dj Orthopedics Announces Fourth Quarter and Fiscal Year End 2002 Financial Results and Provides Update on Corporate Performance Improvement Program

SAN DIEGO, Feb 25, 2003 /PRNewswire-FirstCall via COMTEX/ -- dj Orthopedics, Inc. (NYSE: DJO), a designer, manufacturer and marketer of products and services for the orthopedic sports medicine market, today announced financial results for the fourth quarter and full year ended December 31, 2002. The Company also provided an update on its performance improvement program first announced on August 1, 2002, which was designed to streamline the Company's organizational structure and improve its profitability.

Net revenues for the fourth quarter of 2002 were $46.7 million, reflecting an increase of 11.6 percent compared with net revenues of $41.8 million reported in the fourth quarter of 2001. Revenue in the fourth quarter of 2001 was negatively impacted by a sales reversal of $0.9 million for inventory returned in excess of the Company's estimated return allowance resulting from termination of the Company's agreement with its former distributor in Germany and the United Kingdom. Net loss for the fourth quarter of 2002, after giving effect to restructuring and other charges related to the Company's performance improvement program, was $6.0 million, or $0.33 per share, compared with net income (before deferred tax benefit and extraordinary item) of $0.8 million, or $0.06 per share, for the fourth quarter of 2001.

The results for the fourth quarter of 2002 include charges totaling $8.5 million ($5.5 million, net of income taxes) related to the Company's performance improvement program, including charges for severance expense and consultants (aggregating $3.9 million), inventory reserves related to the Company's OrthoPulse® product ($1.0 million); impairment charges (aggregating $1.2 million) for intangible assets related to OrthoPulse® and certain discontinued surgical products and fixed assets abandoned in connection with the Company's manufacturing move to Mexico; and, incremental reserves of $2.4 million for accounts receivable in the Company's OfficeCare® and Insurance channels as the Company has initiated the transition to a new service provider and continues to resolve issues related to its previous service providers and accounts receivable aged over one year. The decision to fully reserve the remaining net inventories and intangible assets related to the OrthoPulse® product was based on the inability of the manufacturer of OrthoPulse® to make any material progress in achieving FDA approval for the product.

Net revenues for the full year ended December 31, 2002 were $182.6 million, reflecting an increase of 8 percent compared with net revenues of $169.2 million reported for the full year ended December 31, 2001. Net loss for the year ended December 31, 2002 was $15.2 million, or $0.85 per share, compared with net income (before deferred tax benefit and extraordinary items) of $5.1 million, or $0.47 per diluted share for the year ended December 31, 2001. The results for the year ended December 31, 2002 include charges aggregating $25.5 million ($16.3 million net of income taxes), including charges related to the Company's performance improvement program and certain other charges recorded in the second quarter of 2002.

Revenue Segment Information

Exclusive of freight revenue, net revenues for the fourth quarter of 2002 for rigid knee bracing, soft goods and specialty and other complementary orthopedic products were $18.0 million, $16.3 million and $11.0 million, respectively, compared to prior year amounts of $14.5 million, $16.1 million and $10.0 million, respectively. Exclusive of freight revenue, net revenues for the full year 2002 for rigid knee bracing, soft goods and specialty and other complementary orthopedic products were $71.0 million, $62.5 million and $44.1 million, respectively, compared to prior year amounts of $64.6 million, $62.3 million and $37.4 million, respectively.

The Company intends to change its segments for financial reporting purposes to reflect segmentation by its primary sales channels, DonJoy®, ProCare®, OfficeCare® and International, which is consistent with the way it will manage its operations prospectively. The Company will present its financial results according to the new sales channel segmentation in its 2002 Annual Report on Form 10-K, expected to be filed with the SEC on or before March 31, 2003.

