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**— MANAGEMENT DISCUSSION SECTION**

Operator: Welcome to Kendle's Fourth Quarter and Full Year 2007 Earnings Conference Call and Webcast. As a reminder, this call is being recorded. At this time, I'll now turn the call over to Patty Frank, Kendle's Director of Investor Relations. Please go ahead.

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**Patty Frank, Director of Investor Relations**

Thank you. Good morning everyone and welcome to our conference call. With us today are Dr. Candace Kendle, Kendle's Chairman and CEO; Chris Bergen, Kendle's President and Chief Operating Officer; and Buzz Brenkert, Kendle's Chief Financial Officer.

By now, you should have all received a copy of our earnings release. This release also is posted on our corporate website at kendle.com or via PR Newswire at prnewswire.com. If you are interested in listening to a replay of this call, a telephone version is available through March 28th by dialing 706-645-9291 and entering access code 32648462, or you may access a webcast of the archived call at kendle.com. All participants are currently in a listen-only-mode. A question and answer session will be conducted following management's formal remarks. [Operator Instructions]. Please note webcast participants do not have the capability to ask questions.

Before I turn the call over to Dr. Kendle, I would like to remind everyone that statements made during today's call that are not historical might be considered forward-looking. Today, we'll be talking about our expectations regarding a number of activities in which Kendle is engaged. Reliance should not be placed on such forward-looking statements because they involve risks and uncertainties that may cause our actual results to differ materially from those, which we are going to discuss or which we may imply. Those risks and uncertainties are outlined in our Securities and Exchange Commission filings.

During today's call, we'll be referring to certain non-GAAP financial measures that have not been prepared in accordance with Generally Accepted Accounting Principles. A reconciliation of the non-GAAP financial measures to the most directly comparable GAAP measures is available within the earnings release.

With that, I would like to now turn the call over to Dr. Kendle.

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**Candace Kendle, Chairman and Chief Executive Officer**

Thank you, Patty. Good morning to everyone and welcome to the call. Buzz, would you like to start it off?

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**Karl 'Buzz' Brenkert III, Senior Vice President, Chief Financial Officer and Secretary**

Certainly, good morning everyone. For the quarter, net service revenues totaled a little over \$104 million, reflecting 21% growth over last year's fourth quarter. Operating income for the quarter totaled \$15.2 million for an operating margin of 14.6%. Diluted earnings per share totaled \$0.43.

Last year the company reported an operating loss of \$1.8 million reflecting an \$8.2 million non-cash impairment charge as well as significant cost and expenses associated with the Charles River Clinical Services acquisition consequently diluted earnings per share in Q4 of last year for the loss of \$0.32 per share.

Focusing on revenue, as mentioned earlier \$104 million of revenue for this quarter represents 21% growth over last year and a 4% increase over the third quarter all of that growth is organic. Fluctuations in foreign exchange rates accounted for about 7% of year-over-year growth and 2% of growth over the prior quarter.

Early stage contributed significantly to the growth over last quarter increasing revenue from \$4.7 million in the third quarter to \$5.7 million this quarter. Geographic distribution of revenue continues to shift away from the US, North American based service revenues were 50% of the total that's down from 52% in the fourth quarter of last year. European revenues were 40% of total down from 42% last year Latin American revenues increased from 4% last year to 6% of total this year and Asia Pacific revenues grew to 4% from 3% last year.

In terms of customer concentration, this quarter our top five customers accounted for 29% of revenue as compared to 26% last year and our 10 largest customers accounted for 42% of revenue versus 39% last year, no customer accounted for as much as 10% of revenue. The list of our largest customers is really quite dynamic. Only two of our five largest sponsors from last year's listing also appear on this year's list and four of this year's top 10 did not appear on last year's listing.

Income from operations for the quarter was \$15.2 million or 14.6% of revenue, compared to an operating loss of \$1.8 million in the fourth quarter of last year. Last year's fourth quarter operating loss reflects the effect of the non-cash intangible impairment charge of \$8.2 million as well as \$1.6 million of intangible amortization and \$800,000 of non-recurring costs associated with the CRLCS acquisition. Excluding these charges, pro forma operating income for last year's fourth quarter was \$8.8 million or 10.2% of net service revenue.

Comparable pro forma operating income for the fourth quarter this year excluding only the CRLCS intangible amortization increased 84% to \$16.2 million and the pro forma operating margin grew to 15.6%.

Net income of \$6.4 million for the fourth quarter compares to a net loss in last year's fourth quarter of 4.7 million. Excluding the items discussed previously, fourth quarter pro forma net income grew from \$2.1 million last year to \$7 million this year.

Diluted earnings per share for the quarter of \$0.43 and pro forma earnings per share of \$0.47 compared very favorably with last year's loss of \$0.32 per share and pro forma earnings per share of \$0.14. EBITDA for the quarter was \$19 million up from 10.5 million in the fourth quarter of last year and cash flow from operations was \$23.8 million.

For the full year, net service revenues were almost \$398 million, an increase of 40% versus last year. This growth rate of course was favorably affected by the Charles River CS acquisition in mid-August of last year. So, due to the integration of the operations the affect of the acquisition on operating results can't be quantified. Foreign exchange rate differences between the years account for 6% of the growth.

Full year revenue contribution by region significantly different than last year, North America contributed 50% of net service revenue down from 55% last year. Europe contributed 42% up from 39%. Latin America's contribution grew from 4% last year to 5% in 2007 and Asia Pacific held steady at 3% of total in both years.

For the full year, our top five customers accounted for just over 25% of net revenues down from over 28% last year and our top 10 customers represented just under 39% versus almost 42% last year. No customer contributed as much as 10% of revenue and in fact only one customer accounted for more than 5%.

Full year operating income of almost \$53 million compares very favorably to 2006 operating income of \$20 million, even on a pro forma basis, the comparisons very favorable after adjusting 2006 results for the \$8.2 million intangible impairment charge and \$1.2 million of expenses associated with the CRLCS acquisition, and adjusting both years for this CRLCS intangible amortization that's \$4.2 million this year and \$2.3 million last year.

