

**TRANSCEND SERVICES**

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

Man: (Unintelligible).

Operator: Good morning. My name is (Carrie) and I will be your conference operator today. AT this time, I would like to welcome everyone to the Transcend Fourth Quarter Earnings Release 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, (Carrie). 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, Sales and Marketing. And they will also join us for the question and answer period afterwards.

The investor - this investor call is regarding Transcend's operating results for the quarter ended December 31, 2008. After we discuss our financial and operational results, we will conduct a question and answer period. And I encourage you to participate.

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 fourth 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, 2007.

Larry?

Larry Gerdes: Thanks Lance.

Two thousand eight was a great year for Transcend. We finished strong in the fourth quarter with an increase in revenue of 28% - or of 18%, a 28% increase in pretax income, and diluted earnings per share of 17 cents.

We continued to generate strong cash flow from operations, increasing cash on hand over \$12.2 million as of December 31. As I stated in our press release, the highlight of the year for us was the announcement that Transcend was ranked the number one transcription company in the 2008 best-in-class report. I'm very proud of our employees for working together to achieve this honor.

I'm sure some of you are wondering what impact the recession might have on companies like Transcend. We are very fortunate to serve the healthcare industry, which is typically somewhat recession-resistant.

Our services are crucial to any hospital's day-to-day operations. They have to get their reports transcribed. It's just a matter of who's going to get the job done for them.

It is true that in slower times hospitals may cut back on discretionary spending for things like capital expenditures, but our services don't require any capital outlays.

We haven't seen our sales opportunities stall out or disappear. It's also true that people may cut back to some degree on services like elective procedures, but this doesn't seem to have a noticeable impact on our volume. We still have to monitor the financial health of our customers.

And a good indicator of their health is whether or not they are paying their bills. Fortunately we only - we have only 43 days of sales outstanding and accounts receivable at December 31. And that was the same as a year ago.

So overall we've seen no slowdown in our sales pipeline, no decrease in volume, and no deterioration in our accounts receivable. We're very pleased to be in this position.

At this point, I'd like to turn it over to Lance to discuss our financial results.

Lance Cornell: Thanks Larry.

Revenue for the fourth quarter of 2008 was \$12.833 million, an increase of \$1.949 million or 18% over fourth quarter 2007 revenue of \$10.884 million.

We've been saying that our goal is to achieve organic growth of 20% and our 18% growth brings us closer to achieving that goal.

I think it's important to point out that the January 2009 acquisition of DeVenture Health Partners should add at least 10% of growth to our top line in 2009, which combined with our expected organic growth could result in a revenue growth rate above 25%. Of course, that assumes continued high customer retention and success in selling at recent levels.

Our gross profit increased \$1.086 million or 29% to \$4.769 million in the fourth quarter of 2008 from \$3.683 million in the fourth quarter of 2007. As a percentage of revenue, gross profit increased to 37% in the fourth quarter of 2008 from 34% in the fourth quarter of 2007.

We have three primary gross profit improvement strategies -- increasing the use of speech recognition technology, increasing the use of offshore resources, and leveraging our fixed and semi-variable costs as we grow revenue.

We increased the percentage of our volume that was edited using speech recognition technology on your BeyondTXT platform to approximately 35% of our total fourth quarter volume. This compares to 24% in the same period last year and was a substantial increase from the 32% we reported for the third quarter of this year.

Our goal is to increase this percentage to at least 40% over the next two years, depending on the mix of work on our BeyondTXT platform versus other platforms. About 19% of our work was performed offshore in the fourth quarter compared to 15% in the fourth quarter of 2007.

Our offshore partners help us staff our nights and weekends and are an important supplement to our domestic workforce. And our goal is to grow the percentage of work that's done offshore gradually. But we don't expect offshore partners to displace any of our domestic transcriptionists.

Our gross profit margin has also improved because we have been able to grow revenue without comparable increases in our operations management and support infrastructure. We're leveraging our fixed and semi-variable operations costs as we grow.

Operating expenses consisting of sales and marketing, R&D, general and administrative, and depreciation and amortization expenses increased about \$631,000 or 34% to \$2.486 million or 19% of revenue compared to \$1.855 million or 17% of revenue in the fourth quarter of 2007.

About 42% of this increase or \$266,000 is related to the expansion of the sales organization. We also expensed approximately \$143,000 of acquisition-related costs in the fourth quarter, which included the bulk of the transaction costs related to the acquisition of DeVenture Health Partners in January of 2009.

While this \$143,000 is not recurring in nature, it's important to note that under new accounting rules, companies must now expense the transaction costs associated with acquisitions. Previously they were capitalized as part of the transaction.

