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## Laboratory Corporation of America Holdings Q3 2007 Earnings Call Transcript

### Question-and-Answer Session

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#### Operator

[Operator Instructions]. Your first question comes from the line of Robert Willoughby from Banc of America. Please proceed.

#### Bob Willoughby - Banc of America Securities, LLC

Hey Dave, I guess I am not quite sure in the enthusiasm that you have for the quarter as well as the guidance for the year. I... just looking at that guidance that you brought down, the high end of the ranges here. I guess it assumes something has surprised you here related to prior expectations and I guess you knew what United was, you knew what Cigna pricing was. I mean what really is the primary reason to bring the high end of the guidance range down for '07?

#### David P. King - President and Chief Executive Officer

Bob I think the primary reason is the uncertainty of what is going to happen with fourth quarter revenue. We obviously have spend a significant amount of time this quarter and will continue to spend a significant amount of time going forward, looking at the expense base. But we have... when we originally issued the guidance as you'll remember, we anticipated that United revenue would ramp very significantly through the third and fourth quarter and instead what we have experienced is that we have got a lot of it in the first and second quarter and that the United revenue has largely flattened out. In addition the loss of the Aetna contract, the shifting of a couple of regional managed care contracts just creates an uncertainty around top-line revenue and we think the responsible thing to do is recognize and adjust our guidance appropriately.

#### Bob Willoughby - Banc of America Securities, LLC

Does the guidance for this year or '08 reflect the PA acquisition or anything else that you may do?

#### David P. King - President and Chief Executive Officer

The guidance for the balance of this year does reflect the impact of PA which actually is scheduled to close at the beginning of November. As to anything else we may do, no, the guidance doesn't reflect anything other than the typical small acquisitions that we will do from time to time.

#### Bob Willoughby - Banc of America Securities, LLC

And anything in the way of share repurchases in that '08 expectation?

#### David P. King - President and Chief Executive Officer

There's nothing in the guidance in terms of share repurchases but we have repeatedly said we would be opportunistic in share repurchase and I think we've demonstrated that over the course of this year.

#### Bob Willoughby - Banc of America Securities, LLC

All right. Thank you.

#### Operator

Your next question comes from the line of Ricky Goldwasser from UBS. Please proceed.

#### Ricky Goldwasser - UBS Securities, LLC

Hi, good morning. Thank you. It's Ricky Goldwasser.

**David P. King - President and Chief Executive Officer**

Good morning Ricky. We knew that.

**Ricky Goldwasser - UBS Securities, LLC**

I am glad. Just a follow-up question on the cost-cutting initiative. Where should we take when you talk about \$25 million in '07 and \$60 million in '08. Is it all coming from the SG&A line or should be... should it be a combination of cost of sales and SG&A because obviously in the quarter you brought SG&A down significantly. And then if can talk more about the areas of cost-cutting. Are they related to aligning the infrastructure to line up with what your expectations are for United going forward versus what they were earlier in the year? Or does this also include cost-cutting opportunities in areas that are not related to United?

**David P. King - President and Chief Executive Officer**

Well, I will start with the first part of the question and Brad Hayes may have some additional color on this. obviously the SG&A line has been the primary focus of this as I said. The focus of the expense reduction was in non-operational areas. So we did go hard at the SG&A line as well as you're looking at excess capacity and redundant facilities given the changes in the market. In terms of going forward, what we have to do is we have to look at what we think, the capacity requirements are going to be given what we think the volumes are going to be and we have to continue to rationalize the cost structure given what we believe the volumes to be. So for example, in the Louisville laboratory... in the downsizing of the Louisville laboratory, we believe that we have sufficient capacity and our central division particularly with the addition of PA Labs to handle volume without the need for a full service three-shift laboratory in Louisville and that's the kind of cost rationalization that we will continue to undertake. It's not specifically related to United or not related to United, Ricky, it's more related to what we think the overall volumes are going to be in the business and what is the capacity that we're gonna need to handle those volumes, and what is the level of non-operational SG&A support that we're going to need to manage the business.

**Ricky Goldwasser - UBS Securities, LLC**

Now, a follow-up question on the volumes. Do you think that what you're seeing is just a slowdown in industry volumes overall or is it just more specific to contract shifting hands?

**David P. King - President and Chief Executive Officer**

I think it's hardly contract shifting hands but I think in the third quarter of this year there was an overall slowdown in volume. In the months of July and August even adjusting for seasonality were very slow compared to what we typically see and obviously we have data going back for many years on what happens during the summer time and this... this July and this August were just from a volume standpoint even below what we typically adjust for. So I think some of it is absolutely related to overall industry volumes and some of it is related to the shifting of these regional managed care contracts and the shift of the Aetna contract.

