
MANAGEMENT DISCUSSION SECTION

Operator: Good day everyone, welcome to the Chindex Second Quarter Earnings Conference Call. Today's call is being recorded. At this time I'd like to turn the call over to Roberta Lipson. Please go ahead.

Roberta Lipson, President and Chief Executive Officer

I would like to welcome you all to our conference call in which we will discuss Chindex International's fiscal year 2009-second quarter results. As in the past, we have prerecorded our initial comments, which will be followed by a live Q&A session. Joining me today on the call is Larry Pemble, our CFO. Before we proceed with a summary of operating results for the period and an update on our recent events, I will ask Larry to read the Safe Harbor statement. I will take some brief comments and then Larry will review the financial results in detail. I would then comment on the quarterly results and our outlook for the fiscal year. Finally, we'll turn to Q&A. Larry, please read the Safe Harbor statement.

Lawrence Pemble, Executive Vice President and Chief Financial Officer

Yes thank you, Roberta and good morning, everyone. Statements made in this conference call relating to plans, strategies, objectives, economic performance and trends, and other statements that are not descriptions of historical facts may be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 as amended, the Securities Act, and Section 21E of the Securities Exchange Act of 1934 as amended, the Exchange Act.

Forward-looking information is inherently subject to risks and uncertainties and actual results could differ materially from those currently anticipated due to a number of factors, which include but are not limited to the factors set forth in documents filed by us with the Securities and Exchange Commission from time-to-time including, without limitation, our Annual Report on Form 10-K and interim reports on Form 10-Q.

Forward-looking statements may be identified by such terms as may, will, should, could, expects, plans, intends, anticipates, believes, estimates, predicts, forecasts, potential, or continue or similar terms or the negative of these terms. Although, we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We have no obligation to update these forward-looking statements.

Roberta Lipson, President and Chief Executive Officer

Thanks, Larry. We announced our results for the quarter ended September 30, 2008 in a press release this morning. We concluded our full income statement, balance sheet, and divisional results for the quarter. Assuming you've had a chance to review the press release and can refer to the specific numbers, we'll use this call to summarize operational results for the period and give updates on the current and upcoming issues in each division of the business.

This morning we reported second quarter profitability in both business segments. We were quite pleased that the recovery in our medical products divisions has taken hold well ahead of our projections. Our consolidated performance for the quarter, however, was somewhat below our expectations, standing in part from more than expected revenue in the Healthcare Services division.

On the cost side, we were pleased to see that inflation began to slow during the quarter. During the 12-month period ended June 30, 2008, the average rate of inflation in China was 7.5% relative to a historical average of 2.8% over the three-year period from 2005 to 2007. However, during the second quarter inflation in China slowed considerably to 5.3%. The Chinese Government has made this a priority and the strategy appears to have worked.

I'll now turn the call back to Larry to review the financial results for the quarter.

Lawrence Pemble, Chief Financial Officer and Executive Vice President

Thanks, Roberta. We'll be filing the 10-Q later today. For the second quarter we have reported 17% consolidated top line growth, income from operations was 1.6 million and net income for the period was 862,000. In the Healthcare Services division, our revenue increased to 19.1 million, an increase of 26% over the prior year quarter.

The increased revenues is attributable to growth in both inpatient and outpatient services provided in the Beijing and Shanghai markets, but with less than originally expected having them impacted during the period by disruptions in travel and tourism related to the Chinese Olympic games.

Operating profits in the Healthcare Services division declined from the previous quarter to 1 million as result of lower revenue during the period leading up to the Olympics and development expenses which we will discuss further a bit later on the call.

In the Medical Products division, revenue increased 9% to 19 million from 17.6 million in the prior year quarter. Revenues during the period included shipment of two robotic surgical systems. Gross margin in the division was about historical average during the quarter due in part to higher margins on certain contract shipments which accounted for a significant portion of total division revenues in the period.

At September 30, 2008 we had 36.9 million in cash and approximately 40 million in current and non-current investment. In addition, we have loan agreements in place with both IFC and DEG for future borrowings of up to 45 million, as of today we have not drawn any of these funds.

During the quarter, our tax rate was 23%. This was lower than the prior quarter due primarily due to the decrease in statutory rate in China and a change in estimates regarding the realization of deferred tax assets generated during the year related to new hospital development.