Overall then operating expenses were on the high side, partially because we have expanded the sales organization and partially because of the one-time acquisition-related costs.

Operating income increased to 25% to \$2.283 million or 18% of revenue in the fourth quarter of 2008 compared to \$1.828 million or 17% of revenue in the fourth quarter of 2007.

Earnings before interest, taxes, depreciation, and amortization or EBITDA, which is a popular non-GAAP measure of financial performance, was \$2.5 million or 19% of revenue in the fourth quarter of 2008 compared to \$2.013 million or 18% of revenue in the fourth quarter of 2007.

Pretax income was \$2.283 million, an increase of \$499,000 or 28% over fourth quarter 2007 pretax income of \$1.784 million.

Now for those unfamiliar with our income tax situation, let me take a moment to explain why our income tax expense was negative \$3.55 million in the fourth quarter of 2007.

We have approximately \$4.3 million of federal net operating loss carry-forwards or NOLs as of December 31 of 2008. And back in the fourth quarter of 2007, we largely reversed the valuation allowance that we had established against our NOLs because we had improved visibility to consistent positive earnings.

The result is that we are reporting fully taxed earnings in 2008 and going forward. But even though we booked the expense in 2008, we do not have to pay significant federal income taxes until the net operating loss carry-forwards are fully utilized, which will occur in 2009.

This makes the year-over-year comparisons somewhat apples to oranges. We believe it's very important to look at pretax numbers when comparing 2008 results to 2007.

Now fortunately we expect the 2009 effective tax rate to be easier to compare to the 2008 rate. From a cash flow perspective in 2009, we will benefit from the \$4.3 million of federal NOLs, which will reduce our tax bill by approximately \$1.5 million.

Net income was \$1.489 million in the fourth quarter of 2008 at an effective tax rate of 35% compared to \$5.334 million in the fourth quarter of 2007. As I just discussed, these figures are not directly comparable due to the reversal of

the majority of the company's deferred tax asset valuation allowance back in the fourth quarter of 2007.

Diluted earnings per share was 17 cents in the fourth quarter of 2008 at an effective income tax rate of 35% compared to 60 cents in the fourth quarter of 2007, including the unusual \$3.55 million income tax benefit.

For comparative purposes, if the fourth quarter 2007 pretax results had been taxed at the same effective rate as that used in the fourth quarter of 2008, earnings per share for the fourth quarter of 2007 would have been 13 cents.

For the year ended December 31, 2008, revenue increased 15% to \$48.696 million and pretax income increased 44% to \$8.944 million.

Diluted earnings per share for 2008 was 65 cents at an effective tax rate of 36% compared to \$1.10 for 2007. And once again, the 2007 results were unusual in nature.

For comparative purposes, if 2007 pretax results had been taxed at the same effective rates as that used in 2008, earnings per share for 2007 would have been 46 cents.

Transcend generated approximately \$2.4 million of cash flow from operations in the fourth quarter of 2008 and \$9.5 million for the full year, finishing 2008 with \$12.282 million of cash and cash equivalents.

The company had \$719,000 in debt outstanding as of December 31, \$515,000 of which carries a 0% interest rate.

I'm particularly pleased with certain of our key business metrics. We generated a return on assets of 25%, a return on tangible assets of 31%, and a return on equity of 31% for 2008.

Our balance sheet is healthy, which combined with our ability to generate strong cash flow gives us flexibility to use cash to maximize shareholder return.

And we continue to believe that our excess cash is best used, best invested in acquisitions with the acquisition of DeVenture health partners on January 1 being a good example of that.

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

Larry Gerdes: Thanks Lance.

On the operational front, we finished 2008 with a 98% customer retention rate. Our commitment to excellent customer service will always be our top priority. I am pleased with our ability to maintain high customer satisfaction rates while also improving our gross profit margins, which speaks to our commitment to cost-effectiveness and productivity without sacrificing quality.

I can't thank our teams enough for their ongoing dedication to excellent service.

We had a strong quarter for new sales, closing seven contracts in the fourth quarter, which we estimate will generate between \$2.4 million and \$3.1 million of annual revenue once fully implemented.

The current estimated annual value of our 2008 sales is between \$10 million and \$11 million and about - or about \$3.5 million to \$4.1 million of annual revenue was still in our implementation backlog as of December 31, 2008. We expect this business to be implemented over the first two quarters of 2009.

Our number one class ranking continues to result in unsolicited yields - or leads coming our way. We're also excited about our new agreement with VHA, which is one of the country's top healthcare group purchasing organizations.

And we are beginning to market to their customer base of some 1400 not-for-profit hospitals. As Lance mentioned, we are gaining confidence that our sales force can grow revenue organically by 20% and the acquisition of DeVenture should put our revenue growth above 25% in 2009 if we maintain our high customer retention rates.