After all those adjustments, pro forma operating income this year totaled almost \$57 million an 80% increase over last year's 31.7 million. This equates to a pro forma operating margin of 14.3% compared to 11.2% last year.

On a GAAP basis, net income for the year totaled \$18.7 million or \$1.26 per diluted share compared to \$8.5 million last year or \$0.58 per share. After adjusting for the intangible impairment charge and acquisition related expenses in 2006, the write-off of \$4.2 million of deferred financing cost associated with payoff of the Term B Debt this year, and the CRLCS intangible amortization in both years pro forma EPS totaled \$1.61 this year versus \$1.08 last year an increase of almost 50%. The effective tax rate for the year was 38.6%, up from 36.2% last year. The increase in the tax rate is a function of geographic distribution of income between taxing jurisdictions. We don't envision the tax rate continuing at this level in the future.

EBITDA for the year totaled \$67.7 million with cash flow from operations of \$61.9 million. Turning to the balance sheet, we ended the year with cash and marketable securities totaling over \$46 million, up from 22 million at the start of the year. Accounts receivable at the end of the year totaled 135.6 million consisting of \$63 million of billed receivables and \$72.6 million of unbilled receivables. With advance billings totaling 78.4 million, net receivables totaled over \$57 million which represents a DSO of 33 days.

Working capital aggregated \$58.6 million and assets totaled over 498 million. On the liabilities side, borrowings of \$200 million outstanding at the end of the quarter represent the convertible notes. You recall the term loan outstanding at the end of prior year was paid off completely during the third quarter.

Shareholders' equity totaled over \$141 million. Finally, capital expenditures totaled \$5.4 million during the quarter bringing the full year total to \$16.2 million. With that I'll hand it over to Candace to discuss business development.

#### **Candace Kendle, Chairman and Chief Executive Officer**

Thank you, Buzz. I would like to start with the new business awards, gross sales for the quarter were 174 million which compared to gross sales of 164 million for the same quarter last year, a 6% increase, and compared to last quarter of 175 million. Full year 2007 sales of 664 million reflected an increase of 36% over prior year total sales.

Cancellations for the quarter were 32 million which compared to cancellations in last quarter of 7 million. Cancellations were approximately 18% of gross sales this quarter. This is a significant difference from what we have seen historically, I wanted to give you a little more information. The largest single cancellation was \$5 million. There were broad spectrums of contract sizes in our cancellations as well as a broad spectrum of customers in therapeutic areas. This cancellation rate is more inline with our competitors albeit it still on the low-end. Full year 2007 cancellations of 66 million were 10% gross sales, and this compared to full year 2006 cancellation rate of 11%.

The total business authorizations were once again an all-time high at 869 million for the quarter, this compared to 659 million for the same quarter last year, representing a 32% increase. Sequentially backlog increased 5% from the end of last quarter which was at that time 831 million.

Our gross book to bill was 1.7 to 1, while our net book to bill was 1.4 to 1 for the quarter. For the year, gross book to bill was 1.7 and net book to bill was 1.5.

Several of you have asked about RPF volume in the quarter, our RPF volume in terms of numbers was slightly off as compared to the third quarter was only slightly, but it was off. However, the average proposal request size was significantly larger. With regard to customer concentration in sales for this quarter, the top five customers as a percent of total gross and net sales were 44% and 54% respectively. For the year, our top five customers, again this is with regard to sales as a percent of total gross and net annual sales were 27% and 30% respectively.

I'd like to now move to some remarks around backlog visibility and revenue rollout as we move into 2008. Kendle strategy for 2008 through 2010 includes driving growth in our core competency in stages I through IV meeting the specific development pipeline needs for our targeted customers. We are committed to gaining share in the CRO market through further penetration in the megatrial sector as well as continued expansion in mid-size trials that constitute opportunity for large program participation and expanded customer penetration. This strategy drives growth while mitigating the risk of an exclusively large trial strategy. We believe there is opportunity for unique positioning through therapeutic area focus, when it is developed in concert with the appropriate broad geographic footprint.

Large multinational companies that are participating heavily in the rapidly growing mega trial sector have experienced drag on near-term revenue rollouts. Kendle is no exception. Our analysis at this time would indicate that the larger the concentration of mega trials relative to base business, the more significant the drag may be. We also see the therapeutic area, also see that therapeutic area largely as a result of patient access influences this drag. We are defining drag as the percent of revenue contribution on a monthly basis as compared to total contract value when compared to cost of historic revenue recognition.

With regard to Kendle specifically, our backlog in mega trials tripled 2005 to 2006, and then doubled 2006 to 2007. We've also seen some influence on our revenue rollout as a result of our shift in therapeutic area expertise. These expanded therapeutic areas and subsequent patient access needs compounded the mega trial revenue recognition timing. Other 2007 influences for Kendle relative to the market are our core concentration in Phase II through IV as well as our short-term decline in Phase I revenue in 2007. Today, we are at stronger position with regard to understanding our revenue rollout for 2008. In part, this is due to enhanced processes implemented late in the third quarter 2007.

In addition, as we reach target on our business and customer mix, we are seeing stabilization of the trial mix. Today we have a strong mix of stage II to IV business. We continue to maintain more than 50% of our business in the mid-sized trial enhancing customer opportunity and mitigating risk around mega trial cancelation. While its small influence our Phase I business is concurrently improving thus affecting our revenue rollout.

At this point, I would like to talk about our business opportunity in 2008. Before we close the formal remarks, I want to briefly discuss some of our plans for 2008. As many of you know we are aggressively building our leadership team to enable us to drive Kendle growth. We continue to believe there is strong opportunity for us with our customers in early stage clinical development. Phil Davies, Vice President, Global Phase I had come to us from Eli Lilly is working with our corporate development team as well as our internal leaders to complete the plan for building our early stage business. We expect that you will see evidence of this effort in the first half of 2008.

