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## The Providence Service Corporation Q2 2008 Earnings Call Transcript

### Question-and-Answer Session

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#### **Operator**

(Operator Instructions) Your first question comes from Analyst for Kevin Campbell – Avondale Partners.

#### **Analyst for Kevin Campbell – Avondale Partners**

First of all I just want to start off with a question about the \$1.5 million incentive payment. Could you talk a little bit more about that, maybe how many more contracts you've had that are set up this way? And just from my rough math I show that that \$1.5 million represents roughly \$0.07 or \$0.08 yet you reduced guidance by about \$0.10. So maybe you could address that as well.

#### **Fletcher Jay McCusker**

That's a highly unusual event for us. I can't remember it occurring in the company's history 12 years. It certainly has not occurred in the time we've been a public company. It's extremely unusual, unprecedented for a payer to try and deal with a future budget by curtailing expenses in the current year. I think it's representative of some of the chaos that we're seeing, some of the lack of clarity we're seeing in many of our states. We expect that to be resolved in the near term. They've indicated to us that once their budget is clear that should be a resolvable issue. I don't believe, Michael, we have any other contract that has similar features where you have a bonus or supplemental payment at the year end based upon particular benchmarks.

#### **Michael N. Deitch**

We have some small ones but nothing of that magnitude.

#### **Fletcher Jay McCusker**

Nothing of this materiality in that regard.

#### **Analyst for Kevin Campbell – Avondale Partners**

Can you address the difference in guidance from \$0.07 to \$0.08 to \$0.10? Was there something else in 2Q that we should be aware of or something else that was going on there?

#### **Fletcher Jay McCusker**

I think Craig touched on that without identifying specifically a dollar amount to that. You're on target in terms of our EPS estimates. Of the payer withhold we probably would have been off the forecast by a penny or two as a result from some of the issues we're seeing in some of these evolving markets particularly North Carolina and Pennsylvania.

**Analyst for Kevin Campbell – Avondale Partners**

Maybe a question for John, we saw costs on the LogistiCare side increase in 2Q. Is this a result of seasonality and maybe could you talk a little bit about that?

**John L. Shermeyen**

Yes, you're right on target. The primary driver is seasonality and it's specifically in our school segment. We have a segment of our business which is beeper service and in school business and that obviously goes away and we begin to see the impact of that in the end of the second quarter of the year and conversely some programs for students that are handled within the school setting then turn into a potential utilization driver for us. They have a bit of a double whammy which rolls on into Q3. Seasonality primary in the school business is what you saw the impact of.

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