Finally, after far too many quarters of telling all of you that we don't have any specific news to report on acquisitions, we can update you on our January 1 acquisition of DeVenture Health Partners.

DeVenture is currently generating annual revenue of about \$4.8 million and is profitable. We continue to work on other potential transactions in our acquisition pipeline, but I can't predict exactly when or if we might close another transaction. But I can say that we would certainly like to get at least one more done this year.

Now I would like to ask Sue McGrogan to comment on the integration of DeVenture into our operations.

Sue McGrogan: Thanks Larry.

The DeVenture acquisition made a lot of sense to us because our approach to customer service and employee retention is so similar. Like us, DeVenture performs services on both their own platform and on third party platforms.

They have not implemented speech recognition technology on their SHINE platform and we plan to migrate those customers over to our BeyondTXT platform as quickly as possible.

From their perspective, joining Transcend gave them access to a larger team of medical language specialists to better serve their customers.

We brought their people onboard as Transcend employees immediately, so much of the HR integration has been completed already. We continue to integrate the team into our customer-centric operational model. I personally had many conversations with the DeVenture customers and employees and everyone is very positive about the merger. It's definitely a great match.

Many of us have commented in a positive way that it feels like we've been working together much longer than we actually have. In addition, I've made several site visits to their customers and I plan on seeing all of the DeVenture customers in the coming months.

Together we will continue to stay focused on our four keys to success -- retaining our customers by providing excellent service at a fair price; making Transcend the best place in the industry to work for our people; emphasizing operational excellence in everything we do; and finally, providing our various stakeholders an excellent financial return.

I'd also like to take the opportunity to thank the full team for the work that they did in a quick way to get the DeVenture acquisition to a successful start. Everyone put in a lot of work and I really would like to thank everyone.

So with that, I'll turn it over to Larry.

Larry Gerdes: Thank you, Sue.

I couldn't be more pleased with what we've accomplished in 2008 and I want to extend my thanks to our customers, our employees, and our shareholders for their continued support.

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

Operator: At this time, if you would like to ask a question, 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 (Stephanie Haggerty) with Register Financial.

(Stephanie Haggerty): Good morning, guys, and another good quarter.

Man: Thank you, (Stephanie).

Sue McGrogan: Thank you.

Man: (Unintelligible) (Stephanie).

(Stephanie Haggerty): You know, I - and I just want to reiterate for your stakeholders that don't know that your winning the class designation as the best company in the transcription business was probably the most significant thing that happened to you this quarter.

Sue McGrogan: Mm-hm.

Man: You got it.

Sue McGrogan: Definitely.

Man: Absolutely.

Man: We completely agree.

(Stephanie Haggerty): I just had a couple of housekeeping questions that I am not clear on. If I were to say for 2008, okay, I have this in my notes and I'm looking at what I know, but I don't think this is right that you sold \$13 million worth of new business and you implemented \$6 million...

((Crosstalk))

Man: ...we sold between \$10 million and \$11 million.

(Stephanie Haggerty): Okay.

Man: ...of business. And I guess we must've implemented about \$7 million, huh?

Man: We've implemented between \$6-1/2 million and \$7 million and still have another \$3-1/2 million to \$4 million roughly to go.

(Stephanie Haggerty): Okay.

And the \$3-1/2 million to \$4 million is what you had in the release for the quarter?

Man: That's correct. And the \$6-1/2 million to \$7 million really - that - you're not seeing a full quarter of that. That's sort of where we were as of December 31. But even in the fourth quarter, we didn't have that full run rate, so there's still a little bit more to come there.

(Stephanie Haggerty): Okay. Okay.

Well, you - getting cranked up. It's looking a lot better.

I wanted to ask about - I guess Lance may be the one that needs to help me here. Research and development and general and administrative costs as a percentage of sales, I mean, it - they were just up...

Man: Mm-hm.

(Stephanie Haggerty): ...more than they normally have been. Now fortunately you had the revenue increase to take care of that, but I just wondered if you could elaborate on what occurred in those two line items?

Lance Cornell: Sure.

Well, I think if you look at our overall operating expenses and break down that \$630,000 increase, first you've got the sales piece, which is about \$222,000. The R&D, it is \$117,000.

About half of that is really reclassifications between G&A and R&D. And the rest is compensation related to the work that we've done on some of our front-end speech initiatives.

We also had as you mentioned - as we mentioned in the call \$143,000 of acquisition-related expenses in the G&A number in...

(Stephanie Haggerty): Right.

Lance Cornell: ...(unintelligible).