Our geographic expansion in Asia Pacific under the leadership of Dr. Ross Horsburgh, formerly of AstraZeneca is moving according to plan. We expect that you will also see results of this expanded effort in the first half of 2008. Kendle had long had a presence in Asia Pacific. This move represents growth in response to customer demand. Kendle's growth at EMEA and Latin America

has continued and is expected to further increase throughout 2008. In 2008, we are keenly focused on building our infrastructure. We have already begun enhancing our leadership team in our finance group with the addition of a new VP, Accounting and additional finance leadership and management team membership, our plan for 2008. Midway through 2007 we brought in leadership for the development of our ERP. This effort is well underway and promises Financial HR and operations systems improvement in 2009.

In short you will see a much enhanced infrastructure to support our 2008 through 2010 plan. In summary we are extremely pleased at our progress in 2007 and are looking forward to an equally promising 2008. Before we move to questions, I also I want to at this time provide you with our 2007 guidance. Respective guidance, our disclosure policy in 2008 will remain the same as it's been in the past. We will give ranges and then not comment further unless we feel we will fall outside of those ranges. We expect revenue in 2008 to come in between 450 and \$460 million. This range reflects the expected rollout of revenue from the backlog at the beginning of the year. A book-to-bill ratio of 1.4 to 1.5 and a cancellation rate within the industry range 18 to 20% of sales.

Operating margin computed in accordance with GAAP is expected to range between 13 and 14% of revenue. Because the full year of intangible amortization will be included in operating results for both 2008 and 2007 we do not anticipate the need to report pro forma operating margins or earnings next year. For those who would like to compute it on their own, amortization of the CRLCS acquisition intangible will be 3.2 million in 2008.

We expect earnings per share to range from \$1.90 to \$2.07 on a GAAP basis in 2008, again we don't anticipate reporting pro forma earnings numbers for 2008. At this point we would like to conclude the formal remarks, and move to questions.

**QUESTION AND ANSWER SECTION**

Operator: Thank you. [Operator Instructions].

Your first question comes from the line of Robert Gilliam with UBS.

<Q – Robert Gilliam>: Hi, good morning. Thanks for taking my question.

<A – Candace Kendle>: Hi, Rob.

<Q – Robert Gilliam>: So, can you just give a couple of comments on why the tax rate was spiked a little bit in the fourth quarter? And then also how you expected to trend in 2008, I know Buzz mentioned in his comments, you expected to trend down in 2008, I was wondering if you guys give anymore specific on that?

<A – Karl Brenkert III>: Yeah, Rob, the effective tax rate for the fourth quarter is simply a function of the rate for the year less the estimated expense for the first three quarters. So, the full year tax effect, the difference between our projected income distribution by tax jurisdiction and the actual distribution is reflected totally in the fourth quarter, which is why the fourth quarter look so large.

<Q – Robert Gilliam>: Okay, and for 2008.

<A – Karl Brenkert III>: 2008 to mitigate the jurisdiction issue or the geographic dispersal where we've got plan structural modifications, and a derationalization and things along those lines. Also changes in policies governing inter-company activities and transfer pricing and the like.

<Q – Robert Gilliam>: Okay. But as far as EPS guidance -- what's reflected in EPS guidance for your 2008 tax rate?

<A – Karl Brenkert III>: In EPS guidance, we've got tax rate between 35 and 36% in our range.

<Q – Robert Gilliam>: Okay. Thank you. Interest expense was a little bit higher than I expected again this quarter. Is this kind of -- we finally reached a run rate, is this -- the 4Q, should we assume it's going to be pretty similar to that going forward?

<A – Karl Brenkert III>: Fourth quarter does have some mark-to-market on some old interest hedges that we had in place for the Term Debt. So you should see lower interest expense going forward.

<Q – Robert Gilliam>: Okay. And as far as hedging activities for 2008, or is it due -- can you give us any color on your FX assumptions and whether or not you have any hedging in place for 2008?

<A – Karl Brenkert III>: We do have hedging in place for 2008 for the inter-company notes that we have with our two of our European subsidiaries. It's sort of the poor man's hedge of mark-to-market -- the assumptions that we have in the guidance that we've given is basically no effect on operating income, but we do anticipate between 4 and \$5 million of foreign tax loss as sort of a hedge, if you will against weakening dollar.

<Q – Robert Gilliam>: Okay, and 4 to 5 million that shows up in your other income line?

<A – Karl Brenkert III>: Correct.

<Q – Robert Gilliam>: Okay. Can we get a head count update?

<A – Karl Brenkert III>: Sure thing. You want head count at the end of the year?

<Q – Robert Gilliam>: Yes, please.

<A – Karl Brenkert III>: 3300 and change.

<Q – Robert Gilliam>: Okay. And do you have a current number also?

<A – Karl Brenkert III>: No, I don't have the current number now.

<Q – Robert Gilliam>: Okay. I'll hop down let some other people ask questions. Thank you.

<A>: Thank you.

Operator: Your next question comes from the line of Todd Van Fleet with First Analysis.

<Q – Todd Van Fleet>: Good morning guys, nice quarter. Just to think conceptionally about what's embedded in your guidance for 2008, Candace, I think you said that operating margin is going to be in the 13 or you expected to be in kind of the 13 to 14% range. We just came off a year, where Kendle improved the operating margin. I think on a GAAP basis, about 3100 basis points over 2006, and that was in a year, when you're going through all the integrations or probably a good position of the integrations related to the Charles River acquisition still digesting a lot of that deal. So, just trying to understand why -- now the Charles River is presumably have all that integration activity behind you. And why we shouldn't see a little bit better pickup perhaps in the operating margin. Again, given that all the Charles River is behind us, and is it related to -- I think your comments on the enhanced infrastructure, if you could provide a little bit insight here that will be great.