As we disclosed last week, during the quarter we incurred a non-cash expense of 594,000 or \$0.04 per share for the change in the fair value of derivatives associated with our investment. In July, in response to declining interest rates in the U.S. we invested \$40 million in three CDs, which had variable rates of return that were indexed to various equity indices and foreign currency markets, in order to maximize yield on U.S. dollar balances in advance of capitalizing our new hospital projects in China.

These CDs were 100% principal protected and fell to maturity though our base asset was never exposed to investment risk. Since that time, the underlying market indices have dropped dramatically resulting in an unfavorable absence to these investments in the near-term with two of the CDs reaching levels where we would have had no return. So, in October we redeemed all of these CDs and reinvested the funds in traditional deposits with guaranteed returns of approximately 3.4% to ensure a higher rate of return than would have been possible with the original investment over the next 15 months.

We did incur redemption penalty on the original CDs of 1.1 million which will be partially offset on the income statement by the reversal of 554,000 of CD investment discounts previously recorded

for a net charge in the quarter of 526,000 or \$0.03 per diluted share. However, the additional interest we will earn over the next 15 months will more than offset the expense of reinvesting.

Roberta that concludes my comments on the financial side and I'll look to you for a discussion of operating results and outlook for the rest of fiscal 2009.

Roberta Lipson, President and Chief Executive Officer

Thank you, Larry. There have been a number of exciting developments in the period; for starters on October 6, we were pleased to announce the opening of the United Family Healthcare clinic in Guangzhou. In addition to our traditional outpatient services, this clinic will provide extensive wellness and integrated traditional Chinese medicine services. The opening of this state-of-the-art facility represents the entry of the United Family brand into the lucrative South China market.

In Pudong, however, recently imposed zoning restrictions have hampered developments of our United Family clinic there. At the end of the current period, we decided to abandon the initial site and to relocate the clinic rather than challenge the zoning restrictions. As a result, we incurred certain project costs during the period and now expect the opening of the clinic facility in the first part of our next fiscal year. During the period, the development's expense for these two clinic projects were \$625,000.

We were really excited about the progress we have made on our hospital projects as well. The new United Family Comprehensive Hospital Facility for Guangzhou is scheduled to open in 2010. As you know, the Guangzhou hospital will be a joint venture with the Guangdong Provincial Traditional Chinese Medicine Hospital, which has the largest flow of patients than any hospital in Asia and is considered the very best hospital in integrated medicine.

We are still in the process of finalizing land use rights in Beijing for the new 150-bed facility. We expect to finish the land negotiations before the end of the current quarter and hope that this facility will also be ready for business in 2010. We are also evaluating several additional geographic locations in other major cities for other future facilities development.

During the quarter, United Family hospitals and clinics were granted Joint Commission International Accreditation at our United Family Healthcare facilities in Shanghai and re-accreditation of our facilities in Beijing. This provides unequivocal proof that United Family Healthcare is part of an elite group of the best healthcare providers in the world that have the JCI seal of approval. JCI accreditation is an important commercial strategy for UFH and fits well with our strategic plans to deliver international quality care to patients across China. The JCI accreditation represents the highest level of excellence in regards to quality of patient care and safety and assures patients and insurers that the hospital measures up to the best of U.S. hospitals.

As we noted in this morning's press release, the disruption in travel and tourism related to the Olympic games continued to have a dramatic impact on our patient visits and admissions during July and August, resulting in lower than originally expected revenue in the Healthcare Services division for that period.

It's worth noting, however, that we have already seen hospital volume accelerate in the post Olympics environment and we do not expect these factors to impact our full year revenue projections. For the current fiscal year we continue to expect an increase in revenue of approximately 30% over fiscal 2008 results.

Operating margins have been negatively impacted in recent quarters, primarily as a result of increased expenses related to compensation for physicians in existing markets of Beijing and

Shanghai due to a large volume of three-year contract renewals which was discussed in detail on last quarter's call and also as a result of development expenses for new UFH facilities.

We expect to continue to see the development expenses impact the next several quarters as we continue to process the building the new UFH facilities in our plan. Additionally, we expect operating margins in existing markets to continue to be slightly lower than expected due to larger than anticipated increases in compensation as reported in our first quarter results.

Moving on now to the Medical Products division. During the quarter, we were pleased to announce the sale of two da Vinci Robotic Surgical Systems. We continue to be very optimistic about da Vinci revenue contribution for fiscal year 2009 Medical Products revenue, but we would like to note that going forward we will no longer announce each individual of da Vinci sale.