And then our - some other things, we book all of our benefits down in the G&A line. And medical/dental was up about \$100,000 over last year. But that, you know, that's really variable kind of along with the growth in the number of transcriptionists. So it's not a fixed cost, even though it's down in G&A.

You know, bonuses were up a little bit. Stock compensation under 123R was up to some degree. So it was a lot of...

(Stephanie Haggerty): Okay.

Lance Cornell: ...things.

(Stephanie Haggerty): The - your payment, the cash payment for DeVenture?

Man: Yes?

(Stephanie Haggerty): Are we going to see that in the cash flow statement? Or did it occur...

Man: Yes.

(Stephanie Haggerty): ...I mean, your release indicated that it occurred in the fourth quarter.

Man: No.

(Stephanie Haggerty): ...I believe.

Man: Actually the transaction - we closed the definitive agreement in December.

(Stephanie Haggerty): Okay.

Man: (Or) we signed the definitive agreement. We didn't close the transaction until January 1.

(Stephanie Haggerty): Okay.

Man: The cash actually exchanged hands on January 2. So you will not see it in - until our first quarter statement of cash flows.

(Stephanie Haggerty): Okay. And it was like \$3.4 million or something like that?

Man: Yeah, \$3.45 million I believe...

(Stephanie Haggerty): Okay.

Man: ...initial payment, total purchase price of \$4.25 million plus a potential earn-out, which depending on how things go in terms of revenue could be a - anywhere from zero to a few hundred thousand dollars.

(Stephanie Haggerty): Okay.

And that's for this year only? It doesn't extend beyond this year? Is that right?

Man: It's actually a six-month earn-out, so it's just...

(Stephanie Haggerty): Okay.

Man: ...the first half of 2009.

(Stephanie Haggerty): Okay. (Unintelligible).

Man: Thank you.

Operator: Your next question from (Lenny Dunn) with Freedom Investors.

(Lenny Dunn): Yeah, good morning. Good quarter.

I have just two questions. One is since you - I'm not sure why we expensed \$143,000 this quarter since it really took place in January. Is that just an effort to be conservative or just clear the books so that we have a cleaner 2009? I'm just trying to get my - a little better understanding on why we took that particular charge.

Man: Sure.

Well, in 2009 under the new accounting rules, all of the transaction costs are simply expensed as incurred. In the case of transactions in process at year-end, we really had a little bit of a choice of how we wanted to treat that, whether we wanted to capitalize it in the fourth quarter.

But if we had done that, all we would've had to've done is turned around and expensed it in the first quarter of 2009. And we just didn't feel like it made sense to do that, so we went ahead and expensed it as incurred in the fourth quarter of '08.

(Lenny Dunn): Yeah, no, I do understand that. It was in the release. I'm just not sure the thinking behind it, that's all.

Man: Yeah, there's some guidance related to transactions in process as of December 31. And we followed that guidance.

(Lenny Dunn): Okay.

And it looks to me like we should have a reasonably decent increase in first quarter sales of - because this will be the first quarter we're not just with the DeVenture business, but with the implementation of I would assume the bulk of the backlog that you have, is that something that I should be able to pencil in when I'm trying to model what I think you'll do?

Man: Yeah, I think when you look at the backlog, it's going be spread out. There's a - I don't have the exact numbers, but there's a good piece of that that won't really show up.

You know, as we've said before, if we sell it in one quarter, you're going to see very little of it in the next quarter. The quarter after that, you might see half of the full run rate.

And then the third quarter, you'd see the full run rate. So we'd expect to see the full run rate out of all of this backlog in Q3 of 2009, we'd expect to see a good chunk of it in Q2 of '09, and a smaller piece of it in Q1.

Man: But by the same token, what I would add, (Lenny), and to your point, there were installations during the fourth quarter...

Man: Right.

Man: ...(unintelligible) did not recognize a full quarter in the fourth quarter that are going to make a full contribution in the first quarter. So...

Man: That's correct.

Man: ...but - so you are right. I - we're very excited about where we are with revenue.

(Lenny Dunn): Okay.

And simple arithmetic would be that you'd get closer to 30% assuming no attrition than 25% this year because of the DeVenture acquisition? Is that a stretch?

Man: That - if we're able to achieve that 20% organic growth rate and...

Man: (Right).

Man: ...DeVenture does nothing more than maintain its current run rate, then we're going to be closer to that 30%, yes.

(Lenny Dunn): Yes, no, I understand, you'd rather under-promise and over-deliver than over-promise and under-deliver. And I certainly (unintelligible) with that. I'm just trying to have an understanding.

And also DeVenture was growing very rapidly. Do you anticipate that you'd be able to continue growing at least reasonably that business going forward?