<A – Candace Kendle>: There are two piece of this. First of all, being able to invest in the company to drive the growth, clearly we have work to do in becoming the best-in-class provider, top-in-class if you will, so there is some investments to be made there and also earnest being conservative about the guidance that we give.

<Q – Todd Van Fleet>: Okay. With respect to the Phase I, find your comments interesting regarding the outlook for 2008, you say the changes that you're making there -- we should see the impact of those changes in the first half of 2008, is the phrasing there, the first half of 2008, is that just to give us a sense that we should see some near term impact from these changes and then in terms of thinking about the -- how we should, how we should kind of view the impact, is it should we looking for sequential increases in revenue out of Phase I relative -- sequential increases or increases over prior year, or is it going to show up in the improved operating margin profile, or both, can you help us understand that?

<A – Candace Kendle>: The start of our early stage business, we thought that a competitive disadvantage. So, we have an issue with regard to offering -- service offering to our customer as well as the current performance of our Phase I business. We are seeing improvement in the performance of our current business, but we are actively addressing the size of our business. So, you should see both improvement and the size of the service delivery as well as the performance.

<Q – Todd Van Fleet>: Thanks.

Operator: Your next question comes from the line of Dave Windley with Jefferies & Company.

<Q – Dave Windley>: Hi, good morning everybody. Thanks for taking the questions. On first, one Buzz on a follow-up on the tax rate, understand the kind of the true-up at the end of the year. I believe that it's basically a true-up at the end of each quarter as to what you think the full year is going to look like. And so I'm looking at your third quarter effective rate in the low 40s, and I guess

what to try to narrow in on Rob's question. What changed in the -- say the last 90 days that made you realize that your full year tax rate was going to be, I don't know high 30s, or was going to be low 40s instead of high 30s?

<A – Karl Brenkert III>: What really changed was where the earnings were coming from in the fourth quarter Dave.

<Q – Dave Windley>: Okay.

<A – Karl Brenkert III>: And let me give you an example of the magnitude of how this hit us. There are four countries in Europe that we refer to as branches, but because they are branches of the UK tax entity. Those four countries in the fourth quarter reported taxable income that was equivalent to what it had been for the first nine months of the year. So was it just sort of a flood of taxable income in those areas. And that's what caused the big shift.

<Q – Dave Windley>: Okay, all right. So that's helpful. So those branches are, I presume countries close to, I mean, kind of Western European countries close to the UK.

<A – Karl Brenkert III>: No, actually there some Eastern European countries and one Western European country.

<Q – Dave Windley>: Okay. Okay, but so its just lumpy profitability across countries?

<A – Karl Brenkert III>: Yeah, yeah.

<Q – Dave Windley>: Okay. And some of those countries have high tax rates?

<A – Karl Brenkert III>: Well, and the trigger effects in the US tax return as well from the foreign based company service income.

<Q – Dave Windley>: And you say, as you look in 2008, you're expecting -- you're guiding based on something like 35 to 36%, is that right?

<A – Karl Brenkert III>: That's correct.

<Q – Dave Windley>: And are there, assumptions in that depend on some changes in tax strategy that would have to be implemented and then signed off on by tax jurisdictions such that sign-offs might not come into later in the year?

<A – Karl Brenkert III>: Don't believe there is any sign-off that's required of course you'll have exposure eventually on any changes in tax strategy you may have.

<Q – Dave Windley>: Right, okay. Moving on to new business Candace on -- you're talking about mid-tier trials and megatrials. Can you give us rough definitions of where your cut-off points are for those?

<A – Candace Kendle>: Since we're using what has sort of been the common industry number are greater than \$10 million for the megatrial and then we divide our mid and smaller size trial into two or three other categories, I rather not share those, but you can get the logical breaking point. And, we've seen really good opportunity for the mid-sized trial building into programs and also those are the places you get good customer initial penetration.

<Q – Dave Windley>: Okay. And so, mega trial really is starting as low as \$10 million.

<A – Candace Kendle>: That's correct. We chose that, because that's the number we saw referenced.

<Q – Dave Windley>: Okay. I mean, we're stating to see companies referencing big trials north of 15 even north of 100 million.

<A – Candace Kendle>: Yes, that's correct.

<Q – Dave Windley>: So, if you define that level, I guess, what I'm thinking in response to that is I wouldn't that a \$10 million trial even though obviously Kendle's revenue base is a lot smaller than say the bigger PPDI, but I wouldn't think a \$10 million would have that much of an effect on study start time and duration and things like that?

<A – Candace Kendle>: Well, we don't want to be premature here. But, our initial analysis, and we're on our third cycle here is that in fact, again don't cast it in stone this is as at statistician here. That, it would appear to be the cut-off, I know it's amazing, but that would appear to be cut-off.

<Q – Dave Windley>: Okay, okay.

<A – Candace Kendle>: And when we get a little further, we intend to share this. When we think the data are validated, we will share what we have. But, that appears to be a cut off.

<Q – Dave Windley>: Okay.

<A – Candace Kendle>: And one another reason that we, of course, don't want to tell specifics around what the super megatrial, if you will, is that, for all of us, that in the industry, we know how many of those trials there are and who has them. So, the competitive disadvantage to start, why they are there, they are not that many of them. And, you begin to sort of open the [indiscernible] that a bit wide if you will.

<Q – Dave Windley>: Right, okay.

<A – Candace Kendle>: And since the cut-off does appear to begin at \$10 million, I think it helps all of you in the modeling sense, if we give at least that amount of information.

<Q – Dave Windley>: Right, Ken I'm going to take you one step further on that, can you tell us how many trials, you have in backlog north of 10 million, or maybe conversely what percentage of the backlog is comprised of 10 million in greater studies?

<A – Candace Kendle>: I will tell you in the reverse that more than 50% of our trials are mid-sized and below of that.

<Q – Dave Windley>: Okay, okay, all right. Have you calculated I know you want to come out with more of this later, can you give us what your average duration of backlog is right now, is it 24 months or where is that metric?