**Ricky Goldwasser - UBS Securities, LLC**

And obviously we're now kind of at the end of October. So you... kind of you have at least like a month worth now of the fourth quarter. Are you seeing volume... industry volumes going back to more historical levels?

**David P. King - President and Chief Executive Officer**

Well. I'm... I don't think it's probably appropriate to comment on where we are in the fourth quarter. Now the month of September was a very strong month and so you know we saw September going back to where we typically expect September to be and even a little better. And that... again this... it's just hard to know in the summer, was it hot weather, was it flooding, was it few people... fewer people going to the doctor, was there something that affected the overall industry. And I wish we had

better... I wish we had the ability to have better analytics around that. It just... we've tried to look at it in a number of ways and not figure out anything in particular that would cause the volume decreases in July and August, but as I say September returned a much more what we think of this being the norm.

**Ricky Goldwasser - UBS Securities, LLC**

Thank you.

**Operator**

Your next question comes from the line of Adam Feinstein from Lehman Brothers. please proceed

**Adam Feinstein - Lehman Brothers, Inc.**

Okay thank you, good morning everyone.

**David P. King - President and Chief Executive Officer**

Good morning Adam.

**Adam Feinstein - Lehman Brothers, Inc.**

Several questions here, I guess maybe just to start, entire quarters you've given some feel for how much UNH contributed in the quarter. Are there any metrics you can give us. I know David said that it have flat lines but just any specific details just so we could know what the impact was in the quarter.

**David P. King - President and Chief Executive Officer**

I think we said in this quarter that total revenue growth... I am just going back here Adam.

**Bradford T. Smith - Executive Vice President, Corporate Affairs**

Adam, this is Brad. It was 12.2% in the quarter and 6.8 percentage points due to United.

**Adam Feinstein - Lehman Brothers, Inc.**

Okay, and... so Dave, to you point earlier, you were just saying that in the fourth quarter of 2006, you got a bigger impact relative to what you would have thought. So just from the slowdown that you are forecasting in the fourth quarter, it's just a function of... you just picked up the business earlier. I mean isn't that accurate, just wanted to make sure.

**David P. King - President and Chief Executive Officer**

That's absolutely right, we've picked up, as you remember going back to the 2006, we picked up United business ahead of the contract and also from the top line revenue standpoint remember that was at the prior pricing. So that's going to annualize in the fourth quarter of this year and that will account for part of the slowdown.

**Adam Feinstein - Lehman Brothers, Inc.**

And then just... and that's really make sense, and would understand why there would be the impact there. But just as we think about the margins, margin guidance for the fourth quarter is lower and obviously that would have an impact, but you had talked some about the cost savings earlier. So in... just as you were talking about on an annualized basis about 60 million. But you mentioned there really the offside as well. Is that incorporated in the 60 million in annualized benefit from that.

**David P. King - President and Chief Executive Officer**

No it is not.

**Adam Feinstein - Lehman Brothers, Inc.**

It's not included. Okay. So... but the 25 million or so will benefit the fourth quarter.

**David P. King - President and Chief Executive Officer**

Yes.

**Adam Feinstein - Lehman Brothers, Inc.**

Okay, all right. And then just, I guess as we think about... you had said some negative impact from the Cigna pricing and just wanted to make sure I was following you there. I mean was the impact

more severe than what you would have thought or... and then I guess did you benefit on the volume line from the Cigna business, just anything you can give us there?

**David P. King - President and Chief Executive Officer**

I think the impact was probably invaluable. We thought it was going to be and I think we benefited a little bit on volume line from additional Cigna business but not materially.

**Adam Feinstein - Lehman Brothers, Inc.**

Okay. And then just a final question. Did you guys break out your mix, and I guess the managed care fee for service side down about 8.7% versus the 7% in the second quarter. I guess just wanted to get some more color there. I know that managed care capitulated piece accelerated slightly from the second quarter but just on the fee for service side, just what would have been the key driver there. Was that all a function of just having Cigna now in on the mix or were there other things?

**David P. King - President and Chief Executive Officer**

Yes, I think having Cigna in on the mix and it is probably the primary mover there. And that's the... that's going to... the Cigna reduction is going to be the major driver where you are going to see some of the... there's going to be some impact obviously as we continue to gain small incremental amounts of United volume, that's going to have an effect on pricing. But what you are seeing in this quarter is most of the impact of the Cigna reduction.