Domestic net revenues, exclusive of freight revenue, increased over the comparable prior year period by 4.8 percent to $39.7 million during the fourth quarter and 6.3 percent to $155.4 million for the full year ended December 31, 2002. International net revenues increased over the comparable prior year period by 111 percent during the fourth quarter of 2002 to $5.6 million. The increase in international sales reflects the benefit of the Company's transition to direct distribution in Germany, the UK and Canada. International net revenues increased over the prior year by 22.6 percent to $22.2 million for the year ended December 31, 2002. In connection with its decision to discontinue sales of its surgical products, the Company has divested its interest in its majority owned subsidiary in Australia, effective December 31, 2002, with no material gain or loss. The minority owner of the subsidiary has assumed full ownership in the subsidiary, which will continue to sell the Company's products as an independent distributor. In 2002, the Company reported sales of $4.3 million in Australia, primarily including sales of surgical and other products that have been discontinued. In 2003, sales in Australia will be reported as international export sales at a reduced revenue amount reflecting the Company's transfer price to the Australian distributor.

In January 2003, the Company became aware that a variety of Medicare price codes previously in effect for tibial fracture ankle-foot orthoses may be reclassified under one new Medicare price code that went into effect January 1, 2003. The Company believes that the new code, which provides for a lower reimbursement value than the previous codes, may apply to some or all of its lower extremity fracture boot products and is currently in the process of clarifying this information. If the Company determines that the new code is applicable to all of its lower extremity fracture boots, the Company's revenue from the sale of these products through its OfficeCare® channel could be reduced in the future by up to $5 million annually.

Gross Profit Margin

The Company reported gross profit of $24.0 million, or 51.4 percent of net revenues, for the fourth quarter of 2002, compared to $23.8 million, or 56.9 percent of net revenues, for the fourth quarter of 2001. The decrease in gross profit and gross profit margin for the current period reflects a $1.0 million charge for inventory reserves related to the Company's OrthoPulse® product as discussed above, and an increase in other cost of goods sold, including royalty expenses and other manufacturing overhead expenses. Gross profit for the fourth quarter, exclusive of freight revenue and other costs of goods sold not specifically allocated to segments, for rigid knee bracing, soft goods and specialty and other complementary orthopedic products was $12.3 million, $7.2 million and $6.4 million, respectively, representing gross profit margins of 68.4 percent, 44 percent and 58.1 percent, respectively.

The Company reported gross profit of $97.8 million, or 53.6 percent of net revenues, for the full year ended December 31, 2002, compared to $97.3 million, or 57.5 percent of net revenues for the full year ended December 31, 2001. Reduced gross profit margins in the current year period reflect $5.1 million of aggregate charges for incremental inventory reserves taken in the second, third and fourth quarters of 2002. Gross profit for the year, exclusive of freight revenue and other costs of goods sold not specifically allocated to segments, for rigid knee bracing, soft goods and specialty and other complementary orthopedic products was $50.9 million, $27.5 million and $25.2 million, respectively, representing gross profit margins of 71.6 percent, 44 percent and 57.2 percent, respectively.

Corporate Performance Improvement Program Update

With respect to its performance improvement initiatives, the Company reported the following:

* Manufacturing Move to Mexico: On September 4, 2002, the Company announced the move of certain manufacturing operations and over 200 manufacturing jobs to its facilities in Mexico. The move was completed by December 31, 2002.
* OfficeCare® and Insurance Channels: The Company has completed a comprehensive review of the business processes used to manage its OfficeCare and Insurance channels, and the performance metrics to monitor and react to the indicators that influence account profitability have been established. The Company recently announced that it has changed it service provider used to outsource non-core, back office administrative tasks associated with OfficeCare and Insurance channel billing and collections to Creditek Corporation, a firm specializing in revenue cycle management.
* Operating Expense and Working Capital Reductions: The Company has achieved cost reductions in selling, general and administrative expenses, primarily related to headcount reductions taken at all levels of the organization. The Company has also continued to reduce its accounts receivable and inventories and the Company ended the 2002 year with cash balances of $32.1 million, increased from $28.6 million on hand at the end of the third quarter.
* Improved Product Development Processes: As previously announced the Company has redirected most of its resources to its core rehabilitation business and will discontinue sales of its Alaron surgical products. With greater resources committed to its rehabilitation business, the Company anticipates introducing several new products in 2003.