Man: I think that their growth rate on the top line should exceed ours given the plans that they gave us when we made the acquisition. We're looking hard at those plans to make sure that they're achievable. We're excited about the sales pipeline that they had in place.

You may know -- and Leo can comment, too, later on this -- but their head sales guy joined us and he has integrated very, very effectively into our organization. Leo spent lots of time putting together his knowledge of the pipeline into Transcend's pipeline.

And I guess the other thing I'd add that's kind of different than your question, what makes the whole team here and I particularly excited about acquisitions like DeVenture is we can use in the marketplace that as you have pointed out takes growth rates to 25% to 30% and still used some 35% of our available cash and will regenerate that cash over the first four to five months of the new year.

(Lenny Dunn): Okay.

And, again, I understand that the market background is less than hospitable, but are - is there going to be a little more effort made to tell our story because the story is good but, you know, it's the old tree falling in the forest.

Man: Yeah, we're working hard on it. Lance and I are going to go on the road again in February up to the Northeast and talk to investors. We're talking to bankers right along.

We are getting a little more - a few more phone calls now because people are starting to recognize, especially with the class ranking. I just got a call this week from someone that was following the IT side of healthcare, but recognized that Transcend was the leading customer - or the leading company in the transaction side of transcription, but utilizing speech recognition technology probably more effectively than others. And so that spurred a call.

So we're getting more of those calls. We're making every effort that we can to get our name out there and get coverage. But as you know, in this marketplace, it's tough to - we just can't force that issue.

(Lenny Dunn): That I understand. But, you know, obviously you want people watching when you have good news. And the people that are aware of Transcend, the better off we all are.

But anyway, its - you're certainly doing all of the blocking and tackling very well and know that I have no problems with the execution and I appreciate the patience you've shoed in making an acquisition so that rather than making an acquisition because you said you were going to make one, you waited till you could make one that made sense and had a good culture fit.

And certainly never want us to turn into a MedQuist where they just do roll-ups for the sake of roll-ups and you have all of these diverse and disparate platforms and it's not controllable.

And without mentioning the other two people you go up against, it seems like they don't have the quality control thing under control and I don't see them moving in that direction.

They just like to get contracts, not to make sure that they can implement them properly. But a lot of that I guess is attributable to Sue, who I want to compliment again is doing just a terrific job.

Man: Well, I - we appreciate that, (Lenny). I think we are the same way. We were frustrated the last year and a half or two trying to acquisitions accomplished. But we wanted to make sure we did it the right way.

And I want to also echo what you said. Sue and her team have really done a great job in the few weeks that we've been together with DeVenture and making sure that this integration is done effectively. And we won't do another acquisition until we make sure this one's done correctly.

Sue McGrogan: We always check the culture fit. It's so important that they have the same values in terms of their commitment to the customer and their commitment to their employees. And it was tough. It was tough for the people, the unsung heroes, the people like payroll, HR.

It was - we did a lot of this due diligence over Christmas week. And, you know, a lot of people had to not take their vacation so we could do - get people onboard. And everyone just pulled together and were a great team.

(Lenny Dunn): So good to hear and I want to compliment you again directly, so...

Sue McGrogan: Thank you.

(Lenny Dunn): ...you're really doing a good job and you work incredible hours.

Man: (Good).

Sue McGrogan: Well, thanks (Lenny).

((Crosstalk))

(Lenny Dunn): ...pay her by the hour, you know.

Sue McGrogan: It's not work...

((Crosstalk))

Man: Yeah (unintelligible) have to pay her by the hour, huh?

(Lenny Dunn): Yeah.

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

Kevin Goldstein: Good morning.

Man: Hi.

Man: Hi Kevin.

Kevin Goldstein: Yeah, thanks for taking my call.

My question, I have a few questions for you. First on the DeVenture acquisition, can you just - what are the gross margins of this business, you know, on that \$4.8 million of revenues?

And then where do you think, you know, when you implement the voice recognition and you get, you know, what you can on your platform, where do you think gross margins will go?

Man: Their gross margins are fairly comparable to what we see on our, you know, or domestic typing gross margin, so we think there's room for improvement as we move some of the business to speech recognition technology.

The bulk of their business is on eScripton and will stay on the eScripton. And then there's a smaller portion that will move over onto the BeyondTXT platform.

So we won't see as much of a pop in their gross margins as we would if they were all on their own SHINE platform and we moved it all over to the BeyondTXT platform. But the eScripton margins are comparable to ours.

Kevin Goldstein: So the synergies from this deal are mostly then in the operating lines, which I assume just takes about a year to execute?

Man: Not so much. There were several people that - we made some decisions day one and didn't bring everybody onboard. And there's about a quarter million dollars of initial savings right there.

