want to lose any customers for any reason but, you know, I'm proud of the work the team's done. And nothing has changed.

And the people that really know us know that so.

(Wayne Komasar): Well do I understand then that when you say 95% retention or 92% retention you're not talking then about losing 5% of your customer base or 8% of your customer base. You're counting it in terms of revenue.

So in other words if you're saying 92% retention that means you've lost 8% of your revenue and not 8% of your customers.

Lance Cornell: We do talk about it in revenue terms as opposed to number of customers' terms.

Larry Gerdes: Yeah, that's a good point.

(Wayne Komasar): So how do you feel that the new sales will offset the loss in revenue from the lost customers?

Lance Cornell: Well we sort of explain that in the sense that we still think that 15% organic revenue growth is achievable and sustainable. And as Larry mentioned he'd certainly would like to be north of that. We all would.

But we feel like 15% is a reasonable goal.

Larry Gerdes: And that takes all that into account.

Lance Cornell: That takes all that into account, any attrition, growth in existing customers plus new sales.

(Wayne Komasar): Okay. Well that answered my questions. Thanks.

Larry Gerdes: Thank you.

(Wayne Komasar): I feel like it's unfortunate that that was what the Dow Jones Newswire chose to pick on. That was the one item they picked out of your entire press release, not the great growth in revenues or earnings. That's what they focused on.

Sue McGrogan: I agree with you. And thanks (Wayne), we appreciate your support and we have some great investors out there that really know who we are and they're not going to believe, you know, that's all just bluff.

Operator: And at this time I'm showing no further questions.

Larry Gerdes: Okay. Well I just want to thank everybody again for the support.

And as you've heard from Lance, Leo, Sue and I we are very excited about where Transcend is headed and where we're positioned in the marketplace.

I would add one other thing to the questions that we've already been asked. A year ago at this time Lance and I and the rest of the team were frustrated in the fact that we weren't able to make acquisitions because we always felt this industry had the opportunity to not only provide organic growth with someone like Transcend but there was a consolidation opportunity as well.

We saw that starting to turn last fall and we couldn't be happier with the two acquisitions we've made this year and the great people and great customers we've obtained as a result.

So we feel very good about the fact that we see top line growth in excess of 30% and continuing improvement up and down the P&L. And that's something that we told all of you last year that we wanted to accomplish. We wanted to get our growth rates higher than the 14 and 15% we saw a year ago.

So we as a team feel very good. We feel very good about the momentum. We are in an industry that has some exciting change going on. This movement toward the electronic record and patient information does nothing but help enhance our offering and what we can do in the industry and what we can do to develop potential partners.

So we're very, very focused on that to make sure we take advantage of the position we're in.

So in summary I'd like to thank the Management Teams both of Transcend but also the people who joined us from TRS and DeVenture for all the work they've done and where they've gotten this company positioned, and finally obviously the support of our investors and our Board in continuing to chart this course.

So, you know, with that we will talk to you at the end of the third quarter and continue to provide you with hopefully great results.

Thank you.

Sue McGrogan: Thank you.

Operator: Ladies and gentlemen that concludes the Transcend Services second quarter 2009 Earnings conference call. We appreciate your time.

You may now disconnect.

END