<A – Candace Kendle>: I can't give you that right now.

<Q – Dave Windley>: Okay.

<A – Candace Kendle>: But we will work to something along those lines.

<Q – Dave Windley>: Okay. And you mentioned in terms of strategy as you move forward in sales and penetrating customers and also focusing on key therapeutic areas. What are those therapeutic areas that you feel are your strong suits that you want to capitalize on?

**<A – Candace Kendle>**: I think what we are seeing is that if you talk about oncology CNS infectious disease, and to some extent cardiovascular, or even metabolic disease for [ph] category. But what we are seeing is that if you really peel back the onion, you can begin to really make unique positioning within those therapeutic areas, sort of drug indication if you will as opposed to therapeutic area.

**<Q – Dave Windley>**: Okay.

**<A – Candace Kendle>**: And that's where we are headed. And again I won't outline for you what the strategy is, but if you take the therapeutic area look at drug indication there definitely positions you can hold.

**<Q – Dave Windley>**: Okay. Willing to give me an example or two?

**<A – Candace Kendle>**: No.

**<Q – Dave Windley>**: Okay, all right, thought I'd ask.

**<A – Candace Kendle>**: Definitely you understand how it works.

**<Q – Dave Windley>**: Yes, okay. And then finally on Phase I, and talking about the size of the business and the offerings and so forth, are those things that you can get to organically or from a size standpoint is it going out and looking for a Phase I facility or network acquisition that brings with it some of those areas of expertise that you feel like you lack?

**<A – Candace Kendle>**: It will require our combination.

**<Q – Dave Windley>**: Okay.

**<A – Candace Kendle>**: We won't be able to get there just organically.

**<Q – Dave Windley>**: Okay, all right, I'll jump out. Thank you.

**<A>**: Thank you.

Operator: Your next question comes from the line of Amy Stevens with Susquehanna Financial.

**<Q – Amy Stevens>**: Thank you. Good morning gentlemen. Just want to follow-up actually on the last question regarding the therapeutic categories. Is there you mentioned that within those – there were some impact in terms of cancellation that could positively be predicted based on where one might fall within a therapeutic category. How are you thinking about 2008 and your guidance – where does it – which therapeutic categories are you kind of gearing yourself toward. And then, where did they fall within those kinds of assumptions about what you could say regarding cancellation?

**<A – Candace Kendle>**: If I've said therapeutic area and cancellation, it was not intended. The therapeutic area influence and is – and again in our early announcements that is not statistically significant, but it is certainly a trend in and we're following it. The therapeutic areas do impact the rate of revenue rollout, influence is a better word. But we do not have any data that cancellation is greater in any therapeutic area in fact we have -- there is no data to that effect, no.

**<Q – Amy Stevens>**: Okay. And then in terms of revenue rollout and how you are thinking about the names therapeutic categories that you mentioned for fuller which of those are on the senior [ph] side and which is the opposite?

**<A – Candace Kendle>**: We are not ready to share that kind of data its very premature in the modeling.

**<Q – Amy Stevens>**: That's fine, okay. And then in terms of your geographic distribution, you talked about the trend '07 versus'06. Do you expect those trends to kind of continue directionally, or are there any modifications, where you saw Latin America that's sort of just based on one trial, and you wouldn't expect that to continue. How should we think about that?

**<A – Candace Kendle>**: I think I understand the question. We are pushing the geographic expansion to near our patient access needs in the therapeutic areas. We've identified in our customers pipeline long answer, but the first thing is to identify customer need, the second thing is to match the geographic areas that hold captive the patient access for those trials. So, we are...

**<Q – Amy Stevens>**: And so...

**<A – Candace Kendle>**: We have a lot more to do in driving the growth of the business which means a lot of growth in geographic areas outside western world.

**<Q – Amy Stevens>**: Okay, okay. And then its so much reactive really depending on what you are bidding for that you can't really project that?

**<A – Candace Kendle>**: No, its looking, its targeting your customer than looking at the pipelines understanding the medical arena in those therapeutic areas building first and selling second. So....

**<Q – Amy Stevens>**: Okay.

**<A – Candace Kendle>**: I'll give you an example that I recently use. We talk about in the metabolic disease area and diabetes, you need to be in Mexico and you need to be in India. And so if you got -- if your customers are treating diabetes and that's an area of focus you better be in Mexico, and you better be in India. So, its not that you won't be in other areas, but if you want to really meet customer needs you got to be in those two areas.

**<Q – Amy Stevens>**: Okay, all right, all right. Thank you very much.

Operator: Your next question comes from the line of Douglas Tsao with Lehman Brothers.

**<Q – Douglas Tsao>**: Hi, good morning thanks for taking the questions. In thinking about where that the rule out of the megatrials which have come -- has been slower than you anticipated, I was wondering, if -- are these studies behind schedule from what you and the sponsor originally agreed to in terms of enrollment milestones, I mean, is that what, the revenue recognition has been slower or is this just simply a function of perhaps there weren't metrics laid out in the beginning as far as things been scheduled for -- that would lead to revenue recognition?

**<A – Candace Kendle>**: I think that it is more business model issue than an individual trial issue. The accumulation of multiple megatrials drives the overall drag in revenue rollout. So, its not that any single trial had missed milestones or any single trial had a longer rollout than anticipated it's the aggregated effect that we didn't really.

**<Q – Douglas Tsao>**: But wouldn't that have been captured in your budgeting, and forecasting model, I mean, wouldn't have sort of built it up from individual study basis, which would have gotten you closer to the number where you ended up?

**<A – Candace Kendle>**: At the time of which we started the transition to this strategy, we did not have that kind of projection system in place.

<Q – Douglas Tsao>: Okay. And there is one now.

<A – Candace Kendle>: Yes.

<Q – Douglas Tsao>: Okay. And then sort of just one -- thinking about the guidance that you provided the revenue range strikes me is fairly narrow. Although the EPS range is quite wide, and I just wondering, what the key drivers in your model would lead you sort of end up either at the high-end or the low-end of the range that you provided?