And there are a couple other people that are working through a transition period and - that's, you know, fairly short in nature, a few months, that sort of thing.

Kevin Goldstein: My next question is the offshore revenues, the percent of revenues that were offshore dropped from 20% to 19% sequentially. And, you know, it's not a big deal.

I was just curious. It's never happened before where it's actually gone down. So is that just a new customer that was, you know, entirely US-based? Or is there something meaningful here or...

Man: Well, first I just wanted to point out generally speaking -- and this doesn't - this is not the case for Q4, but as we go forward, those percentages are going to bounce around as we add acquisitions. We might have an acquisition that's 100% domestic.

Now DeVenture happened to be 80/20, like us. We might - the acquisitions won't be on our BeyondTXT platform, so that might lower the percent of the total volume until we bring them over.

So it'll probably bounce around a little bit more. In fact, we might need to start reporting more just volume, how much volume are we running through speech. Sue, you want to comment on the offshore?

Sue McGrogan: Well, I mean, we also place a high value on making sure that offshore will never replace our domestic transcriptionists, so our domestic transcriptionists are getting much more proficient on editing and they're doing more of the work.

But we're working on ramping up offshore on other accounts where offshore is allowed.

Man: Yeah, I'd say with the - a good piece of the new sales that came onboard in the fourth quarter, I don't know the exact statistics, but the bulk of that is domestic.

Sue McGrogan: Mm-hm.

Man: For today, you know, and we move it - some of it offshore gradually if the contracts allow over time.

Kevin Goldstein: Okay.

So my next question is about the VHA deal. (Unintelligible), you know, big picture, you know, they have 1400 customers. And if this industry has an average turn of seven years, that means you're getting 200 leads per year, right?

So today as a business, you have less than 200 hospitals in - as customers. So, I mean, this is a massive opportunity, you know, and a massive footprint that you can try to penetrate.

What's kind of a realistic approach here? I mean, you know (unintelligible) these are very, very big numbers. So what is a likely outcome here?

Leo Cooper: Okay, to break that down just a little bit -- this is Leo. Let me break it down for you.

There are 1400 total members of the VHA group purchasing organization. But the first thing we wanted to take a look at are those that fit our profile. And if we look at that, there are approximately 750 of those that fit the profile of 100 beds and up. So we first of all want to break it down in terms of target market and certainly those that fit our sweet spot first. So the size of the market really starts there.

The second thing we want to keep in mind is that approximately 50% to 60% of the industry today is currently in-house. They're not outsourcing. So we also have to factor that someone in as we do targeting and realize that of that 750 hospitals that we're talking about today, we've got two different target segments. Going in and outsourcing part of that will take a longer sales cycle and considerably more selling effort and at the end of the day with less results.

The other segment, the other 50% or the other 350 hospitals or so, that is really our sweet spot. And those are the ones that are currently already predominately outsourced to another vendor. So as we do the targeting through VHA, we look at it in those different pieces.

Now to your question, you get, it is a significant opportunity. And it is because of - and by the way, a lot of those hospitals today in that outsourced segment are not outsourcing to the other vendor that's on the VHA contract. They're outsourcing to other vendors that are not a part of the VHA relationship.

So that adds we think to our opportunity because it's a big incentive for VHA to present us to those clients that are currently not working with them in the area of transcription.

So from an opportunity standpoint, it is a significant opportunity. There are only two vendors on contract, us and one other vendor. We don't think they're going to expand that. And we just started rolling out the introductions to all of the account execs and all of the training this past month. So it is a significant opportunity. It will take time. But we view it as a centerpiece for our '09 revenue. And...

Man: So, Kevin, if you used your number -- and it's a reasonable guesstimate if someone changes every seven years or so, then Leo kind of took it down to a 350 hospital core plus anything we can get on the new outsourcing side. And so that would be about 50 potential decisions that we could win a year, which is still a huge number.

And if - you know, but time will tell how we actually do. We've been investing most of our time so far -- feel free to comment on this, Leo -- just getting to know their people, introducing them to Transcend, making sure they understand the value proposition.

Leo Cooper: Yes, they have 20 account execs that are responsible for all of their hospitals. And I just did a - conducted a training class for all 20 of them about two weeks ago.

And all of the Web sites are coming up and all of the appropriate data is now in the hands of all of the right folks. So we are very excited about it. They've been very receptive to us and seem to be willing to do whatever we need in terms of helping us be successful in this market segment.

Kevin Goldstein: Well, congrats on executing that deal.

And so my last question then is just a sales - on your operating expenses, you know, sales has ramped quite a bit in the last few years. (As long as there)'s growth opportunities, that's fine.