During the quarter, we announced that we were awarded the contract as the main supplier for premium clinical application whole body color ultrasound systems to the People's Liberation Army hospital system in China for their 2008 procurement program. Under the terms of the ultrasound tender, the PLA has agreed to purchase at least 17 Siemens ACUSON Sequoia ultrasound systems to be installed in key army hospitals throughout China.

The contract was awarded to Chindex for the supply of the Siemens ultrasound systems through an annual public tendering process conducted by the People's Liberation Army Health Department. This is a major contract award for our Medical Products division. The shipments related to this contract will be executed over the next few quarters.

Today, we have a pipeline of \$23 million in other contracts for U.S. and German Government loan shipments for the third and fourth quarter of the fiscal year. We are delighted that the turnaround in the division is exceeding last quarter's expectations and that our prospects for the second half continues to grow. Our sales throughout the division remains back-loaded and based on our knowledge of existing and pending contracts, we anticipate generating revenue of 50 to \$55 million in the division in the second half of the year.

Despite the higher than expected margins for the quarter, our long-term margin expectations remain unchanged and we expect the division to remain profitable for the remainder of the fiscal year. In closing, I'd like to offer some thoughts on the recent Healthcare reform proposal issued by the Chinese Ministry of Health last month.

We have been anxiously awaiting this document for quite some time. The principles in the proposal are quite encouraging to us and we believe they will drive meaningful growth when enacted. It is clear from the graph that the Government intends to increase its investment in Healthcare to expand the reach of the delivery system, which for one, will result in a substantial need for equipment for medical facilities. Further, the proposal instructs public hospitals to focus on supplying basic medical care, with private investment encouraged for premium services.

Finally, we believe the proposal would encourage companies to develop commercial health insurance products which would obviously be of great benefit to us in driving future revenue growth. Although this is the only initial phase of the reform proposal and we expect several more iterations, we believe that it will result in tremendous growth opportunities for Chindex in years to come.

That concludes the prerecorded portion of our call and we'll now open the floor for live Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We'll take our first question from Anthony Petrone with Maxim Group.

<Q – Anthony Petrone>: Thanks, good morning Roberta, morning Larry?

<A – Lawrence Pemble>: Hi Anthony.

<Q – Anthony Petrone>: Just a quick question on the stimulus package announced over the weekend, 586 billion, they did mention social welfare. What are the early expectations for this internally if any thought has been given to this thus far in addition to the Healthcare reforms announced earlier in the quarter?

<A – Roberta Lipson>: Hi Anthony, the relief just came less than 24 hours ago so we don't have a complete analysis of it yet but there's one – a couple of things that I've – here that I'm pretty excited about, one being it looks like there's going to be a complete elimination of that pack for capital equipment substitute. What that means, it means both for us as purchasers of capital equipment investors in our facilities that's a savings of 17% but what's more exciting it means that our – the things we sell to our customers are 17% cheaper. Assuming this will be enacted in the near future and but as I say, it's early to say particularly. The second thing that's really exciting for us is that it's repeated in the similar package that there will be emphasis on social projects and specifically healthcare and so exactly what that means, we don't know yet but it sounds like something good to me.

<Q – Anthony Petrone>: All right, I'm going to move on to divisions individually starting with MPD and starting also with the top-line guidance. If you take a look at that on a more granular basis, how much of that I guess represents da Vinci both system and aftermarket and what is also in it for the loan program and I guess for the core business as well?

<A – Roberta Lipson>: Well, I think that we've mentioned very specifically that we have 23 million in the pipelines for loan projects and other than that there's ongoing equipment purchases and certainly some da Vinci's but we haven't given that much granularity on exactly how many da Vinci's will be shipped before the end of the year.

<Q – Anthony Petrone>: I guess specifically which Siemens, I know you had mentioned earlier in the quarter as well they're expected or currently have a new ultrasound device, their next generation ultrasound and the approval process is anything reflected in the guidance from that?

<A – Roberta Lipson>: We will start shifting that unit, it's – there's going to some ramp-up time. The approval has been granted on one iteration of the new product and then there is another platform which should come before the end of our fiscal year but I can't say specifically how much of the revenue will be due to those products. We are looking forward to very successful, early sales from that because we've seen it very enthusiastically received in Europe and U.S., that platform and early response in China is good.