**Adam Feinstein - Lehman Brothers, Inc.**

Okay. Thank you very much.

**David P. King - President and Chief Executive Officer**

Thank you.

**Operator**

Your next question comes from the line of Kemp Dolliver from Cowen & Company. Please proceed.

**Kemp Dolliver - Cowen & Co., LLC**

All right, thanks, and good morning. First you didn't mention any change in your estimate for the potential liability to United. So I'm assuming that's unchanged?

**David P. King - President and Chief Executive Officer**

We continue to look at the potential exposure to United but we haven't materially changed our view of that. And we'll look at it again at the end of the year.

**Kemp Dolliver - Cowen & Co., LLC**

Okay. Secondly Dave your comments about July and August; I'm trying to reconcile with what you all given for revenue guidance in '08 because you're... I think your '08 guidance somewhat implies continued industry growth in line with historical patterns. So my question is; is there something in that guidance that takes that... is that the correct interpretation of how you put together the '08 guidance or have you built in some caution regarding volumes?

**David P. King - President and Chief Executive Officer**

No. We're thinking about it from the standpoint of what is historical industry growth and our ability to better historical industry growth for a variety of factors that we've talked about before. The comment on July and August was mostly directed toward questions about you know why this quarter top line revenue was not what the consensus was in. Again we just... we saw a drop off in July and August. We don't have convincing data that shows why we had a drop off in July and August. We know next summer that we'll see volume reductions during the summer but what we think about for the full year continues to be that will grow slightly above the historic industry growth rate.

**Kemp Dolliver - Cowen & Co., LLC**

Okay. And last question is you mentioned you budging process and then giving more definitive guidance of any, what are your plans with regards to timing and then also just the format for communicating anything more definitive.

**David P. King - President and Chief Executive Officer**

Historically we've given more definitive guidance on our fourth quarter call and that's what we would expect to do it this year.

**Kemp Dolliver - Cowen & Co., LLC**

That's great, thank you.

**David P. King - President and Chief Executive Officer**

Thank you.

**Operator**

Your next question comes from line of Ralph Giacobbe from Credit Suisse. Please proceed

**Ralph Giacobbe - Credit Suisse**

Hi, thanks. Can you maybe talk some more about the assumption for '08 and what I am getting at is are you considering greater pull-through from UNH, are you assuming sort of steady state from this point. Additionally is the Cigna expansion with the marketing expansion considered in what you put out first one of those... that '08 number?

**David P. King - President and Chief Executive Officer**

The ability to market with Sigma in those markets where we historically have been restricted is certainly considered in the '08 guidance and some additional pull-through from United is considered in the '08 guidance as well along with historical industry growth rate and the expectation that we've seen both the settling out of pricing and the settling out of the shifting around of some of these regional plans that has occurred in the last two quarters.

**Ralph Giacobbe - Credit Suisse**

Okay, that's fair. And then when we do think about United, there's obviously the sort of ex-Quest piece of the pie. Could you also maybe talk about the opportunity outside of Quest in taking share from the smaller regional groups to understanding that UNH may be coming in and sort of undercutting some of the smaller guys even more as their contracts come up for renewal. So just wondering what the opportunity is there to gain market share sort of in the ex-Quest bucket?

**David P. King - President and Chief Executive Officer**

Okay, well first let me say that what United does with other laboratories is not something that we really are approving to. We know about what we read just like everybody else does, but in terms of the opportunity ex-Quest, I think certainly in some of the major metro markets like New York and New Jersey and there are other regional competitors that have benefited dramatically from the change that United has made and I think the opportunity to win that business still continues to be promising in terms of connectivity, in terms of test menu, in terms of turnaround times. I don't think that regional labs over the long term are going to be able to match our level of service or test menu the electronic connectivity product that we offer, the access points. So I think that absolutely there's the opportunity to win business from the smaller regional players as the contract matures.

I do want to comment again because so much of this revenue came in, in the fourth quarter last year and first quarter of this year. This is a 10-year contract with a lot of opportunity for us as we go forward and both the pull-through and the ability to win business from other providers is very exciting to us.

**Ralph Giacobbe - Credit Suisse**

Okay, thanks. And just real quick. On the -- in terms of the balance sheet, can you talk about your sort of appetite for potentially leveraging up the balance sheet and doing something more drastic whether that be on the acquisition front or in terms of share repurchase, something bigger scale.

