

TRANSCEND SERVICES

**Moderator: Larry Gerdes
October 28, 2009
10:00 am CT**

Operator: Good morning. My name is (Latanya) and I will be your conference operator today. At this time, I would like to welcome everyone to the Transcend Services Third Quarter Earnings 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 than the number 1 on your telephone keypad. If you would like to withdraw your question, press the pound key.

I will hand the floor to Mr. Larry Gerdes, CEO. Thank you. You may begin the conference.

Larry Gerdes: Thank you, (Latanya). Excuse me, thank you, (Latanya). Good morning. My name is Larry Gerdes. I'm Chairman of the Board 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 President and Chief Operating Officer; and Leo Cooper, our Executive Vice President of Sales and Marketing, who will join us later in the call.

This call is regarding Transcend's operating results for the quarter ended September 30, 2009. After we discuss our financial and operational results, we will conduct a question and answer period. Now I will 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 third 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 Gerdes: Thanks, Lance. Three milestone events occurred in the third quarter. First, we acquired Medical Dictation Services, or MDSI. Second, we signed a new sole source agreement with HMA; and finally, we promoted Sue McGrogan to President of Transcend. We'll elaborate more on these milestones in a minute.

We continue to execute well from a financial standpoint, increasing revenue 52% to \$18.5 million and generating diluted earnings per share of 20 cents, compared to 17 cents in the third quarter of last year; and it also includes \$144,000, or one cent per share of charges related to the MDSI acquisition and the restructuring of our financial arrangements.

Our annual revenue run rate is now in excess of \$84 million. Our success was recently recognized by Forbes which ranked Transcend the sixth best performing small public company in the U.S. based on one and five year sales growth, earnings per share growth and return on equity.

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

Lance Cornell: Thank you. We have completed three acquisitions this year that have had a significant impact on our operating results. As Larry mentioned, Transcend's revenue for the third quarter of 2009 increased 52% to \$18,491,000 compared to third quarter 2008 revenue of \$2,161,000.

MDSI contributed \$1,240,000 of revenue in September. Excluding the three acquisitions, our revenue grew 17% in the third quarter compared to the same period last year.

As those of you who have followed us for some time are aware, we do have some seasonality to our business because of our concentration of business in Florida. Hospital census numbers in Florida typically drop during the summer months and increase when the snowbirds return from the North in the fall, and this year is no exception.

Gross profit for the third quarter of 2009 increased 46% to \$6,574,000 compared to third quarter 2008 gross profit of \$4,518,000. Gross profit was 36% of revenue in the third quarter of 2009 compared to 37% in the third quarter of 2008.

The slight decline in the gross profit percentage is primarily due to increased investments in our implementation and support organizations to help drive the integration of our acquisitions, as well as a shift in the mix from our BeyondTXT transcription platform to other customer platforms due to the 2009 acquisitions.

In the third quarter of 2008, 66% of our revenue was generated on BeyondTXT. In the third quarter of this year, the mix had dropped to 52% on BeyondTXT and in the fourth quarter, we expect the BeyondTXT mix to drop into the mid 40s due to the impact of our MDSI acquisition.

The work we produce on BeyondTXT typically results in higher gross margins due in large part to the cost savings we generate from our use of speech recognition technology.

An important key to our acquisition integration strategy is to move as much business as possible on to BeyondTXT over time. We have completed that process with our first quarter DeVenture acquisition, started the process for our second quarter TRS acquisition and expect to start the process for MDSI in the fourth quarter.

We continue to make progress in improving the percentage of our BeyondTXT volume that is edited using speech recognition technology. Approximately 64% of our BeyondTXT volume was edited versus typed in the third quarter, up from 51% in the third quarter of last year and we were

very pleased with these results. Our near term goal is to achieve 65% editing and we're almost there. We are frequently asked why 100% of our BeyondTXT volume isn't processed through speech recognition technology; and there's several reasons for this.

When we bring new customers live on BeyondTXT, we type 100% of the work at first while the speech engine builds the voice profiles for the individual physicians; and once a physician's profile reaches a certain threshold, the system starts producing drafts for our people to edit.