<Q – Anthony Petrone>: Okay, moving on to U.S. Ex-Im and KFW just given the recent credit issues here domestically, do you see any impact in terms of their lending standards? Are they increasing the restrictions on who they will lend to in terms of hospitals in China or is that have to – is that unchanged since last quarter?

<A – Roberta Lipson>: Well, that will be an internal decision for the Chinese because both KFW and U.S. Ex-Im loan to whoever the Chinese Ministry of Finance gives the sovereign guarantee to. And I can only believe that credit will be eased through these facilities given the content of the –

both the stimulus package and the healthcare reform so I'm sure that – I should think that there will be no tightening of credit to those facilities as – but rather the emphasis will be put on making facilities available to help get facilities.

<Q – Anthony Petrone>: Okay and then finally moving on to Healthcare service, first question is in reference to the Guangzhou clinic, what is the expectations in terms of top line contribution for that say over the next 12 months?

<A – Roberta Lipson>: I'm sorry, I think Larry wanted to add something to – my answer to the last question; he might be able to give you some more clarity.

<Q – Anthony Petrone>: Sure.

<A – Lawrence Pemble>: No, well I just wanted to mention that the, Anthony, as you know last week we increased our guidance on MPD for the second half of the year and the visibility there primarily related to the loan programs more than any increase in incremental aspects of other products. I think when we originally talked at the last call we had a pretty – we knew that we were in the early stages of executing the contracts that had already been awarded. I think the change between then and now is the visibility on the delivery cycle of these KFW and Ex-Im programs in this fiscal year, in this current quarter and the next quarter, so I think that's the – otherwise the aspects of ultrasound and da Vinci and those other product areas have not changed substantially since our last call.

<Q – Anthony Petrone>: Thank you, that's helpful. And I guess just lastly moving on to a total company's perspective looking at expenses overall, and you had mentioned in particular expenses within the Healthcare Services Division are going to be at the current run rate for at least the next several quarters. When can we expect more of a leveling off of expenses where we start to see I guess the increased profitability from the top-line growth we're seeing over the past several quarters and I'll hop back in queue? Thank you.

<A – Lawrence Pemble>: Well, I assume that Anthony was talking about the Healthcare Services Division and we have had, we reported last quarter that we had a larger than anticipated uplift in compensation expense, due to the multi-year renewal of many physician contracts in a highly inflationary environment, that was a little uplift that we had not anticipated. We're now starting to recognize development expense; as we've noted it's about 600,000 in the current quarter. So that – and we'll continue to see some level of development expense in the ongoing quarters as we continue to build new facilities. So in terms of the run rate on existing facility costs, I think we've pretty much have establish that at the current level relative to last year so I don't expect that we'll continue to see any increase in that in particular.

<Q – Anthony Petrone>: Thank you.

Operator: We'll take our next question from Julie Chen with CRT Capital.

<Q – Ben Shim>: Good morning, Ben Shim filling in for Julie Chen. It sounds like the two new hospitals in Beijing and Guangzhou are on track to open in 2010. Can you characterize what the operating expense ramp-up is going to be for those two facilities?

<A – Roberta Lipson>: Well, we won't have a lot of operating expenses until right before opening. It's a small, tight development team that works on these projects and obviously a lot of development costs are capitalizable until we start hiring specifically additional people for the operations and that – actually, we start taking on people at zero minus three months, four months and then slowly ramp-up to opening date. So, there's not going to be expenses until 2010, a lot of operating – significant operating expenses for the two major new hospital facilities. A lot of funding

that will go on in the next 18 months are capitalizable for the most part run, as I say by a small and tight operating team.

<Q – Ben Shim>: Okay, are you usually fully staffed on opening day or is there incremental....?

<A – Roberta Lipson>: Oh, no, no, no, no, the staffing, it continues to ramp; in fact we don't even open all of our beds until year three or year four.

<Q – Ben Shim>: Okay, okay. Thanks for the clarification.

<A – Roberta Lipson>: Yes.

<Q – Ben Shim>: Okay, that's very helpful. I understand there are lot of moving parts here between the stimulus package that's being proposed and a few other things. On the healthcare services side, it seems like the two moving parts are salary inflation and development costs; are there any sources – other sources of inflationary cost impacts in that segment going forward – balancing?

