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Providence Service Corp Q1 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator's Instruction) And your first question comes from the line of Bob Labick, CJS Securities please proceed.

Bob Labick

Good morning. The first question I wanted to ask. On the last call we discussed how LogistiCare does not have any direct fuel impact. But obviously in the continuing rising fuel environment it's still on people's minds. Could you just discuss the feedback from I guess the subcontractors and any systems in place over time if fuel continues at current levels or to escalate or how that may impact LogistiCare down the road?

Fletcher McCusker

Let me remind you of what I said and then I will the John address the question specifically. Because we asked this question a lot during the due diligence process before the acquisition. Because LogistiCare is not a fleet operator but a broker, they do not have a direct cause and effect relationship between the cost of fuel and the cost of doing business. It is indeed passed on to the driver subcontractors. To the extent they feel pinched by the ever increasing cost of fuel; it does put pressure on us, Bob, regarding our driver network. And you may have picked up a couple of articles in communities where LogistiCare operates that we have some disgruntled drivers concerned about our ability to pass on these increases to them. In that situation, LogistiCare management can and does go back to their state payers to put the same kind of pressure on them regarding their rates. And so far so good. However, none of us can anticipate what the environment would look like if gas goes to \$4 or above \$4 a gallon.

So I think we are comfortable in the present environment in terms of our ability to manage and buffer these issues. We've never seen the kind of strain it could put on us if it continues to increase. How did I do, John?

John Shermyen

Pretty well, Fletcher. I think directionally, Fletcher is absolutely correct and what I think it would be naive of us to say is that these increases in fuel are not impacting us, every one of us every day is impacted by this fuel. So that we -- our employees are wanting. to carpool more, there are two areas that the fuel potentially is a challenge to us and Fletcher is correct. We do not have a contractual obligation to our subcontracted transportation network to bill them a CPI or anything in the rates but

clearly as we are not a transportation company, we have to have a robust network to do what we do which is deliver transportation services. So we are impacted in one way which is those Medicaid members who rightfully use a friend or a relative to go to the doctor with the increased fuel they may opt not to and that could impact our utilization. And in terms of the actual increase of fuel and the majority of the contracts that we have, we have a mechanism, our contracts are reviewed by actuaries. It is happening this time of year to reset our rates for the following fiscal year which I remind you begins July 1.

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