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Hanger Orthopedic Group Inc. Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions). Our first question comes from the line of from Mr. Bryan Sekino of Barclays Capital. Your line is now open.

Tom Kirk

Good morning, Bryan. How are you?

Bryan Sekino - Barclays Capital

Good. How are you? This is Bryan Sekino on behalf of Adam Feinstein. I know that in Q4 '07 you saw some variable comp increases due to strong cash collections in 2007. With this quarter reporting such strong cash flow, can you provide us an update for your expectations for cash flow and variable comp in Q4?

George McHenry

Well, from a cash flow standpoint, as I mentioned previously, we revised our internal estimates. We originally thought we would generate \$30 million to \$35 million in cash flow this year and we are going to be more in the \$40 million to \$45 million range. That is probably conservative.

We are ahead of where we were last year in terms of our incentive compensation accruals, and they will not be as heavy as they were last year in the fourth quarter. So we should actually improve our EBITDA margins in fourth quarter over the prior year pretty significantly in fourth quarter.

We will have a substantial accrual because it is a good quarter from us from a profitability standpoint. The quarter also will not be influenced by anything like the \$4 million inventory book to physical adjustment that we had last year. That was a benefit that also influenced the accrual. So those two things should not happen this year. With where we stand with the accrual this year, we expect to have a more normal accrual in the fourth quarter.

Bryan Sekino - Barclays Capital

Okay, great. Thanks for the update. Would you also comment on how your plans for CapEx are for the remainder of 2008 given the lack of capital available in the market and just give us an update there, if you can?

George McHenry

Sure. Well, first of all, I would say we are not constrained from a capital standpoint in terms of making the investments that we need to make in this business. That is part of the reason that we did a draw on the revolver just to ensure that point in case things got more volatile in the financial markets.

We originally budgeted about \$20 million in CapEx for the year or year-to-date spanned through three quarters is a little bit behind where we expect it to be. So we will probably have a little heavier spend in Q4. We do have quite a few projects that are culminating in that quarter. I think we will probably be a little under the \$20 million budget that we had. We will probably come in the \$18 million, \$19 million range.

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