And it typically takes about six or seven months before a new customer has reached their maximum speech recognition potential; and even then, each customer has new physicians coming on board or low volume dictators whose reports are typed, at least at first. And frankly there are a few physicians who never develop acoustical profiles that meet our standards no matter what we do.

We processed 19% of the company's total transcription volume offshore in the third quarter of 2009, compared to 20% in the third quarter of 2008. MDSI and TRS have traditionally processed almost all of their work domestically; whereas DeVenture processed about 20% offshore.

Even though our volumes should continue to increase, we expect our overall offshore percentage to drop a point or two in the fourth quarter due to the impact of MDSI. Our goal is to steadily increase our offshore volume although the percentage of total volume processed offshore can vary depending on the impact of acquisitions as well as the rate of top line growth.

Operating expenses which include sales and marketing, research and development, general administrative and depreciation and amortization

expenses increased 62% to \$3,595,000 or 19% of revenue in the third quarter of this year, compared to \$2,221,000 or 18% of revenue in the third quarter of 2008.

Of the \$1,374,000 increase, \$846,000 relates to operating expenses of the three acquired companies; \$444,000 relates to growth in Transcend's business and \$84,000 relates to MDSI acquisition costs.

Operating income increased 30% to \$2,979,000 or 16% of revenue in the third quarter of 2009, compared to \$2,297,000 or 19% of revenue in the third quarter of 2008.

The operating margin was impacted by the slight drop in the gross margins I just discussed, the transaction costs for the MDSI acquisition and increased compensation and employee benefits costs as we have grown.

Interest and other expense increased to \$116,000 due to one month of interest on the debt that we incurred to acquire MDSI, as well as a charge of \$60,000 associated with terminating our prior financing arrangements.

Our effective tax rate was 36% for both the third quarters of 2009 and 2008. Net income increased 24% to \$1,835,000 or 20 cents per diluted share in the third quarter of 2009, compared to \$1,484,000 or 17 cents per diluted share in the third quarter of last year.

We estimate that the three acquisitions contributed somewhere in the range of four cents to diluted earnings per share but to be honest, we've done so much integration work already that it's really not too easy to split out the impact of the acquisitions on net income.

Results for the nine months of 2009 include the post-acquisition operations of MDSI, TRS and DeVenture which were acquired by Transcend on August 31, April 1 and January 1 of this year, respectively.

Revenue for the nine months ended September 30 increased 40% to \$50,387,000 compared to \$35,863,000 for the first nine months of 2008. Excluding the three 2009 acquisitions, revenue for the nine months grew 16% over prior year.

The gross profit margin was 36% for both periods and operating income for the first nine months of 2009 increased 25% to \$8,347,000 compared to \$6,664,000 for the same period last year.

Net income for the nine months of 2009 increased 21% to \$5,169,000 or 58 cents per diluted share, compared to \$4,279,000 or 49 cents per diluted share for the first months, nine months of 2008.

We estimate that the three 2009 acquisitions have added somewhere around seven cents to diluted earnings per share this year and we're very pleased with these results.

Transcend ended the third quarter of this year with \$7.2 million of cash and cash equivalents on hand after borrowing \$7 million under our credit facility to acquire MDSI and using \$9.3 million of cash in the third quarter in the MDSI acquisition.

We're fortunate that we haven't seen any deterioration in our accounts receivable due to the adverse economic conditions. Our days of sales outstanding in accounts receivable as of September 30 was 40 days excluding MDSI, or 39 days including MDSI.

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

Larry Gerdes: Thanks, Lance. I'd like to start by saying how excited we were to promote Sue McGrogan to President of Transcend. Sue is the person who deserves most of the credit for creating our passionate, high sense of urgency, customer-centric culture that we all believe has been the foundation to our success. On behalf of everyone at Transcend, I'd like to congratulate Sue on her well-deserved promotion.

Let me comment on our sales activity during the third quarter. Leo and his team closed new business that we estimate will generate between \$3.5 million and \$4.4 million of annual revenue once fully implemented. This includes our new five-year sole source agreement with Health Management Associates, or HMA, to expand our services from 45 hospitals we serve currently to all 56 of their hospitals by the end of the first quarter of 2010.

