# dj Orthopedics Announces 2001 Fourth Quarter and Full Year Financial Results

SAN DIEGO, Calif., Feb 7, 2002 (BW HealthWire) --

***Company Reports $0.06 and $0.47 Diluted Earnings Per Share for 2001 Fourth Quarter and Full Year, Respectively***

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 quarter and year ended December 31, 2001.

Net revenues for the quarter ended December 31, 2001 were $41.8 million, an increase of 1% as compared with net revenues of $41.4 million reported in the quarter ended December 31, 2000. Fourth quarter 2001 net revenues reflected 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. Excluding sales in Germany and the United Kingdom in both periods, net revenues for the fourth quarter of 2001 increased 8% compared with the comparable quarter in 2000.

Excluding freight revenue, the Company reported fourth quarter 2001 U.S. net revenues of $37.9 million and net revenues from international operations of $2.7 million. Fourth quarter 2001 net revenues by product lines, excluding freight revenue, were $14.5 million, $16.1 million, and $10.0 million for rigid knee bracing, soft goods, and specialty and other complementary orthopedic products, respectively.

The Company reported a gross margin of 56.9% for the fourth quarter of 2001, compared with a gross margin of 58.6% for the fourth quarter of 2000. The year-over-year change in gross margin reflected the change in product mix resulting from the Company's acquisition in July 2000 of the bracing and soft goods business of DePuy Orthopedic Technology, Inc. ("OrthoTech"), as well as the effect of the sales reversal and return allowance discussed above.

Total operating expenses for the fourth quarter of 2001 increased 6% to $18.9 million from $17.9 million for the fourth quarter of 2000. This increase was largely due to costs associated with the Australian joint venture established in the third quarter of 2001, costs related to the new Alaron Surgical™ business, the additional amortization expense associated with the Company's new enterprise software system and costs of $0.5 million for establishing our subsidiary distribution companies in Germany and the United Kingdom. Both subsidiaries began operations on January 2, 2002.

Income for the December 31, 2001 quarter before deferred tax benefit and extraordinary items was $0.8 million, or $0.06 per diluted share, compared with net income of $1.3 million for the December 31, 2000 quarter. The Company reported a deferred tax benefit of $54.2 million in the fourth quarter of 2001 in conjunction with its November 2001 initial public offering and reorganization from a limited liability company to a corporation, and extraordinary item of $2.8 million (net of tax) for charges resulting from the prepayment of a portion of the senior subordinated notes. EBITDA (as adjusted) for the December 31, 2001 quarter was $7.3 million, compared with $8.1 million for the December 31, 2000 quarter.

Commenting on the Company's recent performance, Les Cross, president and CEO, said, "We are very pleased with our fourth quarter results. During the fourth quarter we implemented initiatives that were focused on improving 2002 revenues and profits. Most importantly, we have established subsidiaries in Germany, our largest international market, and in the United Kingdom. To date, we are pleased with the operations of these two new affiliates. We also continued our strategy of moving additional labor intensive production to our Mexican facilities." Mr. Cross continued, "In mid-December we launched our Armor by DonJoy™ product line, a new line of preventive gear designed for sports enthusiasts and weekend warriors. As previously announced, we have signed three important contracts to date during the first quarter, including two with HealthTrust Purchasing Group and another with the U.S. Department of Veterans Affairs. HealthTrust, a leading group purchasing organization that serves more than 800 healthcare facilities nationwide, has agreed to contract our entire line of ProCare® soft goods products and the PainBuster® Pain Management System for its member facilities. The Department of Veterans Affairs (`VA'), which serves more than 27 million veterans, has contracted to buy the entire line of DonJoy® brand products and the PainBuster® Pain Management system for the VA's nationwide system of hospitals, clinics and other operations."

For the year ended December 31, 2001, dj Orthopedics reported that net revenues increased 18% to $169.2 million, compared with net revenues of $143.6 million for the year ended December 31, 2000. Net revenue growth during 2001 was primarily due to the acquisition of the bracing and soft goods business of OrthoTech, the introduction and development of new products, including a post-operative brace with telescoping bars, the DonJoy eXtreme™ and the DonJoy SE 4-Point™ rigid brace, the formation of the Company's Australian joint venture and the new products introduced in Australia and the launch of its surgical division, Alaron Surgical™. Excluding freight revenue, 2001 U.S. net revenues were $146.2 million and international net revenues were $18.1 million. Net revenues by product lines, excluding freight revenue, for the 2001 year were $64.6 million, $62.3 million, and $37.4 million for rigid knee bracing, soft goods, and specialty and other complementary orthopedic products, respectively.