I'm just curious where you think the sales will go - the sales expense will go in 2009 (unintelligible) \$1.1 million in 2008. Order of magnitude, what's - where does that go?

Man: Well, we'll add a little bit of expense from DeVenture because as we mentioned earlier we did pick up the one regional sales director with the DeVenture acquisition.

Beyond that, we're really looking at something along the order of one additional salesperson when the time is right and not much - not too much beyond that.

Man: And we're pleased as well with what we have accomplished this year relative to the sales group. We now currently have four regional sales directors that are geographically located in the heart of their regions. And that's significant for us to be able to have accomplished that.

And, of course, bringing on our DeVenture individual, he will be focused exclusively on selling into the eScripton environment. So we're very satisfied with our geographic footprint right now and the ability to specialize in the eScripton environment. So we're feeling good about that.

And as Lance said, we - we'll kind of see how we go a little bit and then we'll make a decision on whether we (unintelligible) additional spot based on the potential that we think we can bring in with that allocation of expense.

Kevin Goldstein: Okay. Well, good luck.

Man: Thank you.

Man: Thank you.

Man: And, Kevin, to summarize, you're certainly not going to see the same type of growth that you saw year over year between 2008 and 2007. In 2007, there was just almost nothing there. So 2009 will be a more modest percentage increase.

Man: Yeah, we actually entered 2008 with one sales position as opposed to where we're sitting (at five today).

Man: Yeah, okay.

Man: Any more questions?

Operator: Your next question comes from Ben Sexton with First Wilshire Securities.

Ben Sexton: Good afternoon.

Man: Good afternoon.

((Crosstalk))

Ben Sexton: I had a quick question, sort of a macro question. I was wondering what the impact of Obama's \$20 billion to modernize the healthcare system by computerizing all of the medical records over the next five years, what that -

what the effect will be on your business and if you could just talk about that and how the industry is changing maybe.

Man: I'll give you my perspective and then I - I'd like Sue to give a little perspective and possibly Leo.

You know, the EMR has been talked about for over 20 years in healthcare. It is now getting much more emphasis than it has in the past. And hospitals are actually starting to install applications that are electronic records, even though a lot of that record sill remains scanned because it comes down from the floors of a hospital in a format that's not electronic.

And there are two dimensions to the electronic record that we're watching very closely -- actually more than two, but I'll throw them out. One is some of the electronic record could replace transcription and encourage the physician to try to complete the record themselves.

That seems right now to be a little more applicable to radiology and shorter-type reports. And there will be some physician resistance if it takes too much of their time, but we have to be cognizant of that.

The other dimension is that a big part of that record does come from transcription and dictation still is an efficient way to create an electronic format.

And we play very well into that and we interface right into electronic records now and we'll continue to do that. In fact, Leo and I, too, have talked to more than one company that would like to partner with us on making sure that we embed our service capacity and capabilities right into their offering.

And then the last thing that we're particularly intrigued with is the fact that we deliver data in a way that's unique through our BeyondTXT platform and our speech recognition technology in that the documents we create are XML-tagged data that is appropriate for not only data mining, but for all kinds of data research and toolsets for medical records and more important the revenue cycle management in the hospitals.

And we are now having hospitals ask us to participate in creating an environment where they can have access more readily to that data in an electronic format.

So those are the various aspects. We do think that there is going to be a push more toward the EMR than we've seen in the past. I don't know if the dollars that are supposedly being spent will translate to that. I think I'd rather rely on the marketplace to drive that. But that remains to be seen.

Sue, Leo, what would you add?

Leo Cooper: Sue, (unintelligible).

Sue McGrogan: Well, I'm really excited about the opportunities that await us in the future. I think the industry is changing slightly and we're well positioned to change with it.

I spent the week out in California last week and one of the questions that I asked our clients is about the value-add that we can bring with our XML-tagged data and how to provide a pay-for-performance-type situation. And customers are very receptive to that.

So along with - along those lines, I'm also working on a project with regard to EMR, comparing and contrasting the different EMR companies and, you know, seeing and meeting with them to see if we can partner up with the companies because I think that even though there's been - there hasn't been much adoption in the past, I think you're going to see it gaining traction over time. I don't think it's going to happen tomorrow, but, you know, it will happen more and more. And we're seeing that.

Man: I'd probably just add one comment to that. Our core competency and our target market is predominately the acute care side, the acute care space, and their EMR systems, of course, the (unintelligible) of the world, McKessons over there.

And then on the ambulatory side, which is the doctors' offices, is a different world altogether. And we see the impact of EMR at the physician practice level a little bit more widely adopted in terms of how it might affect transcription usage. At the acute care level, we really don't see that as a major threat to us in the foreseeable future because of the way the EMR systems are used today.