We're very excited to deepen our relationship with HMA at the corporate level and to have the opportunity to serve all of their hospitals including any that they may acquire.

We estimate that the net incremental revenue from the contract will be approximately \$1.6 million to \$2.2 million per year. We've already brought HMA's in-house transcriptionists on board as Transcend employees, and that transition has gone very well.

Now we're busy working on the conversion projects. Historically our strength has been in single hospital sales. We believe the HMA agreement demonstrate that we can sell at the hospital system level and we also believe that more transcription decisions will be made at the corporate level in the future. These

are typically very competitive sales situations with aggressive pricing but the rewards can be great as well.

Last quarter, we went into some detail about our customer retention rates. Sue has some interesting news to report in that area and I'd like her to join in and discuss the retention rate now.

Sue McGrogan: Thanks, Larry. Last quarter we told you that we were projecting our customer retention rate for 2009 to be somewhere in the 92% range, which would have been below our goal of 95%. This included the loss of a large customer, actually two hospitals under one contract, to a competitor who offered a lower price.

The customer did in fact leave us but we stayed in touch and we got a call after, over Labor Day weekend actually, to ask us for help. There were severe problems with their new vendor and physicians were upset that reports were coming in with mistakes and backlogged rapidly.

We jumped on board and started working to get them caught up. The customer ended up terminating their agreement with the other vendor and came back to Transcend. Our relationship is now stronger than ever.

There are several lessons to be learned from this story. First, even when we do lose a customer, we always treat them with respect and provide the best service possible right up until the end. We don't burn bridges; who knows what can happen in the future.

Second, customer relationships are often deepened most by the way we respond to issues and problems. We aren't perfect; but if we respond quickly

and decisively and truly fix the problem, our customers often trust us more than if we hadn't had a problem in the first place.

Finally, it also proves that service still matters. A low price doesn't matter if the firm can't provide consistent service.

We're now projecting our customer retention rate to be approximately 95% for the year, right in line with our goal.

Larry Gerdes: Thanks, Sue. Next, I'd like to update everyone on the status of our acquisition activities. As you know, we completed the acquisition of Medical Dictation Services, or MDSI, at the end of August.

MDSI is headquartered in Gaithersburg, Maryland and they have a very strong customer presence in that region of the country.

Dorothy Fitzgerald, MDSI's owner has joined Transcend and is running the MDSI business, as well as focusing a portion of her time on business development. In fact, Dorothy and her team recently signed a large four-hospital system and they're actually in the process of installing that system currently.

MDSI brings us a business generating over \$14 million of annual revenue as of the acquisition date and has over 30 customers and about 450 great transcriptionists. This is the third acquisition we have completed this year and we don't expect to close any others before year-end so that we can focus on integration.

That doesn't mean we won't keep looking and developing our pipeline, we will. For each acquisition, we have a two-phased approach to the integration.

The first phase, which has completed for DeVenture and TRS, involves organizational and back office integration. We will complete this phase of the MDSI acquisition by the end of the first quarter of 2010.

The second phase involves the migration of as much business as possible to our BeyondTXT platform so that we can leverage our speech recognition technology and improve the gross margins of the acquired business.

This can take some time because it is often dependent on a customer's willingness to move and their cooperation in the process - after all the customer's satisfaction comes first.

We evaluate each potential conversion on a case-by-case basis. We have completed the second phase for DeVenture; it is in the process for TRS; and we will probably be ongoing for MDSI throughout next year.

I'm very pleased with the progress we are making on integration and believe that it's being done in such a way that it isn't distracting, providing consistent excellent service to our long-term customers.

I am excited about the role that Transcend can play in the industry as the need for health care documentation evolves and the adoption of electronic medical records, or EMR solutions, increases.

We believe that dictation will continue to play a critical role in documenting patient care and the transcription companies that will be most successful in the future will be the ones who can evolve into clinical information.

Companies who can turn what has traditionally been plain text into intelligent data that can be analyzed and used in many ways that have not been possible before including direct population of EMR solutions. We believe that we are well positioned to explore these opportunities as they arise.