The Company reported a gross margin of 57.5% for 2001 compared with a gross margin of 58.1% for 2000. The year-over-year change in gross margin primarily reflects the change in product mix resulting from the acquisition of OrthoTech.

Total operating expenses for 2001 increased 22% to $74.7 million from $61.3 million in 2000. This increase was largely attributable to a $9.7 million or 25% increase in sales and marketing expenses and a $4.4 million or 22% increase in general and administrative expenses. Reflecting a full year of OrthoTech operations in 2001 versus approximately half a year of OrthoTech operations in 2000, these increases were primarily due to higher commissions directly attributable to increased revenues, costs associated with the Company's strategic investment in a new enterprise software system, the establishment of our Australian joint venture, our newly acquired Alaron Surgical™ business, the costs of establishing and operating our subsidiary companies in Germany and the United Kingdom. Income before deferred tax benefit and extraordinary item for 2001 was $5.1 million, or $0.47 per diluted share, compared with net income of $5.2 million for 2000. EBITDA (as adjusted) for 2001 was $32.0 million, compared with $29.2 million for 2000.

dj Orthopedics reported current assets of $106.8 million at December 31, 2001, up from $60.4 million at December 31, 2000. The increase primarily reflects net proceeds from the Company's initial public offering completed on November 15, 2001 and an increase in accounts receivable associated with the Company's OfficeCare® program. Long-term debt at December 31, 2001 was $110.9 million as compared to $157.2 million at December 31, 2000 reflecting the repayment of $25.0 million principal amount of our senior subordinated notes and all amounts outstanding under our revolving credit facility out of the proceeds from our public offering.

"In addition to completing the initial public offering, we focused our efforts and resources on a number of key strategic and financial initiatives to build a foundation for strong and profitable growth in 2002," added Mr. Cross. "In 2001, we continued to invest in sales and marketing -- the core strengths of our business -- while executing on our plans to expand our tissue repair products business by acquiring and developing Alaron Surgical™. We further supported our distribution, product and margin improvement initiatives through investments in our infrastructure."

Mr. Cross added, "During the past three years, we have continued to execute on a five-part business strategy to develop our business. We intend to continue focusing on this strategy, which includes: 1) expanding our existing and developing new relationships with orthopedic sports medicine professionals; 2) introducing new products and product enhancements; 3) offering new, higher margin products through our established distribution network to the market; 4) achieving both control and growth of our international business by selectively replacing third-party distributors with affiliated companies in key countries; and 5) expanding our penetration in the repair, rehabilitation and regeneration segments of the orthopedic sports medicine market through internal development, licensing or acquisition."

Among its 2002 goals, the Company plans to introduce a number of new or enhanced products, including a patented bone growth stimulator, new additions to its core product lines, as well as licensed or acquired products in each of the repair, rehabilitation, and regeneration segments of the orthopedic sports medicine market. Regarding 2002, the Company also announced that it was comfortable with the range of its analysts' estimates for earnings of $0.64 to $0.71 per share, as well as the first quarter of 2002 range of $0.12 to $0.14 per share.

dj Orthopedics has scheduled an investor conference call to discuss this announcement beginning at 5:00 p.m. Eastern Time today. Individuals interested in listening to the conference call may do so by dialing 800/252-8295 for domestic callers, or 212/346-0101 for international callers. A telephone replay will be available for 48 hours following the conclusion of the call by dialing 800/633-8284 for domestic callers, or 858/812-6440 for international callers, and entering reservation code 20286377. 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 surgical and non-surgical products and services that repair, regenerate and 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 and its recently introduced line of surgical 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. 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; 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 selected foreign countries; the risk that we may not be able to develop or license and market new products or product enhancements; our dependence on our orthopedic professionals, agents and distributors for marketing our products; the risk that technology license and distribution agreements relating to some of our key products may be terminated; risks relating to our acquisition strategy; foreign currency fluctuations; our lack of manufacturing operations outside the United States; risk related to competition in our markets; the risk that our quarterly operating results are subject to substantial fluctuations; our dependence on certain key personnel; our high level of indebtedness and the restrictions imposed by the terms of our indebtedness; our ability to generate cash to service our debts; healthcare reform and the emergence of managed care and buying groups have put downward pressure on the prices of our products; risks relating to our patents and proprietary know-how; the uncertainty of domestic and foreign regulatory clearance and approvals for our products; risks related to changing technology and new product developments; the sensitivity of our business to general economic conditions; uncertainty relating to third party reimbursement; and the other risk factors affecting the Company detailed from time to time in the documents filed by the Company with the Securities and Exchange Commission.