Ben Sexton: Okay, thank you. that was very helpful. That...

Man: Yeah, I think you're cutting out, Ben.

Ben Sexton: Hello?

Sue McGrogan: Hello.

Man: Hello.

((Crosstalk))

Man: Sorry, we lost you.

Ben Sexton: Can you hear me?

Man: Yeah, now we can.

Sue McGrogan: Yeah.

Ben Sexton: Oh, okay.

Well, thanks for your time and those were all my questions.

Sue McGrogan: Thank you.

Man: (Unintelligible).

Man: We appreciate it.

Man: Thank you.

Operator: Your next question comes from Jeremy Hellmann with Singular Research.

Man: Oh, yeah.

Jeremy Hellman: Hi. Good morning, everybody.

Man: Good morning.

Sue McGrogan: Hi.

Jeremy Hellman: That last question was exactly what I had in mind and I was trying to get out of the queue, but I guess I didn't key it correctly, but I think that was a very enlightening answer and thanks for that.

Man: Great.

Man: You bet.

Operator: Your next question comes from (Rick Feldman) with Monarch Capital.

(Rick Feldman): All my questions have already been answered, so good quarter and keep up the good work.

Man: Great, thank you.

Sue McGrogan: Thank you.

Man: Thank you.

Operator: Your next question comes from (Stephanie Haggerty) with Register Financial.

(Stephanie Haggerty): Well, I was EMR also, so good answer. And let's hope that market develops faster than you think.

Man: There you go.

Sue McGrogan: (Unintelligible).

(Stephanie Haggerty): Thanks.

Sue McGrogan: We've spent a lot of time talking about strategy, more so than we have in the past. And it's really exciting. I'm real excited about it.

(Stephanie Haggerty): Well, you're reading about it everywhere. Obama is beating the drum about it. And, you know, maybe there will only be a few early adopters, but the time is coming.

Sue McGrogan: Yeah, we want to be right there.

(Stephanie Haggerty): Yep. Good work. Thank you.

Sue McGrogan: Thank you.

Man: Thank you.

Man: Thanks.

Operator: Your next question comes from (Lenny Dunn) with Freedom Investors.

(Lenny Dunn): Hi.

Just to follow up on the one thing that intrigued me that you said about partnering with somebody, obviously you're not going to disclose who or exactly what, but will there be - is this another direction we can go for additional revenue going forward?

Man: Absolutely, (Lenny). No, we're working with partners right now. As a matter of fact, we just partnered with someone on an installation that went in last week.

And they happen to be one of the large data and software providers to the healthcare market and they want us to continue to partner with them. So no, we - strategically we see real revenue opportunities by leveraging what we bring to the table with the people that have the technology.

Man: And we...

((Crosstalk))

Man: ...we currently are in dialogue with - have been with one major player in terms of the EMR side of the industry. And, in fact, I'll be briefing the senior management team on an inquiry that came in this week from another very well known document management company that's interested in having discussions with us.

So we are starting to turn our focus over to this area along with continuing to develop (GPO)s. But we are definitely going to be active in this area.

(Lenny Dunn): Good, good.

Sue McGrogan: And the key that we have and that maybe we're over the other competitors is that we - a long time ago, we decided to change our format to XML and so we've tag our data. And that is so key right now in the EMR world. So we're a step ahead.

(Lenny Dunn): Well, that's good. And it also - because of the quality reputation, you're somebody that somebody's not going to be afraid to partner with.

Man: Exactly.

As a matter of fact, they use it in their own advertising when they introduce us that we are the best company in our industry.

(Lenny Dunn): Okay. Well, that's good news. I didn't expect that, but that's the reason I had the follow-up question.

Man: Yeah, great.

(Lenny Dunn): Thank you.

Operator: At this time, there are no questions.

Larry Gerdes: Okay, well, as usual, we would like to thank everyone on the phone for your continued support. As you can tell from our quarter and our comments, we're very, very excited about where we have Transcend positioned. We have a healthy respect for the work that we have ahead of us, but the marketplace is large and the opportunities are great.

As Lance mentioned in his comments, we hope that we can find another good acquisition to make yet this year. We're happy to see our top line growth rates continue to improve as we mentioned a quarter ago. And we couldn't be happier with the kind of effort we're seeing from all of the great employees we have at Transcend as we continue to march forward.

And as we said before, the recognition by class has been key and we're going to work hard to continue to focus on our customers' needs and maintain that ranking.

So we appreciate your support. We're looking forward to an exciting first quarter and welcome any comments or questions.

Thank you.

Sue McGrogan: Thank you.

Operator: Thank you.

That concludes today's Transcend Fourth Quarter Earnings Release conference call. You may now disconnect.

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