In conclusion, I want to thank all of our employees, including our new friends at MDSI, for all of their hard work in delivering excellent customer service and financial results this past quarter.

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

Operator: Thank you. And 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.

Again, in order to ask a question, press star 1 now. We will pause for just a moment to compile the Q&A roster.

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

Mark Zinski: Good morning everyone.

Larry Gerdes: Good morning, Mark.

Lance Cornell: Hi, Mark.

Mark Zinski: Just wanted to start off on gross margin, I understand things must be pretty hectic trying to integrate all these acquisitions. But assuming if you didn't do any more acquisitions, even, let's say even through 2010, do you have any

kind of internal target for a timeframe when you're hoping to see, you know, more leverage coming through the gross margin segment?

Lance Cornell: Sure. There are a lot of moving parts, including the mix of our new sales and the extent to which those are on BeyondTXT or other platforms and that sort of thing. But generally speaking, if the new sales aren't impacting the mix and if acquisitions, and if we don't do any more acquisitions, then we would expect to see a continued migration over to our BeyondTXT platform.

We'd expect to see that BeyondTXT percentage increase; and typically when we acquire companies their gross margins are lower than ours and then we've got to do that integration work in order to bump them back up to our standards and MDSI is an example of that.

Their margins will impact our overall margins slightly in the short term until we start migrating them onto BeyondTXT at the end of this year and going throughout next year. But as we do that, we would expect to see some margin expansion.

Mark Zinski: Okay. In terms of sales and marketing expenses for the quarter, they were down sequentially. I was just wondering if there's anything unique going on there.

Lance Cornell: No, nothing too unique.

Larry Gerdes: It may just be timing of sales and sales commissions because it certainly has nothing to do with staffing.

Lance Cornell: Yes.

Larry Gerdes: How much is it down, Mark?

Mark Zinski: How much it down?

Lance Cornell: It can't be too much. It should be relatively...

((Crosstalk))

Larry Gerdes: Is it down as a percent or absolute dollars?

Mark Zinski: It's down in absolute dollars about, from 446 to 391.

Leo Cooper: Yes, that's just got to be timing of commissions.

Mark Zinski: Oh, okay. The only reason I mentioned it is, you know, there seemed to be a pattern, a pretty lengthy pattern of sequential increases, so I was just wondering why. Okay.

Lance Cornell: Yes, we're, Mark, we're pretty stable in terms of our sales expense right now for our basic core team. We are looking to add, as we've said before, add slowly to the sales force, maybe picking up another person this year and then looking at it each quarter as we go forward.

Mark Zinski: Okay. In terms of subcontracting arrangements, is the recent weakening U.S. dollar putting any pressure on your subcontractors to potentially, you know, raise prices to cover the effects of losses?

Sue McGrogan: No, this is Sue. No, it's not. We don't, when the price went up, we didn't, we didn't change the prices either way. They incur that risk.

Mark Zinski: Okay. And then I guess, last question is in terms of the VHA contract and what kind of progress is being made there in terms of signing up hospitals.

Leo Cooper: Mark, we're very, very pleased with the progress with the VHA contract and probably the best way to put it in perspective is that we are right on track with where we expected to be production-wise out of that contract year-to-date and for the full year.

Mark Zinski: Okay.

Larry Gerdes: And I think Leo has had recent experiences where VHA has let us into their customers and participated right alongside our sales folks in getting the sale done.

Leo Cooper: Yes, it's like any, it's a learning curve for the VHA community in terms of their sales force really understanding this solution set. They really made a lot of progress this year in understanding not only the transcription side of the equation better but understanding the Transcend story.

So we're very pleased with the support and the progress that they're making internally to support us out there; and in terms of our business plan and expectations, we are literally right on target with where we had wanted to be at this stage here. We'd always like to be further along the course, but we're in line with our business targets.

Mark Zinski: Okay, great. That's it for me. Thanks.

Larry Gerdes: Thanks, Mark.

Operator: Thank you. Your next question comes from the line of Mark - I'm sorry - Kevin Goldstein with Great Gable Partners.

Kevin Goldstein: Good morning.