"We have worked diligently through our performance improvement initiatives to sharpen our focus on opportunities within our core business areas, realign our organization and reduce our cost structure to further strengthen our competitive position and improve our profitability," said Les Cross, president and chief executive officer. "I am pleased to announce that we completed most of our performance improvement objectives in the fourth quarter and, while we will embrace a new culture of continuous improvement in 2003, we are positioned to deliver financial results which will begin to show the benefits of our improvement initiatives in the first quarter in 2003."

The Company does not expect to incur material incremental charges related to its performance improvement program in 2003.

Bank Credit Facility

At December 31, 2002, the Company was in compliance with all covenants contained in its bank credit facility. In February 2003, the Company completed an amendment of its bank credit facility, including an amendment of certain financial covenants for the remaining term of the agreement.

dj Orthopedics has scheduled an investor conference call to discuss this announcement beginning at 5:00 p.m. Eastern Time today, February 25, 2003. Individuals interested in listening to the conference call may do so by dialing (706) 634-0177, using the reservation code 7941012. A telephone replay will be available for 48 hours following the conclusion of the call by dialing (800) 642-1687 for domestic callers, or (706) 645-9291 for international callers, and entering the reservation code 7941012. The live conference call also will be available via the Internet at www.djortho.com, and a recording of the call will be available on the Company's Website for 14 days following the completion of the call.

dj Orthopedics, Inc. is a global orthopedic sports medicine company specializing in the design, manufacture and marketing of products and services that rehabilitate soft tissue and bone, help protect against injury and treat osteoarthritis of the knee. Its broad range of more than 600 products, many of which are based on proprietary technologies, includes rigid knee braces, soft goods, specialty and other complementary orthopedic products. These products provide solutions for patients and orthopedic sports medicine professionals throughout the patient's continuum of care. For additional information on the Company, please visit www.djortho.com, or call (866) DJO-INFO (356-4636).

This press release contains or may contain forward-looking statements such as statements regarding the Company's future growth and profitability, growth strategy and trends in the industry in which the Company operates. Forward-looking statements include references to the Company's belief that its corporate performance improvement program will improve profitability by streamlining its organizational structure, reducing its costs of goods sold and reducing operating expenses. These forward-looking statements are based on the Company's current expectations and are subject to a number of risks, uncertainties and assumptions. Among the important factors that could cause actual results to differ significantly from those expressed or implied by such forward-looking statements are the risk that we may not be able to successfully implement our business strategy or our corporate performance improvement program, or that other risk factors could undermine gains made with our strategies and programs, including our ability to successfully develop or license and timely introduce and market new products or product enhancements; our dependence on our orthopedic professionals, agents and distributors for marketing our products; competition in our markets; our limited experience in designing, manufacturing and marketing products for the repair and regeneration segments of the orthopedic sports medicine market; our transition to direct distribution of our products in certain foreign countries; risks associated with our acquisition strategy and international operations; the risk that our quarterly operating results are subject to substantial fluctuations; our high level of indebtedness and the restrictions imposed by the terms of our indebtedness; our ability to generate cash to service our debts; the effects of healthcare reform, managed care and buying groups on prices of our products; the uncertainty of domestic and foreign regulatory clearance and approval of our products; the sensitivity of our business to general economic conditions; uncertainty relating to third party reimbursement; pending litigation; and the other risk factors that are discussed in our Post-Effective Amendment to our Form S-1, filed on September 3, 2002 with the Securities and Exchange Commission.

Tables to Follow

dj Orthopedics, Inc.