**David P. King - President and Chief Executive Officer**

Okay, I make a couple of preliminary comments and then if Brad Hayes has anything, he can add to it. We got a lot of questions over the past six months about, shouldn't we really lever up the balance sheet and do something big. And I think where we are today given what's happened in the credit markets, we are very happy that we didn't lever up the balance sheet. I think our balance sheet is very attractive right now. And so we like to keep the balance sheet, we like to give ourselves the opportunity on the balance sheet to be able to lever up if we need to do something big or decide to do something big. The leveraging up just for the shake of getting more leverage is not something that has ever historically been attractive and doesn't look attractive at this point. Brad you have any observation?

**Bradford T. Smith - Executive Vice President, Corporate Affairs**

Dave, I will just add... well I don't know about anything drastic. I mean again we've been consistent in saying we want to keep our investment grade credit rating. But certainly we have the room to do something first. So... as Dave mentioned, for the right opportunity, I think, we have the flexibility to add some leverage.

**David P. King - President and Chief Executive Officer**

Thanks.

**Operator**

Your next question comes from the line of Tom Gallucci from Merrill Lynch. Please proceed.

**Tom Gallucci - Merrill Lynch & Company, Inc.**

Good morning, thanks for the information. I just had a few follow-ups more from a macro perspective. I think you sort of alluded to some macro factors that were pressuring price just in the healthcare industry in general. I was wondering first if you could expand on any other factors that you think might be affecting pricing within your industry and how have you factored pricing into your '08 expectations.

**David P. King - President and Chief Executive Officer**

I'll answer the second question first Tom. In terms of our expectations for '08 as I mentioned I think we feel that the pricing reset is pretty much occurred and that we've largely re-contracted. This was a year in which basically all of the major... well not all, but a significant number of the major payers were up for re-contracting and we have re-contracted with them or not re-contracted in the case of Aetna. So we think the pricing reset is largely occurred and we don't foresee significant price changes in what we look at for 2008.

In terms of the macro factors, I mean... I think just top policy for a second here, I mean I think there's a couple realizations that people are coming to in healthcare. One is we're spending 16% of GDP on healthcare now and there's certainly a very large school of thought that says that we're not particularly good outcomes for what we're spending. The second thing is and something that I've been paying more attention to as an employer of 26,000 some people is, at the rate of premium increase that we're seeing versus the weight of wage increase, we're talking about within the next 8 to 10 years. We're talking about the cost of benefits for employers being greater than salaries and wages because benefits... premium increase of about 11% to 12% a year is doubling every 7 years and wages at 3% to 3.5% is doubling in 24 years.

So I just think from a policy standpoint, now the answer that everybody is giving as well and we have to cut reimbursement, we have to cut spending, we have to cut payment and just... if you want

validation of what I am saying just go on Google reimbursement reductions in healthcare and you will find 15 or 20 different groups of healthcare providers who have seen dramatic reimbursement reductions over the last several years, and I don't personally think that just cutting reimbursement is the right answer. I think, the payment, the problem with the right answer overtime is to pay for appropriate course of treatment rather than episodic treatment as for better outcomes. And that's why I go back to... our Litholink program is an example of how we can add real value in that equation. But I just think the macro pressure is we can't afford to continue to spend on healthcare the way that we are spending and the easiest way to address that is to say we got to cut the amount we are paying people.

**Tom Gallucci - Merrill Lynch & Company, Inc.**

Okay. And then you said that... I guess some of your bigger payers were sort of reset in '07 but you also mentioned in some remarks, some of the regional payers. We saw some turnover there from one lab to another. What do you think triggered that sort of turnover and I think you said you sort of accept most stability there next year, so what kind of visibility do we have on that?

**David P. King - President and Chief Executive Officer**

Well we've re-contracted again or not re-contracted with most of our... most of the major regional managed care plans in the 2006-2007 cycle. I think the principle reason for the shifts in regional players that we saw in the last quarter largely were driven by price and we obviously evaluate pricing every time we look at the... at a proposed relationship, just see whether we think it makes sense for us.

**Tom Gallucci - Merrill Lynch & Company, Inc.**

Okay, thanks for the color.

**Operator**

Your next question comes from the line of Bill Bonello from Wachovia. Please proceed.

**Bill Bonello - Wachovia Securities, LLC**

Good morning. Couple of questions, just back on the guidance questions. Just the implicit EPS guidance range for Q4 is pretty wide and I am just trying to get a sense of what would cause you to fall to one end of the range or the other and why there is that much uncertainty at this point in the quarter.