<A – Roberta Lipson>: You know, I think that we're seeing general inflation here slowed and our SWB, we had that big bolus increase happen starting two quarters ago and you'll see that on year-on-year until fourth quarter so far right because they were contracts that all – a lot were made at the same time with increases. In addition to that, I think we're going to see some relief on capital equipment on that cost which will be a good thing and I don't know – I don't see other big threats in terms of inflationary costs really so...

<A – Lawrence Pemble>: Okay and Ben, did I hear the word balancing at the end of your sentence there, were you....?

<Q – Ben Shim>: Well, I mean there's two sort of opposing forces, you've got a weakening economy and then the sort of netting against that is going to be the stimulus package. I know it's early to tell and I just wanted to see if you had a sense as to how that would play out, the give and take, but I mean my guess....?

<A – Lawrence Pemble>: We have seen, I mean we have seen inflation come down dramatically in China in the last several weeks. I think that the actions the Chinese Government has taken to bring inflation down to just around – actually the last number I saw was slightly under 5%. So, that they – the very significant increases have been brought inline substantially.

<Q – Ben Shim>: Okay.

<A – Lawrence Pemble>: Already.

<Q – Ben Shim>: So salaries are basically the largest driver of that cost inflation that you've experienced?

<A – Lawrence Pemble>: Right.

<Q – Ben Shim>: Okay. On the products distribution side, how is the – sort of the weakening macro outlook going to affect that business? Will you see more efforts into securing more let's say Chinese Government business like you mentioned with the People's Liberation Army contracts?

<A – Roberta Lipson>: Well for sure – most hospitals in China, and I'm talking 95% of the hospitals in China, are public hospitals anyway so in some level directly, indirectly it's government business, but in terms of rather than hospital investments, direct government investments we are expecting to see an increase in that kind of business and from everything we can see both

consistent with the healthcare reform and the stimulus package there – you know you say there's a lot of moving parts, true enough, but it seems to me no matter how I look at it, it's almost all good. I mean the inflation aside, if the government spends more to bring more healthcare to more people and it has committed to invest more it looks to me like a good thing for us for government business in general and this – that savings is going to be an important stimulus for our customers as well, I think.

<Q – Ben Shim>: Okay, Just last question did the healthcare reform circulation in mid-October address any of the liquidity issues that might affect your government backed loans?

<A – Roberta Lipson>: No.

<Q – Ben Shim>: Okay. All right that's all I had. Thank you very much.

Operator: We'll take our next question from Lewis Fan from Brean Murray, Carret & Company.

<Q – Lewis Fan>: Hi, thanks for taking my call Roberta and Larry. I basically only have couple of house speaking – housekeeping questions, sorry. First is regarding your product revenue, I apologize if I missed that during your prerecorded statements. But during the past quarter how many units of da Vinci did you sell; and also I remember in late September you announced that you are sending another unit of da Vinci to Ditan Hospital. Was that sale booked in this past quarter or do you expect to book in the next quarter?

<A – Roberta Lipson>: Hello, Lewis this is Roberta here.

<Q – Lewis Fan>: Hi.

<A – Roberta Lipson>: We did sell two units of da Vinci sold, shipped, installed.

<Q – Lewis Fan>: Okay.

<A – Roberta Lipson>: One was to Second Artillery Hospital and one with Ditan Hospital and...

<Q – Lewis Fan>: Okay.

<A – Roberta Lipson>: And that has been, for the most part, recognized in the current quarter.

<Q – Lewis Fan>: Okay great. Do you – how many units do you expect to sell for this quarter and next quarter for Q3 and Q4?

<A – Roberta Lipson>: We haven't given specific guidance on that.

<Q – Lewis Fan>: Okay. Okay, sure. Okay next question is regarding the miscellaneous income loss, which for this quarter we had \$600,000. In light of the U.S. credit market problems and so, U.S. investors are quite nervous about any potential income losses, because we have noticed that some of Chinese companies they have in their in the cash investment they try to enhance the yield as a result they are investing some kind of like credit – credit linked note in those vehicles. So, I first want to get a little clarification on the 600,000 loss. I know Larry has already mentioned that because part of that was attributed to early withdrawal penalties from CDs but if you could give us a little more color on that. And secondly, if you could tell us are there any – do you have any more with regards to your cash, do you have any more investment in those facing any potential principal offers. Thank you.