<A – Candace Kendle>: Okay. There again -- there are two pieces of it. First of all, if you take our current backlog, and our trial mix, and the anticipated market growth, and our ability to capture, let's say average percentage of the market growth, you get to the low range. Okay? So, you start with what you have booked -- business booked, and then you start and you examine that business booked based on trial mix, and what you now know about revenue rollout. And then you take, what the market is doing, and what you believe you can capture as a part of those sales that is book to bill we discussed. And that gives you, where you think, you can land in terms of revenue.

The second part is given our history, and our desire to really being earnest about being conservative, we give you to the top range. So it's a combination of where we believe we can be for the year and a true desire to be conservative around our guidance. That fair?

<Q – Douglas Tsao>: Okay. But I am still not understanding from, when you building your model, how it is, when you sort of talk about the market growth, I can hear that and appreciate that, but that still sort of leads me to, sort of why is it there is a discrepancy in terms of the top line guidance, and the revenue, or in the EPS guidance range, which can still strikes me as quite wide, given only a 10 million range in for revenues. I mean, I could understand you saying, well, we think, the market rate would lead us to have revenue range let's say 450 to 460, but then if things are better, we could have a high-end – 470, 480. But right now, I'm looking at a fairly tight revenue range, but a very wide EPS range, and I was just wondering, is this a question of recruiting costs, is this a function of -- what other drivers could, determine the EPS number range being so wide. Or may be you don't think the EPS range is wide, it strikes me as wide given that the narrow range for the revenue?

<A – Karl Brenkert III>: Doug this is Buzz. The revenue number we have several ways of testing it, you based it on the rollout. There aren't a whole lot of additional functions you have to make on the rollout other than the things like cancelations and delays and what your sales are going to be for the year, and how much of those sales are going to roll into revenue in the 12 months of the sale? And there are lots of historical ways that we have tested to see whether range was, and as Candace said we've got a fairly narrow range there as we've put a little conservatism into the revenue number. When you get down from those revenue numbers and build down to the earnings per share you get a whole lot more assumptions that you have to make. And so, as you increase the number of assumptions, it sort of broadens the range out. Now, we've got a range that less than 10% of the mid point of the range which is pretty much what we're trying shoot for us to be a range that's from top to bottom is about 5% of what earnings number is.

<Q – Douglas Tsao>: Okay. And then just really quickly, finally, could you guys provide us with the, the breakout between revenues in early stage and late stage, and if you have what the operating income numbers as well?

<A – Karl Brenkert III>: For the full year?

<Q – Douglas Tsao>: 4Q.

<A – Karl Brenkert III>: I got it here, hold on just a minute. Fourth quarter early stage revenue \$5.7 million, operating income 1.6 million. You want it in closer numbers then just.

<Q – Douglas Tsao>: If you want, whatever you want to provide?

<A – Karl Brenkert III>: \$5.712 million of revenue, \$1.649 million for operating income for early stage.

<Q – Douglas Tsao>: Okay.

<A – Karl Brenkert III>: Late stage 94.612 million, operating income 21.312 million.

<Q – Douglas Tsao>: Okay, great. Thank you very much.

<A – Karl Brenkert III>: Yep.

Operator: Your next question comes from the line of Randall Stanicky [ph] with Goldman Sachs.

<Q>: Good morning and thank you for taking our question, its [indiscernible] on behalf of Randall Stanicky. I have a question regarding your cancellations. I know I was trying to get a better sense whether that would you to -- more to trial outcomes in the quarter. Or there caused more by strategic shifts by what your sponsors are thinking at the moment?

<A – Candace Kendle>: There's just a wide spectrum of reasons that sponsors cancel, and when you look at our cancellation rates this quarter there is something in there was unusual or unexpected. Its prioritization, its timing, its drug supply, its formulation, there are lots of lots of different things. But it's nothing that jumps out at you that says, look there is a big trend here.

<Q>: Okay. And my second question was regarding your hiring funds for 2008. Your SG&A was a bit lower than what you were expecting. And I was just wondering Karl whether you are planning to increase your head count in 2008?

<A – Karl Brenkert III>: Definitely, I expect head count increases as a matter of fact, Rob Gilliam has asked a question earlier on in the question-answer-answer period as to what the current head count was and rather I've got a new number for you. As of the end of January were about 3,400 head count. So, an increase of about 50 or 60 folks in the month of January.

<Q>: So will that be more or less the right we should be looking quarter for quarter going forward?

<A – Karl Brenkert III>: Well, you should expect the head count to grow pretty close to proportionally to the revenue growth.

<Q>: And...

<A – Karl Brenkert III>: Really, really what -- our business is really driven by billable hours and it's a billable head count that really generates the growth.

<Q>: And in regards to your technology capabilities, have you guys, are you planning to in a way increase your technology offerings or you in a way satisfied with the current status? I know that you are very closely with [indiscernible], and I was just wondering whether you have any comments on -- like your relationship with them at the moment?

<A – Candace Kendle>: We don't have -- I mean, our technology development is to meet our customer demand -- we don't expect -- I'm not sure I understand the question, but our relationship with [indiscernible] remain very strong.

<Q>: Okay. Thank you.

Operator: Your next question is a follow-up question from the line of Robert Gilliam with UBS.

<Q – Robert Gilliam>: Hi, couple of more questions. First, is there anything noteworthy worth going out with respect to change orders in the quarter?

<A – Karl Brenkert III>: No, no, pretty much normal standard quarter for the fourth quarter.

<Q – Robert Gilliam>: Okay. And then can you give us any indication of what the current outstanding RPF volume is – sorry not volume but total dollars outstanding RPFs?

<A – Candace Kendle>: We don't share that information.