**David P. King - President and Chief Executive Officer**

Well I don't think it's any wider than our competitors' guidance and I think the principle reason is as I mentioned that we have seen in the last couple of months some changes in the couple of regional plans and we also, although... I think we have done a terrific job retaining Aetna business. We also have the continued uncertainty around how much of that Aetna business are we going to retain going forward. So those are the principle reasons why the revenue range is less... clearly less than one would normally expect it to be at this point in the year.

**Bill Bonello - Wachovia Securities, LLC**

Okay that makes a lot of sense. And then just on the... given your comments on UNH, is there any change to your long-term estimate of how much revenue you are going to generate? I think back when you announced the contract you said... you gave sort of an amount that you could generate over a 10-year time period, and then just based on your experience thus far, does that still hold?

**David P. King - President and Chief Executive Officer**

Yes it does?

**Bill Bonello - Wachovia Securities, LLC**

Okay. And then just a question on the specifics of the pricing. It looked like the price was down for the genomic and the esoteric testing and I am just curious if that price decline is a function more of test

mix or to the extent that you've seen actual price pressure, is it more concentrated in certain types of tests?

**Bradford T. Smith - Executive Vice President, Corporate Affairs**

Bill this is Brad. I think it's mostly back to Dave's comment about overall pricing in the third quarter, specifically related to Cigna. And then always we're fighting as you called out the kind of mix within mix back to one of Brad Smith's comments about the growth of, for example, HPV which is a test that's lower than that category average but continues to grow faster than the bucket in total. I think those two things in combination when I analyzed the observations that you have or what I came to.

**Bill Bonello - Wachovia Securities, LLC**

Okay, that makes sense. And to the extent so that there is price pressure I assume that's more kind of across the board as opposed to concentrated on specific tests?

**Bradford T. Smith - Executive Vice President, Corporate Affairs**

Yes.

**Bill Bonello - Wachovia Securities, LLC**

Okay. That makes a lot of sense. And then just finally I am a little confused I might not have understood your answer to Adam, did you say that the \$60 million of cost savings is not in the guidance really?

**David P. King - President and Chief Executive Officer**

No the \$60 million in cost saving is in the guidance. The closure of the Louisville... the downsizing of the Louisville laboratory is not in the \$60 million.

**Bill Bonello - Wachovia Securities, LLC**

It's not, okay. So that would be above and beyond that and I don't suppose you want to take a stab at how much that can save you?

**David P. King - President and Chief Executive Officer**

I do not want to take a stab.

**Bill Bonello - Wachovia Securities, LLC**

Thanks a lot.

**David P. King - President and Chief Executive Officer**

Thank you.

**Operator**

Your next question comes from the line of Arthur Henderson from Jeffries & Company. Please proceed

**Arthur Henderson - Jeffries & Company, Inc.**

Thanks. Dave the \$60 million that's coming off of Bill's question, it seems like that's kind of low hanging fruit. Is there more opportunity out there on the cost savings that you might not be talking about right now, but you could tap into?

**David P. King - President and Chief Executive Officer**

There is definitely more opportunity on the cost savings and we will be looking at it just to make sure that we do tap into it.

**Arthur Henderson - Jeffries & Company, Inc.**

Okay. Fair enough. And then going back to your comments on the acquisition market out there, obviously with the credit markets changing, are you seeing more people on the sideline now? Is it giving you a better opportunity to look at some things, at some reasonable prices that you haven't been able to look at before? And I'm wondering also what's really interesting to you from an acquisition perspective?

**David P. King - President and Chief Executive Officer**

I think we're seeing; I think some people have moved to the side lines. I think you know multiples are still a little higher than they probably were 18 months ago but they're starting to come back to earth. And so I think going back to the question about the balance sheet I mean I think that's part of what makes this attractive to us is that you know we have the room in our balance sheet to do some things that might be attractive from an acquisition stand point. What looks attractive to us continues to be strategic acquisitions where we can build out infrastructure where we've not had strong infrastructure previously such as PA Labs in Indiana, and such as DSI opportunity because of that Naples market in Florida. And then also opportunities that our going to enhance our esoteric, and genomic and anatomic pathology franchises and we continue to look at opportunities that we think are attractive.

**Arthur Henderson - Jeffries & Company, Inc.**

Okay. That makes sense. Now just going back on the United. I remember last quarter you talked about possibly not having to incur as much transition expense as you had originally thought. Did I hear you correctly that you still feel comfortable saying that you could come in less than that 200 million.