<A – Lawrence Pemble>: Right. Okay, there's the charge that was taken in the current quarter was specifically related to the fair value calculation of the derivative, of an embedded derivative

related to a series of CDs that we invested in early in the summer. As I said in the call, I think it's important to understand the context of this. It's a very, it's an unusual investment position for the company to have, and we really weren't risking any principal amounts at all. When we originally raised the money to develop the United Family facilities, Beijing and Guangzhou, we raised that money in U.S. dollars. Because of Chinese foreign trade law, we cannot bring that money into China until we actually capitalize the ventures in loan money to the ventures in U.S. dollars.

In the interim period, as you know the Renminbi has been appreciating until very recently, and the U.S. dollar's been depreciating. And so we took some, we analyzed the situation in last spring and decided to – and also the market rates in the United States were dropping during that period of time. So we took a slightly more aggressive position than we have normally taken and invested in some basically Asian market indices, the Hang Seng.

There's a lot of detail in the queue about this, Asian market currencies and the Hang Seng index, as well as some of the fundamental U.S. market indices, to maximize our yield over the next several months prior to capitalizing the United Family facilities. At all times, these amounts were 100% principle protected. So we really were not risking our underlying assets.

So during the period, as everyone knows, the Hang Seng tanked, the S&P tanked, and most currencies that were appreciating against the U.S. dollar reversed their trends. So every trend that had been running for several months prior to this investment turned around during the quarter, so we did recognize this loss.

When we, because of the nature of these CDs, we came to the business analysis after the markets fell, that we would be unable to realize any significant gain on the term of these CDs as we had structured them in July. And so, in the third quarter, we redeemed these CDs, and we'll recognize, when the accounting is all done, we'll recognize one additional charge in the third quarter, which is the charge that you mentioned.

So we took a charge on the fair value of the derivative in the second quarter, and we will take a charge on the early redemption in the third quarter. Those discreet charges, and as I mentioned in my comments, we reinvested these funds in a guaranteed rate deposits, which will net the company in a significantly better position over the next 15 months than we would have been possible if holding the original notes to maturity.

<Q – Lewis Fan>: Okay. So, just one more question, so you say for third quarter for fiscal year three quarter '09 you also expect to take another loss – do you have like any estimate, like how, what size for that?

<A – Lawrence Pemble>: Yes, it's approximately 600,000 in the, or 500 and some odd thousand. It's in the release.

<Q – Lewis Fan>: Okay, great. Thank you. Thank you very much.

<A – Lawrence Pemble>: Sure.

Operator: [Operator Instructions] We will go next to Hamed Khorsand with BWS.

<Q – Hamed Khorsand>: Good morning. Just wanted the understanding, now that you're here in Guangzhou what kind of challenges do you face that is a brand new market for the UFH brand?

<A – Roberta Lipson>: Well, the reason that we decided to go into Guangzhou, starting with enough pace of facility, was to give us an opportunity to get to know the market and build the brands prior to the comprehensive hospital facility opening. And so we did a lot of market research in advance of making the decision to invest in Guangzhou in the first cycle. And we did see or find

certain differences in consumer patterns, for example, the preference for traditional Chinese medicines, as well as some other specific detailed consumer preferences. And so we obviously shaped our offering, both in the outpatient offering and the future hospital facility, to the results of that market research, but there's nothing like actually being in the market and getting to know it as we do the hospital development. So, it's brand new. So far we've gotten the warm reception, we've gotten commitments from several different governments to allow us to do immigration physicals there. We've gotten a warm reception from the international community and have also starting seeing some local patients come through our doors. So stay tuned. It's early days, but we're very optimistic.

<Q – Hamed Khorsand>: Okay and then also in the outpatient division. You've announced two, so placed to in this past quarter, should that be a going rate on a quarterly basis?

<A – Roberta Lipson>: We haven't given specific guidance on that but, yes I think that once a June would be something realistic.

<Q – Hamed Khorsand>: Okay, thank you.

Operator: We will take our follow-up question from Anthony Petrone with Maxim Group.

<Q – Anthony Petrone>: Just a couple of housekeeping questions, Larry. Looking at the balance sheet in terms of receivables, DSOs ticked up this quarter. Is that more of a seasonal factor, or is that in response specifically to events in the quarter?

<A – Lawrence Pemble>: I think we just had, I mean you know, there's certain quarter end shipments that drive the AR up, so I think that our days outstanding is – normally fluctuates periodically during the year, nothing unusual.