<Q – Robert Gilliam>: Okay, fair enough. And then just one final question, the GAAP EBIT guidance for 2008 is 13 to 14%. On 3Q, you were 14.2%, 4Q you are at 14.6%, obviously that's moving up pretty nice, it's kind of the lower range for 2008 just an effort to be conservative, or is there some type of an investment that we should be thinking about where 13 to 14% is more likely to be the eventual outcome?

<A – Karl Brenkert III>: Well, Rob there is, it's sort of both -- here is the answer. There certainly are infrastructure additions that we plan on in the year 2008, and some of the additional executives, and so forth that you've seen announcements for at the very end of 2007 will be in expensive for 2008. But there is conservatism in that range as well.

<Q – Robert Gilliam>: Okay. And then just one final question. Could you give us the number for as far as, I think you – in case reporting operating income or charge number for services and other?

<A – Karl Brenkert III>: Oh you're talking about for support and other?

<Q – Robert Gilliam>: Yes.

<A – Karl Brenkert III>: In the fourth quarter?

<Q – Robert Gilliam>: Yes.

<A – Karl Brenkert III>: Yeah, okay. Yeah, revenues 3.949 million, operating loss of 7.760 million.

<Q – Robert Gilliam>: Okay, thank you very much guys.

Operator: Your next question is also a follow-up question from the line of Todd Van Fleet with First Analysis.

<Q – Todd Van Fleet>: Yeah, just a question I guess following Buzz's results there by segment for early stage and late stage I guess. Just focusing again on Phase I, nice margin, obviously the margin jump around from quarter-to-quarter in that business, but is there anything that we should be taking away from the nice sequential improvement in Q4 performance and the margin in Q4 regarding the initiatives that you guys have been working on in Phase I, is kind of, it just a nice foundation to build off of or were there some just kind of a normal project flow that's going to add to revenue, and some projects are higher margins than others, I mean, how should be think about Q4, is this a foundation here?

<A – Karl Brenkert III>: The Q4 number, it was a nice increase over Q3, but if you recall, Q3 was very low due to a program cancellation that really hammered us at the end of the quarter. This was,

is more a normal rebound, I would say, and in fact is, the revenue from Phase I in the fourth quarter is less than it was for the fourth quarter of the previous year. But, I don't think there is anything unusual in these numbers, I think it is a good start, Todd, and a foundation. The thing about margin within Phase I is, Phase I is probably the product offering that we have that has the most operating leverage, such that it with revenue building up you get a lot of sort of fixed cost from the standpoint of staffing, and so forth at the units. So, that when revenue moves, operating income tends to move much, is from a percentage standpoint much more than revenue does.

**<Q – Todd Van Fleet>**: Right, right any specific comments regarding the European facility versus West Virginia facility in terms of performance during the quarter or any commentary there?

**<A – Karl Brenkert III>**: The strongest performance in the fourth quarter came from our Morgantown facility.

**<Q – Todd Van Fleet>**: Okay thanks.

Operator: Your next question is a follow-up question from the line of Dave Windley with Jefferies & Co.

**<Q – Dave Windley>**: Hi, thanks for taking the follow-ups. First question, I got to be simple [ph] and clear, first question was where any of the cancellations in the 32 million or so, where any of those up and running such that you have or had staff transition impact in January?

**<A – Candace Kendle>**: There is always moving people from project to project but there is no downtime of people that's what you mean but.

**<Q – Dave Windley>**: Yeah.

**<A – Candace Kendle>**: There is always a retraining that goes on when you move someone from one project to another but that sort of a normal we move people even in the midst of projects.

**<Q – Dave Windley>**: Right.

**<A – Candace Kendle>**: So, I don't – again its not, it wasn't – there was nothing in there that was unusual.

**<Q – Dave Windley>**: Right, yeah right I am just getting that the only thing even though it's not to say unusual per se relative to the industry, the cancellation rate, little higher for you and the dollars of cancellation, and so I'm just wondering, if that creates a little bit bigger impact from a – staff utilization standpoint going from one in between trials?

**<A – Candace Kendle>**: No, we were good.

**<Q – Dave Windley>**: Okay, and second one I want to get back to this Candace, I'd listen to your description on the question, Doug's question, which I think is a good one in fact about the width of the guidance on revenue versus EPS. And I didn't follow real closely, but it sound like you were saying we take what we have in backlog. We take what we think we're going to win, and roll that out, and that becomes the base case, and that's the low end number. And then we add conservatism and that's the high-end number.

**<A – Candace Kendle>**: If I said that....

**<Q – Dave Windley>**: Did I hear that right?

**<A – Candace Kendle>**: No, if I said that I didn't mean that.

<Q – Dave Windley>: Okay. And I may have just misheard, I mean these are reverse, right?

<A – Candace Kendle>: Exactly. And I -- yes, exactly, it is the reverse.

<Q – Dave Windley>: And...

<A – Candace Kendle>: And as Buzz said we also used several other methods to go back and validate that.

<Q – Dave Windley>: Sure. And I guess the other thing, is what you really think you can do above the high end of guidance?

<A – Candace Kendle>: Oh, Dave, we give...

<Q – Dave Windley>: You have way too many attorneys in the room looking at you, I suspect.

<A – Candace Kendle>: We believe that we needed to take a more conservative stand, while viewing what we can deliver to the shareholder.

<Q – Dave Windley>: Okay, that's great, all right. What's the share count number imputed in to the guidance for next year, Buzz?

<A – Karl Brenkert III>: 15.125 million.

<Q – Dave Windley>: Okay.

<A – Karl Brenkert III>: But there is no assumption of the convertible coming in and diluting the share count.

<Q – Dave Windley>: Okay.

<A – Karl Brenkert III>: In our guidance number.

<Q – Dave Windley>: Okay. And remind me your trigger price on the convert is how high?

<A – Karl Brenkert III>: \$47.71, I think.

<Q – Dave Windley>: Okay. And that's even with the option or the derivatives applied.

<A – Karl Brenkert III>: No, no. The cost-spread option would take it up to \$61, \$62 something in that range.