Larry Gerdes: Hi, Kevin.

Kevin Goldstein: Hi, good morning.

Leo Cooper: Good morning.

Kevin Goldstein: I want to push a little bit more on the question about gross margins. Obviously, you guys are telling a story of buying businesses with lower gross margins, being able to integrate them, put them to BeyondTXT and then get some leverage there.

I was wondering if you could give, maybe quantify some of that opportunity, perhaps since DeVenture is done, maybe you could highlight where gross margins were when you brought DeVenture, then where they are now and where they're going to and maybe we can use that to help us think about TRS and MDSI.

Lance Cornell: Yes, without quantifying it specifically, I can tell you that the DeVenture margins are just, are fantastic. We're very happy with how that business has gone now that we're a couple quarters down the road.

TRS - actually, let me break it down this way. DeVenture had, I would call it in terms of their overall pricing of their contracts, I'd say they were mid-range pricing; and we've made a lot of progress on the cost side of the equation and improved the margins nicely.

On the TRS acquisition, their pricing was, was actually higher on average; so they started out with pretty decent margins, which was a little bit of an anomaly I'd say in terms of the acquisition targets that we look at and we're just starting to get some benefits from BeyondTXT, (VTREC), et cetera, which will improve those margins even more.

MDSI, I would say had lower margins than the other two and will probably impact us by, you know, in the range of a point or two short-term; and then it'll come back as we convert some of the customers over.

Larry Gerdes: Lance, is there any way for Kevin to take the size of the customer, make any - I guess he can't make an assumption with what percent will go through BeyondTXT because he won't know how much of that business can be converted.

Lance Cornell: Or, yes.

Kevin Goldstein: Well, how many basis points did you improve DeVenture's gross margins through this integration process, is another way to quantify that.

Leo Cooper: Boy, see we keep talking about overall margins from the whole company and not just gross margins.

Lance Cornell: Yes, I, it's several points but I don't have an exact number for you.

Kevin Goldstein: Okay. And then, along the same lines, do you think you'll get synergies below the gross margin line in areas like G&A, obviously you've taken on some overhead and can you over time bring that down or are you just adding to the business and keeping those as kind of geographic centers?

Lance Cornell: Yes, there should be some synergies there. We've clearly made some investments in both up in the indirect cost of operations as well as down in SG&A due to the acquisitions and you don't necessarily see all that in the, you know, in the impact of their earnings because we don't allocate all those costs.

But, you know, we had a payroll person here, we had an accounting person there. We, in the indirect cost of ops, we've definitely increased our support organization to handle the larger customer base and have integrated and centralized that down in our Brooksville, Florida office.

And on the implementation side of the house, we have so many projects going on right now in terms of new customers as well as conversions of existing customers that we've invested in that area as well.

Having said that, there's still some leverage that we can get there. We're not, you know, hiring more executive officers, that sort of thing obviously, but I would point out that included in our G&A expense is our benefits expense. And that's actually a fairly variable component of the G&A expense that grows in relation to the overall employee population.

Larry Gerdes: I would add one more dimension to what Lance said is that is with the smaller acquisitions, lots of the things below the gross margin line are duplicated and can be saved by doing the integration.

With a little larger organization, there's a little more of a requirement for some build-up of infrastructure here even though there's some reduction out there, but there should never be a case where we don't improve margins up and down that P&L.

Lance Cornell: Yes.

Larry Gerdes: And not just at the gross margin line.

Lance Cornell: Right.

Larry Gerdes: And our goal is, and I think you know this, Kevin, we don't want to acquire anybody that doesn't have the potential to ultimately arrive at EBITDA margins higher than ours.

Kevin Goldstein: Well, I guess the one other similar question is that you said these acquisitions added four cents in the quarter; well, a year ago you reported 17 cents. And I guess if I take 4 cents away from the 21 cents you reported pro forma, you would have 17 cents, you know, despite growing sales on an organic basis by 17%.

It seems a little bit, it seems you would have driven EPS growth more than that, but maybe you're talking about adding some costs for these integrations. So I'm just kind of curious, what do you think the organic growth of the business was on a, you know, profitability basis.