dj Orthopedics, Inc.
Condensed Consolidated Statements of Income
(amounts in thousands except per share data)

| | Three Months Ended December 31, | | Years Ended December 31, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | |
| Net revenues | $ 41,809 | $ 41,400 | $ 169,170 | $ 143,586 |
| Cost of goods sold | 18,032 | 17,128 | 71,888 | 60,178 |
| Gross profit | 23,777 | 24,272 | 97,282 | 83,408 |
| Operating expenses: | | | | |
| Sales and marketing | 12,678 | 11,902 | 48,339 | 38,653 |
| General and administrative | 5,895 | 5,232 | 24,165 | 19,761 |
| Research and development | 376 | 787 | 2,189 | 2,465 |
| Merger and integration costs | - | - | - | 400 |
| Total operating expenses | 18,949 | 17,921 | 74,693 | 61,279 |
| Income from operations | 4,828 | 6,351 | 22,589 | 22,129 |
| Interest expense | (4,095) | (4,713) | (17,796) | (16,958) |
| Interest income | 178 | 89 | 408 | 437 |
| Discontinued acquisition costs | - | (449) | - | (449) |
| Income before income taxes | 911 | 1,278 | 5,201 | 5,159 |
| Provision for income taxes | 79 | - | 79 | - |
| Income before deferred tax benefit and extraordinary item | 832 | 1,278 | 5,122 | 5,159 |
| Deferred tax benefit(1) | 54,169 | - | 54,169 | - |
| Extraordinary item -- early extinguishment of debt(2) | (2,801) | - | (2,801) | - |
| Net income | $ 52,200 | $ 1,278 | $ 56,490 | $ 5,159 |
| EBITDA data: | | | | |
| Income from operations | $ 4,828 | $ 6,351 | $ 22,589 | $ 22,129 |
| Merger and integration costs | - | - | - | 400 |
| Depreciation and amortization | 2,443 | 1,738 | 9,444 | 6,365 |
| EBITDA | $ 7,271 | $ 8,089 | $ 32,033 | $ 28,894 |
| Step-up in inventory | - | - | - | 268 |
| EBITDA (as adjusted) | $ 7,271 | $ 8,089 | $ 32,033 | $ 29,162 |
| Weighted average shares outstanding: | | | | |
| Basic | 13,956 | N/A | 10,593 | N/A |
| Diluted | 14,400 | N/A | 10,858 | N/A |
| Pro forma net income per share(3): | | | | |
| Basic | $ 0.06 | N/A | $ 0.48 | N/A |
| Diluted | $ 0.06 | N/A | $ 0.47 | N/A |
| Net income per share: | | | | |

| | | | | |
|---|---|---|---|---|
| Basic | $ 3.74 | N/A | $ 5.33 | N/A |
| Diluted | $ 3.63 | N/A | $ 5.20 | N/A |

(1) In connection with its reorganization into corporate form, the Company has 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, DonJoy 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 income per share represents income per share before the deferred tax benefit and the extraordinary item.

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

| | December 31, 2001 (Unaudited) | December 31, 2000 |
|---|---|---|
| Assets: | | |
| Current assets | $ 106,764 | $ 60,384 |
| Property, plant and equipment, net | 15,343 | 12,785 |
| Intangible assets, net | 70,588 | 75,419 |
| Deferred tax asset, long-term | 49,686 | - |
| Other assets | 5,541 | 7,084 |
| Total | $ 247,922 | $ 155,672 |
| Liabilities and members'/ stockholders' equity (deficit): | | |
| Current liabilities | $ 22,868 | $ 21,689 |
| Long-term obligations, net of current portion | 109,660 | 155,948 |
| Redeemable Preferred Units | - | 41,660 |
| Minority interest | 154 | - |
| Members'/stockholders' equity (deficit) | 115,240 | (63,625) |
| Total | $ 247,922 | $ 155,672 |

CONTACT: dj Orthopedics, Inc.
Les Cross or Cy Talbot, 760/734-3559
www.djortho.com
or
Investor Relations Contacts:
Lippert/Heilshorn & Associates, Inc.
Bruce Voss (bvoss@lhai.com)
Jody Cain (jcain@lhai.com)
310/691-7100
www.lhai.com