<Q – Dave Windley>: But, you would begin to see, if we get about 47, you begin to see additional shares in the count or not until the 61.

<A – Karl Brenkert III>: No, the 47.71 will start to see shares in the count. There will be shares that will not eventually dilute, but from an accounting standpoint they have to be included in the share count.

<Q – Dave Windley>: Okay. And Candace different way to ask you a question I asked earlier, would you be willing to tell us how many, I mean, if you say 10 million is megatrial, what if we get into more mega, megatrial for you anything, what stands out of the -- what's the largest one two or three projects in the backlog, I mean, how big is big for Kendle at this point?

<A – Candace Kendle>: I don't really want to share that super megatrial business however, is growing.

<Q – Dave Windley>: Okay. where is your cut-off for super mega?

<A – Candace Kendle>: I'm not going to give you that number.

<Q – Dave Windley>: All right, I'm sorry.

<A – Candace Kendle>: But I am going to tell you that the big, so far the day says the big difference in drag occurs closer to that \$10 million, I know it's hard to believe.

<Q – Dave Windley>: Okay.

<A – Candace Kendle>: And that's why we're skeptical ourselves, and the end is small. So in the large – on the large end that's one of the reasons we are being conservative here, but there is -- would appear with a fairly sizable, and we see a significant difference at the \$10 million mark.

<Q – Dave Windley>: Okay, all right. And then a final question just getting into again into the guidance, and I did some quick math on -- I think you said your assumptions are 1.4 to 1.5 book-to-bill which is certainly nothing to -- look down at or anything I mean that's pretty aggressive win rate. And I also apply that to the mid-point of your revenue guidance range and that generates about I think \$50 million swing in bookings, for the year, and Buzz you've historically said, we've got a lot more control over expenses than we do on revenue. And I guess what I'm kind of agree with Doug here that, there would seem to be a lot more variability in the things that would affect your revenue. Can you win a 1.4 book to bill to begin with in a competitor market space, which you have proven that you can, but while you continue to do that. Moreover, if you win a 1.5 or better than that's a 50 or more million dollars swing in wins, some of which would presumably hit the revenue line. And then, if revenue comes a little low you ought to be able to control expenses to mitigate the effect on EPS, and not have such a wide EPS swing. I mean, I'm off [ph] your conservatism, don't get me wrong, but I just, I'm kind of testing your ability to control expenses, and have visibility to where the revenues going to come?

<A – Karl Brenkert III>: Well Dave, there are, we do have control over sort of day-to-day operating expenses, and have some control over hiring, and things along those lines. What we are committed to -- are the infrastructure growth, which unless you are going to abandon the infrastructure, which or the beefing up of that infrastructure, you are really sort of fixed as far as how much you are going to spend there.

<Q – Dave Windley>: Okay.

<A – Karl Brenkert III>: And so, I think, we're committed to making the infrastructure improvement that we need in order to hit the growth rates that we want to hit. And the growth within the company.

<Q – Dave Windley>: Will it be fair to assume that those infrastructure investments from a reporting standpoint are going to show up in your support and other line?

<A – Karl Brenkert III>: Certainly an awful lot of it will, but there are others like, heads of different product lines and so forth that can affect the margins in the operating segments.

<Q – Dave Windley>: Okay, okay. Thank you very much. Good luck.

<A – Candace Kendle>: Thanks Dave, and thanks for pointing out the -- my misspeak.

Operator: Your next question is a follow-up question from the line of Douglas Tsao with Lehman Brothers.

**<Q – Douglas Tsao>**: Hi, thanks for taking the follow-up. Just, Buzz, when you gave the segment details, I was sort of just plugging into my model, it suggests a fairly significant sequential increase in your sort of unallocated revenue category. Now I was just wondering if you could provide some details around that. And also it seems you suggest a fairly significant decrease eventually, and really probably the lowest corporate expense line that you had in quite some time certainly in the last two years, and I was just wondering if you could provide some color around that.

**<A – Karl Brenkert III>**: Yes, well, the kinds of items that appear in revenue for support and other will be things where support units, our staff are working on projects that are billable projects. So, there lot of IP type of charges where things are specifically being done by the IP group to, for projects. So, from that standpoint the fluctuation in that revenue just depends on what kind of our work in charges that we have in a particular period. That revenue goes into the support units, and it offsets the expense there so you will see a corresponding drop its typically not additional people that are brought in to do that work, but existing people that are brought in to do the work. You also, in the fourth quarter get your normal adjustments for things like unused vacation time, and that it's sacrificed and you call that back out of the vacation reserve.

**<Q – Douglas Tsao>**: Okay.

**<A – Karl Brenkert III>**: Those are generally very small.

**<Q – Douglas Tsao>**: And just sort of trying to get into the detail here, or not try to get too far into the details, but why wouldn't some of that work get allocated, I mean I suspect if you're talking about IT, that this kind of revenue get out would be related to projects in the late stage business. And so, why doesn't that show up in the revenue line. I mean, what's the sort of the bright shining line, if you will for you from an accounting standpoint that says, this is going to go into our corporate revenue and not late stage revenue or even early stage revenue?

**<A – Karl Brenkert III>**: We record the revenue, as we say revenue follows the person, if you will in the areas where the revenue is completed and done. So, it can be quite frankly, primarily late stage anyway work that there is some work that is done on early stage in the corporate function areas, but not a great deal, it's primarily late stages kinds of work.

**<A – Christopher Bergen>**: Buzz, this is Chris. One of the primary examples, I think on the IT side is the IVRS System that we have, and when we frequently contract for free standing IVRS projects that would be unrelated to anyone of our business units.

**<Q – Douglas Tsao>**: Okay, thank you very much.

Operator: And there are no further questions at this time. At this time, I would like to turn the conference back over to Dr. Kendle for any closing remarks.

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**Candace Kendle, Chairman and Chief Executive Officer**

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I would just like to close by saying thanks to everyone for participating. We look forward to talking to you soon.

Operator: Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

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