**David P. King - President and Chief Executive Officer**

Yes. We feel very comfortable saying that we could come in at less than 200 million and I think if you just look at for the six months of the year with basically the vast majority of all June claims experience having been encountered, I think were about 27.4. So we said all along that we felt that the vast majority of the leakage was going to come in the first 12 to 18 months and to be at 6 months and be at 27.4, we are very, very pleased with that.

**Arthur Henderson - Jeffries & Company, Inc.**

Okay, makes sense. And then last question, I will jump back in the queue. I know Ralph had talked a little bit about leakage and things of that nature related to the United volumes. I am curious, have you had any discussions with United about strategies that you could employ to maybe pull that volume over quicker or in a sort of rejuvenated way that maybe, the success that you had earlier this year obviously was surprisingly was great. But I am just wondering is there anything that you feel like you could do better out in the field that maybe you've talked to United about driving those volumes over?

**David P. King - President and Chief Executive Officer**

We obviously have talked to United about the opportunity to... about what we see as the opportunity to get additional volumes and obviously for competitive reasons, I am not going to talk about specifics, one thing that I think clearly assists us in gaining additional volume is just the use of electronic communication devices and making it more convenient for physicians to order and receive test results. So that's something that we are... that's a lab core initiative but that's something that we absolutely are going to be out there doing to show physicians the convenience of our web based products, the convenience of our standalone product to assist them in ordering their tests, getting their results back, dropping them right into their EMRs or practice systems and making the lab experience easier and more customer friendly.

**Arthur Henderson - Jeffries & Company, Inc.**

Okay. That's helpful. Thanks Dave.

**David P. King - President and Chief Executive Officer**

Thank you.

**Operator**

your next question comes from the line Bill Bonello as a follow-up question from Wachovia. Please proceed.

**Bill Bonello - Wachovia Securities, LLC**

Hi. I just wanted to make sure for modeling purposes to clarify on your comments about contracting. Does the fact that you've negotiated most of your big national and regional contracts already? Does that mean that the... whatever price impact there would have been was pretty much reflected in this quarter's results or are there any contracts where you've negotiated a price hit that you know that it's there but it hasn't taken an effect yet?

**David P. King - President and Chief Executive Officer**

Based on what we have concluded the negotiations of I would say you've pretty much seen the price impact in this quarter.

**Bill Bonello - Wachovia Securities, LLC**

Okay. Perfect. Thank you.

**Operator**

Your next question is a follow up from Ricky Goldwasser from UBS. Please proceed.

**Ricky Goldwasser - UBS Securities, LLC**

Hi. Just one small question. Regarding the cost savings of \$25 million in '07, is that all in the fourth quarter or does that \$25 million include already what you've seen in the third quarter, and if so how much have you realized in the third quarter?

**David P. King - President and Chief Executive Officer**

It's 10 in the third and 15 in the fourth, Ricky, assuming that we don't do anything else. And I guess also not including any impact of the Louisville lab downsizing.

**Ricky Goldwasser - UBS Securities, LLC**

Right. So then the \$50 million in '08, is that just based on that \$50 million run rate?

**David P. King - President and Chief Executive Officer**

Yes.

**Ricky Goldwasser - UBS Securities, LLC**

Thank you.

**Operator**

Your next question is a follow-up from the line of Tom Gallucci from Merrill Lynch. Please proceed.

**Tom Gallucci - Merrill Lynch & Company, Inc.**

Thanks. Just a quick follow up to, I think it was just Kemp's question. A second ago when you do have those multi-year deals, I understand the hit now is in the numbers because they've been enacted. But when you're got a multi-year deal, what sort of rates do you have each successive year, is it flat, is it an increase, is it a decrease, so how do you think about that for longer term is again we're thinking about sort of the modeling in the long run?

**David P. King - President and Chief Executive Officer**

I think about it as... it's a very important contracting point for us to receive price increases over the term of contracts because the reality is that our labor expense, our rental expense, our auto and gas expense, all of our expenses continue to increase and so getting top line price increases is a very fundamental part of our contract negotiations.

**Unidentified Analyst**

Okay, thank you.

**Operator**

At this time, there are no further questions in the queue. I would now like to turn the call back over to Mr. David King, Chief Executive Officer, please proceed.

**David P. King - President and Chief Executive Officer**

Again thank you very much for listening to our call this morning and we hope you have a great day.

**Operator**

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.

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