Lance Cornell: Yes, it's a good question. There's, it's difficult to tell, it's difficult for us to break out the acquisitions, first of all, in terms, when you get down into a net income level and do it accurately because of the integration that we've already done; and so we gave those as sort of our best estimates.

It's, I think the real answer to that question is had we not done acquisitions, we would have had a much simpler company with much, you know, just over 17% or so organic growth rate and would have made a lot fewer investments in technology and really every area up and down the company. And would

have seen some earnings growth there on a year-over-year basis clearly, and seen some leverage in P&L; but it's a more complicated scenario when you're integrating companies.

Kevin Goldstein: Of course. Okay. And then my last question, your sales, organic sales number was 17% growth which is a, you know, great number. And in the range of that 15% to 20% you guys have talked about, I was just wondering as you look toward the pipeline for the fourth quarter and for 2010 are you still comfortable with that kind of organic growth rate for you and versus the industry or is there any changes, is the pipeline better than you hoped?

Lance Cornell: No, we're comfortable in that, sort of that mid-teens range over the next couple quarters. You start to look out toward the second half of next year and that still is somewhat dependent on what we do from a sales and of course a customer retention standpoint.

Larry Gerdes: I, yes, there's a couple of dynamics going on that I'd add to this and I'll let Leo provide more color. We feel good about where we're at organically, and of course a lot of that has to do with the fact that we retain our customers at such a, so much of a higher rate than the industry. But the other thing we've said is we're starting to see larger system-wide decisions that Transcend's being asked to play in and part of that's because Transcend has increased in size to a sufficient level that we'll be considered by these large systems as an adequate solution.

So what we're hoping is we're going to see a little more leverage in our sales activity going forward and we're already seeing some evidence in that kind of activity in our pipeline right now. Leo, would you expand on that?

Leo Cooper: Absolutely, and as we look at our marketing, just to add to that, Larry, from a marketing perspective as well, we're working real, real hard to significantly increase our name recognition in the industry so that as decisions are being made and evaluations are underway, that Transcend becomes a part of those decision-making processes.

So it's a sales effort but it's also complemented by a very strong marketing effort to make sure folks know we're out there and that we are participating in more decisions.

Larry Gerdes: Good, thanks.

Kevin Goldstein: All right. Well, thanks guys.

Larry Gerdes: Thanks, Kevin.

Operator: Again to ask a question, please press star 1 on your telephone keypad.

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

Larry Gerdes: Good morning, Lenny.

Lenny Dunn: Good morning, Larry; and good quarter, very solid. I was very encouraged by the win back so rapidly that you got on that one contract that you lost; and unless I'm wrong, that bodes extremely well for the fourth quarter because now you have that back.

The fourth quarter historically is very strong; and you're going to get a full use of latest acquisition, so, you know, I would expect to see some pretty good results in the fourth and first quarter as a result of this.

Larry Gerdes: And those are both accurate observations, Lenny.

Sue McGrogan: Definitely.

Lenny Dunn: Oh, okay. I just want to make sure I'm not going to pencil in overly optimistic numbers but looks pretty good to me.

The other thing is that a few quarters back I'd asked you about, you know, aggregating some of the information that you get from all this transcription because it looked to me like that was a sales opportunity because you have so much information - obviously you'd have to redact the people's names but has any progress been made on that?

Larry Gerdes: Good question, Lenny. We have started an initiative in-house partnering with one or two of our customers on what kinds of data and information they would like to get back that would allow them to do a more effective job in delivering health care.

We're encouraged by the early response. We're encouraged by some of the things that it can do, both in putting Transcend at a different plane with that customer and that customer relationship by adding value to an existing relationship, and that may be just as important as generating an additional revenue stream.

But you're absolutely on target and that's why in my comments I said that we're very interested in taking more of an active role in the clinical

information process, both from a data utilization standpoint as well as a front-end feed into the electronic records.

Lenny Dunn: Yes, it seems like a good additional revenue source without adding more people, so.