<Q – Anthony Petrone>: And then just the non-current investments. You moved some of the cash out of current investments to non-current – I mean how long are the maturities on those? I'm assuming there was...

<A – Lawrence Pemble>: That was originally – and there is some details in the queue on this. That was originally a note tied to the Hang Seng Index, which was originally 18 months. So that's why it moved to non-current.

<Q – Anthony Petrone>: Okay, thanks.

Operator: We will take a follow-up from Julie Chen from CRT Capital.

<Q – Ben Shim>: Hi. I just wanted to ask if recent conditions have caused you to consider maybe pausing some expansions on the hospital and clinic side, or do you see yourself preceding as you originally planned?

<A – Roberta Lipson>: There are really no changes in our development stands as of now. Of course, we're remaining vigilant and sensitive to changes in the market, but we don't think there is a change from a long-term perspective. So that demand impacts all signs we've seen from government policy is going to supportive of increased demand for private clinic and healthcare services, and given the government's enthusiastic stimulus package, we think we're going to also see possibility of investment incentives over the next little while, as well as improved tax environment. So no, we think that this remains incredible opportunity or a window of opportunity to invest in the healthcare services in China.

<Q – Julie Chen>: Okay. Thank you very much.

Operator: [Operator Instructions] We will go next to Andy Gold with Gold Capital Ventures.

<Q – Andrew Gold>: Hi, guys. Can you talk about your effective tax rate going forward? Obviously it looks like you have a big NOL in the equipment side. Does any of that get realized as you become more profitable in the third and fourth quarters relative to the general cash rate?

<A – Lawrence Pemble>: We do expect as MPD continues to show profitability that we will be able to, as you know right now we carry a full valuation allowance on that asset, we do expect it at some point, not completely sure of when that would be, certainly not at the end of this coming quarter, but perhaps at year end depending on how strong the next two quarters are, we would release that valuation allowance and start to make use of that deferred asset. The improvement in the effective rate that we see this quarter is related to two things specifically the decrease in the statutory rate in China, all of our hospital entities pay tax in China. So their rate has decreased year-on-year, and also we have taken an estimate that we will be able to utilize the startup losses on future entities. So we're receiving a benefit from those entities in that current period. That's why we're...

<Q – Andrew Gold>: So would you expect the tax capture in the fourth quarter? Relative because you have it recorded in the first quarter?

<A – Lawrence Pemble>: Well the – I think we may – I think in general we can expect an effective rate somewhere between, I think this quarter is slightly lower than we should anticipate, I think we should be looking in the 26 to 32% range in general. And at some point, I can't say for sure whether it'll be Q4, we would recognize a discreet release of the valuation allowance held on the U.S. assets that would result in it very significant benefit at the time of that release.

<Q – Andrew Gold>: And also, can you talk about your share count? It seems to have gone up between 14 to 16 million. Is that related to stock options and...

<A – Lawrence Pemble>: No, that was, the first quarter was a loss. So we had to, anything over the basic share count was anti-dilutive, so it wasn't counted. So it doesn't. There actually has not been a significant uplift in the share count from June 30 to September 30.

<Q – Andrew Gold>: Well, will the share count drop with the drop of the stock price at some point as some of the stock options are below, obviously the spec rate percent?

<A – Lawrence Pemble>: Well, there is, I mean, well the diluted count takes in to count the – when you do this treasury method, it does, it is somehow related, but basically I don't – I don't see, it would be significant.

<Q – Andrew Gold>: Okay. So, that share count should be pretty much the same going forward?

<A – Lawrence Pemble>: Yes, within – yeah.

<Q – Andrew Gold>: Within reason?

<A – Lawrence Pemble>: Within reason, yes.

<Q – Andrew Gold>: Okay. Okay. Thank you.

<A – Lawrence Pemble>: Thanks, Andy.

Operator: And it appears we have no further questions at this time. I'd like to turn the call back to our speakers for any additional or closing remarks.

Roberta Lipson, President and Chief Executive Officer

Well, I think that is all from us. So we're going forward, get ready, and go after whatever types of opportunities are coming out of this new and exciting time, given the recent announcements of the government. And thanks all for joining in the call, and we'll see you next quarter.

Operator: Thank you. Once again that does conclude today's call. We do appreciate your participation. You may disconnect at this time.

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