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## JUSTICE NEWS

### Department of Justice

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## **Former CFO of Arthrocare Corporation Sentenced to Prison for Role in \$750 Million Securities Fraud Scheme**

The former chief financial officer (CFO) of ArthroCare Corporation, a publicly traded medical device company based in Austin, Texas, was sentenced today to 50 months in prison for his role in orchestrating a fraud scheme that resulted in shareholder losses of over \$750 million.

Acting Assistant Attorney General John P. Cronan of the Justice Department's Criminal Division, U.S. Attorney John F. Bash of the Western District of Texas and Special Agent in Charge Christopher Combs of the FBI's San Antonio Field office made the announcement.

Michael Gluk, 59, of Austin, was sentenced by U.S. District Court Judge Sam Sparks of the Western District of Texas, who also ordered Gluk to pay a \$50,000 fine and to forfeit \$677,804.

On June 14, 2017, Gluk pleaded guilty to a superseding information charging him with one count of conspiracy to commit wire and securities fraud. As part of his guilty plea, Gluk admitted that he conspired with others to falsely inflate ArthroCare's sales and revenue through a series of end-of-quarter transactions involving ArthroCare's distributors. He further admitted that he and other co-conspirators caused ArthroCare to file a Form 10-K for 2007 and Form 10-Q for the first quarter of 2008 with the U.S. Securities and Exchange Commission (SEC) that materially misrepresented ArthroCare's quarterly and annual sales, revenues, expenses and earnings. As part of his plea, Gluk further admitted that he provided false testimony in proceedings before the SEC and in federal district court.

The fraud scheme at ArthroCare began in 2005 and continued until 2009. Gluk admitted that he and his co-conspirators determined the type and amount of product to be shipped to distributors based on ArthroCare's need to meet Wall Street analyst forecasts, rather than distributors' actual orders. Gluk and others then caused ArthroCare to "park" millions of dollars' worth of ArthroCare's medical devices at its distributors at the end of each relevant quarter. ArthroCare reported these shipments as sales in its quarterly and annual filings at the time of the shipment, enabling the company to meet or exceed internal and external earnings forecasts.

ArthroCare's distributors agreed to accept shipment of millions of dollars of products in exchange for special conditions, including substantial, upfront cash commissions, extended payment terms and the ability to return products, allowing ArthroCare to falsely inflate revenue by tens of millions of dollars, Gluk admitted. Gluk admitted that he and his co-conspirators caused ArthroCare to acquire its largest distributor, DiscoCare, specifically to conceal from the investing public the nature and financial significance of ArthroCare's relationship with DiscoCare.

Gluk's earlier conviction was overturned by the U.S. Court of Appeals for the Fifth Circuit. Gluk subsequently pleaded guilty and cooperated against co-conspirator, [Michael Baker](#), the former CEO of ArthroCare, who was convicted at trial on Aug. 18, 2017 of one count of conspiracy to commit wire fraud and securities fraud, seven counts of wire fraud, two counts of securities fraud and two counts of making false statements. On Nov. 3, 2017,

Baker was sentenced to 240 months in prison.

Co-conspirators [David Applegate](#) and [John Raffle](#), both former senior vice presidents of ArthroCare, pleaded guilty to multiple felonies in 2013 in connection with their participation in the scheme. On Aug. 29, 2014, Raffle was sentenced to 80 months in prison and Applegate was sentenced to 60 months in prison.

This case was investigated by the FBI's San Antonio, Austin Resident Agency Office. The case is being prosecuted by Securities and Financial Fraud Unit Chief Benjamin D. Singer, Assistant Chief Henry P. Van Dyck and Trial Attorney Caitlin Cottingham of the Criminal Division's Fraud Section.

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**Component(s):**

[Criminal Division](#)

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