Larry Gerdes: We hope that that's the ultimate conclusion. We can't put any flavor to that yet but it very easily could be because history to date it has been hard for people who have a use for that type of data to access it with the related diagnoses from inside the hospital. It's always been difficult to harvest any data from the existing systems that are already there in the hospital.

Sue McGrogan: And Lenny, this is Sue. I just got back from, I had a Customer Advisory Board up in Seattle that was attended by some of our large customers. And we were talking about some of the different initiatives that we were, that we're going to be doing and they actually immediately asked us to come back and talk more about it, so we're going back in the middle of November.

So it is very exciting. I think there is a lot of opportunity there and, you know, we're just real excited about how things are going.

Lenny Dunn: Well, thank you, thank you. That just seems like another source of revenue without adding overhead; but I'm really looking forward to both the fourth and first quarters because those are historically your strongest with the Florida business. And also this time you have the additional fold-in of all the acquisitions and the contracts that are sold but at the same time haven't been totally implemented. So things look pretty good.

Larry Gerdes: We are too, Lenny. Ironically this morning when I looked at our volume reports - we receive volume reports every four hours on all of our national

BeyondTXT customers - and we set a volume record yesterday, so I was intrigued to see that and that's part of this seasonality and we, we're very excited about the next two quarters as well.

Lenny Dunn: Okay. Well, thank you again.

Larry Gerdes: Thank you.

Operator: Your next question comes from the line of (Simon Roche), a private investor.

(Simon Roche): Good morning. Can you tell me the share count at end of the quarter please?

Larry Gerdes: Lance?

Lance Cornell: Sure. We were at - I got it right here - well, the fully diluted shares were, you've got on the balance sheet, it was 8728 outstanding at the end of the quarter.

(Simon Roche): Okay, so that's not the average for the quarter; that's the end of the quarter. I don't have those numbers in front of me.

Lance Cornell: 8728 as of the end of the quarter, correct.

(Simon Roche): Okay. I'm confused here. I'm looking, weighted average diluted shares outstanding, I'm seeing 9071.

Lance Cornell: Right.

(Simon Roche): So, you're saying 8728. I'm confused.

Lance Cornell: That's right. The diluted shares include the potential dilutive effect of stock options as if they were exercised, so it's higher than our actual shares outstanding.

(Simon Roche): Right, but I'm saying, what is the diluted shares outstanding as of the September 30 date if you have that?

Lance Cornell: Oh, that I don't have. We just do it on a quarterly basis.

(Simon Roche): Okay. And also this...

Lance Cornell: Yes, it wouldn't have changed too much. The only sizeable change during the quarter would have been the addition of about 120,000 or so shares for the MDSI acquisition which occurred on August 31.

(Simon Roche): Okay, great. And the next question is going to sound a little clumsy wording-wise, but maybe you can get the gist of it. The September run rate that translates into the \$84.1, does that September rate include the full run rate for the customer who left and came back?

Lance Cornell: That's a good question.

Larry Gerdes: It is a good question.

Lance Cornell: It does include first of all the one month of MDSI, which is what I thought you were going to ask. As far as that customer, it, they...

Larry Gerdes: It won't be total.

Sue McGrogan: No, it's not the total.

Lance Cornell: Yes, it's not the, it was a - I don't think it's going to have a dramatic impact but it did; they were gone for part of that month.

(Simon Roche): Okay. So it could be raised just a little bit in order to, you know...

Lance Cornell: Yes, a little bit.

Sue McGrogan: Yes.

Larry Gerdes: Yes, that's exactly right.

(Simon Roche): Okay. And the tax rate going forward, do you expect it to stay, to stay 36%?

Lance Cornell: Depending on what happens in Washington, right? Yes, assuming no other changes from Washington, I think probably the longer-term rate's going to be around - in the 37% range. It'll bounce around right in there, 36 to 38.

(Simon Roche): Okay, thank you.

Larry Gerdes: Thank you.

Operator: Again to ask a question, please press star 1.

Please hold for your next question.

Your next question comes from the line of (Osh Shaw) with Kaufman Fund.

(Osh Shaw): Hi.

Larry Gerdes: Good morning.