Condensed Consolidated Statements of Operations

(In thousands, except per share data)

	Three Months Ended (Unaudited)		Twelve Months Ended	
	December 31, 2002	December 31, 2001	December 31, 2002	December 31, 2001
Net revenues	$46,660	$41,809	$182,636	$169,170
Costs of goods sold	22,656	18,032	84,814	71,888
Gross profit	24,004	23,777	97,822	97,282
Operating expenses:				
Sales and marketing	16,988	12,678	64,204	48,339
General and administrative	8,345	5,895	29,711	24,165
Research and development	625	376	2,701	2,189

Impairment of long-lived assets	1,261	--	3,666	--
Performance improvement and restructuring costs	3,882	--	10,008	--
Total operating expenses	31,101	18,949	110,290	74,693
Income (loss) from operations	(7,097)	4,828	(12,468)	22,589
Interest expense and other, net	(3,048)	(3,917)	(12,088)	(17,388)
Income (loss) before income taxes and extraordinary item	(10,145)	911	(24,556)	5,201
Provision for taxes:				
Benefit (provision) for income taxes	4,173	(79)	9,361	(79)
Deferred tax benefit(1)	--	54,169	--	54,169
Total income taxes	4,173	54,090	9,361	54,090
Income (loss) before extraordinary item	(5,972)	55,001	(15,195)	59,291
Extraordinary item - early extinguishments of debt(2)	--	(2,801)	--	(2,801)
Net income (loss)	(5,972)	52,200	(15,195)	56,490
Less: Preferred unit dividends and accretion of preferred unit fees	--	(929)	--	(5,667)
Net income (loss) available to common stockholders	$(5,972)	$51,271	$(15,195)	$50,823
Net income (loss) per share:				
Basic	$(0.33)	$3.74	$(0.85)	$5.33
Diluted	$(0.33)	$3.63	$(0.85)	$5.20
Pro forma net income (loss) per share(3):				
Basic	$(0.33)	$0.06	$(0.85)	$0.48
Diluted	$(0.33)	$0.06	$(0.85)	$0.47
Weighted average shares outstanding:				
Basic	17,873	13,956	17,873	10,593
Diluted	17,873	14,400	17,873	10,858
Adjusted EBITDA(4)	$2,309	$7,271	$19,745	$32,033

(1) In connection with its reorganization into corporate form, the Company recorded a deferred tax asset benefit of $54,169 related to the difference between the book and the tax basis of certain assets. The tax basis differences arose at the time of our 1999 recapitalization when, for income tax purposes, we elected to increase the basis of certain assets in an amount equal to the gain recognized by the Company's former parent.

(2) Represents after-tax charges arising from the early extinguishment of a portion of senior subordinated notes.

(3) Pro forma net income (loss) per share represents income (loss) per share before the deferred tax benefit and the extraordinary item.

(4) "EBITDA" is defined as income from operations plus depreciation and amortization. "Adjusted EBITDA" represents EBITDA adjusted to eliminate those charges that are excluded by definition for purposes of determining EBITDA in accordance with the Company's bank credit facility.

dj Orthopedics, Inc.
Condensed Consolidated Balance Sheets
(In thousands)

	December 31,	December 31,

	2002	2001
Assets		
Current assets:		
Cash and cash equivalents	$32,085	$25,814
Accounts receivable, net	33,705	45,176
Inventories, net	14,583	25,139
Deferred tax asset, current portion	10,247	6,350
Other current assets	4,970	4,285
Total current assets	95,590	106,764
Property, plant and equipment, net	14,082	15,343
Goodwill, intangible assets and other assets	72,568	76,129
Deferred tax asset	55,484	49,686
Total assets	$237,724	$247,922
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and other accrued liabilities	$26,995	$21,594
Long-term debt, current portion	1,274	1,274
Total current liabilities	28,269	22,868
Long-term debt, less current portion	108,542	109,660
Minority interest	--	154
Total stockholders' equity	100,913	115,240
Total liabilities and stockholders' equity	$237,724	$247,922

SOURCE dj Orthopedics, Inc.

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