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## ArthroCare Corporation Q1 2008 Earnings Call Transcript

### Question-and-Answer Session

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#### Operator

Thank you very much. (Operator Instructions) Our first question comes from the line of Mark Mullikin with Piper Jaffray; please go ahead.

#### Mark Mullikin – Piper Jaffray

Good afternoon. Just to start off on the receivables, this is a pretty big up tick from the fourth quarter and I just want to get a little bit more clarity from Mike that you expect the receivable level to basically level off or not see too big of an increase going forward this year.

#### Michael Baker

Yeah, I think we definitely think we can do better there, especially now that we the integration completed. But I'll let Mike talk more to the specifics.

#### Michael Gluk

I think that's right, Mike. You know, Mark, if you look at our calendar year, DSOs outstanding last year, they were about 77 days sales outstanding. This first quarter really represented a little over 80%, closer to 81%, so I would expect that we should be dial that back a little and get closer to where we are at the end of last year.

#### Mark Mullikin – Piper Jaffray

So that would be about 77 DSOs, somewhere in that range.

#### Michael Gluk

Somewhere between 77 and 79.

#### Mark Mullikin – Piper Jaffray

On the cash flow, what was the operating cash flow and capital expenditure in the quarter?

#### Michael Gluk

Well we actually haven't released the statement of cash flow, so we might want to reserve that for the Q.

**Mark Mullikin – Piper Jaffray**

Then just one other one, on the Spine growth, obviously the deceleration here to 24%, you're sticking with the 40% growth guidance. Were there any noticeable changes in the first quarter with all of the controversy swirling around DiscoCare etcetera? Did that fundamentally impact the business in the first quarter?

**Michael Baker**

No, we don't think so. I mean we expected to see a little bit of slowdown in the first quarter, and I think we talked about that on the Q4 call, just because of the work that we had to do to integrate DiscoCare into DRS. We actually saw more impact than we expected, and I think the biggest issue was not having any controllers. If you're in a business where you have a relatively small installed base of controllers, and you don't have controllers open up new accounts, it's difficult to grow the business as rapidly as you otherwise would. Having said that, we expect to have the controller supply problem resolved before the end of this quarter, and we don't think it's going to keep us from meeting our annual objectives.

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