(Osh Shaw): This is Osh with Kaufman Fund; a couple of questions. First of all, can you tell me what the revenues for DeVenture and TRS were for the third quarter? I'm trying to figure out if they're growing.

Lance Cornell: Right, the DeVenture revenue was approximately \$1.5 million and the TRS revenue was approximately \$1.6 million.

(Osh Shaw): So both, I'm assuming, based on what the numbers you gave us in the prior quarters, that both of those businesses are growing revenues?

Lance Cornell: Yes, actually the, in the case of TRS, we talked about it on this last call, they had some initial attrition right at the very beginning that we had planned for and knew about during due diligence and so in effect, we modified the purchase price so that, to take that into account.

But outside of that, they have, both businesses have grown and the - I don't, did you mention the MDSI mercy sale?

Larry Gerdes: Yes. So, and then, we were encouraged to have a win very shortly after that we closed the MDSI acquisition.

(Osh Shaw): Next question is regarding sales; I see that you guys had a good bookings quarter of between 3.5 and 4.4 million. But if I strip out the HMA piece of it, it gets me down to 1.9 to 2.4 million in annual run rate; and that's lower sequentially and year-over-year from previous quarters. So can you explain what's going on there?

Lance Cornell: That's because we were so focused on getting HMA done, right?

Larry Gerdes: Go ahead, Leo.

Leo Cooper: Timing as much as anything. In the case of any sales pipeline in any sales quarter, there are certain contracts that either make it, you know, out of legal and in-house and some that don't. In this particular case, it was really an issue more with timing.

Larry Gerdes: We, I would add that we are very excited about the fact that right literally almost on the eve of HMA signing their agreement, we learned of another large hospital that they're bringing into their organization that is going to come our way, but Leo's right. It's timing and we did actually spend a lot of time making sure we got the HMA thing done correctly.

So it's not as much a function of our pipelines; if anything, our pipelines are probably strengthening as we go; but it's more timing and we feel awfully good about the fourth quarter and some relatively large decisions that could take place for fourth quarter.

(Osh Shaw): Last question is can you give us - even if you can't get the exact number - the size of the customer on an annual basis that you won back?

Larry Gerdes: I think we can. We can give a range. It was close to \$1 million to 1.5 million, wasn't it?

Sue McGrogan: Yes. Yes, it was \$1.2 million, I think. \$1.2 million.

Lance Cornell: Yes, that's about right.

Larry Gerdes: So it was large; it was good customer too. \$1.2 million.

(Osh Shaw): Okay, great. Thank you very much; good quarter.

Larry Gerdes: Thank you; appreciate it.

Operator: You have a follow-up from the line of (Simon Roche), a private investor.

(Simon Roche): Hi, again. Those four hospitals, if I heard correctly, that you said were signed by MDSI; are those included in the new sales for the quarter that have not yet been implemented?

Lance Cornell: No, they're not. No, they're not.

Larry Gerdes: No, they weren't included.

(Simon Roche): Okay, thank you.

Operator: There's no further audio questions at this time.

Larry Gerdes: Great. Well, as usual, as we always do; I would like to thank all of our investors for their support. As somebody said on the call, we're very excited about the momentum we've got going into the fourth quarter and the beginning of next year.

We had a very successful convention three weeks ago in Dallas for our industry. It's our most important convention and Transcend's leadership role was evident. We are very solidly looked at as the quality and the directional leader in the industry.

We're working very hard to do an effective job of integrating these acquisitions. One thing I'm impressed with Transcend's team; not only just the senior team but throughout Transcend, is we seem to learn every time we do something and so every acquisition we've made this year, we've done a more effective job of integrating as we continue to learn how to do it more effectively.

So we take very seriously the responsibility we have to not only our investors but the customers and employees of companies like MDSI and DeVenture and TRS. And we're going to work very hard to make the next quarter or two a very productive integration effort and be very selective as we look at new acquisition opportunities even though we won't continue or we won't discontinue that effort, we'll continue to try to build that pipeline.

So we thank you for your support. We would encourage your calls and questions going forward and look forward to talking to you the next time we have something significant to discuss.

Thank you.

Operator: Thank you for joining today's conference call. You may now disconnect your line.

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