dj Orthopedics Announces Second Quarter 2003 Financial Results

* Operating Margin Increases to 15% of Net Revenue and Earnings Per Share

Improves to $0.15 Per Share

SAN DIEGO, Aug. 5 /PRNewswire-FirstCall/ -- 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 second quarter and six months ended June 28, 2003.

Net revenues for the second quarter of 2003 totaled $47.4 million, an increase of four percent compared with net revenues of $45.7 million reported in the second quarter of 2002. Net income for the second quarter of 2003 was $2.7 million, or $0.15 per share, compared with a net loss of $4.9 million, or $(0.27) per share for the second quarter of 2002. Net income for the second quarter of 2002 included charges totaling $7.6 million ($4.8 million net of taxes) for increases in provisions for uncollectible accounts receivable related to the Company's OfficeCare® and Insurance sales channels, provisions for excess inventories and for an impairment loss on certain intangible assets.

For the first six months of 2003, net revenues totaled $94.5 million, an increase of five percent compared with net revenues of $90.1 million reported in the first six months of 2002. Net income for the first six months of 2003 was $4.3 million, or $0.24 per share, compared with a net loss of $3.4 million, or $(0.19) per share for the corresponding six month period in 2002.

Commenting on the Company's second quarter results, Les Cross, dj Orthopedics' President and Chief Executive Officer noted, "We are pleased to report another strong quarter in 2003. In the second quarter, each of our business segments delivered sales growth consistent with or better than our recent trends with the exception of ProCare, where we continued with our transition away from low margin OEM business in this channel. That said, we are encouraged by improving ProCare sales trends late in the second quarter attributable to the initial account conversions under our new Broadlane contract, which commenced this past May.

"We remain focused on strengthening our domestic revenue growth within our core rehabilitation businesses, and toward this end, we completed several key objectives during the quarter. First, we launched eight new products during the quarter, including products for foot and ankle, wrist, knee and shoulder applications. We have implemented important new customer targeting tools to support our sales distribution partners and we have initiated several new marketing and promotional programs. OfficeCare sales growth was another bright spot increasing almost nine percent, compared to the second quarter of last year."

Reviewing the Company's financial results, Vickie Capps, Senior Vice President and Chief Financial Officer commented, "The business transformation over the past year continues to show in our results. The improvement in our operating margin reflects our continued sales growth and the success of our cost structure improvements. Gross profit margin improved substantially over the second quarter of last year, reflecting the benefits of our manufacturing move to Mexico, as well as higher manufacturing volumes and improved product mix."

Revenue Segment Information

Net revenues for the second quarter of 2003 for the Company's business segments, which are its primary sales channels, DonJoy®, ProCare®, OfficeCare® and International, were $23.2 million, $11.7 million, $6.0 million and $6.6 million, respectively, compared to prior year amounts of $22.3 million, $12.0 million, $5.5 million and $5.8 million, respectively. Net revenue in the Company's DonJoy, OfficeCare and International segments increased 4 percent, 9 percent and 13 percent respectively, while net revenue in the ProCare segment declined 3 percent year-over-year.

Net revenue in the International segment in the second quarter of 2003 included a $0.5 million benefit from favorable changes in exchange rates compared to the rates in effect in the second quarter of 2002. In addition, International revenue in the second quarter of 2003 was reduced by approximately $1.0 million, compared to the prior year period, because of the Company's fourth quarter 2002 discontinuation of its majority owned Australian subsidiary. Excluding Australia, local currency international revenue increased 25 percent in the second quarter of 2003 compared to the similar period a year ago. OfficeCare net revenue was reduced by approximately $0.6 million in the second quarter of 2003, resulting from the change in the Medicare reimbursement code for the Company's fracture boot products, which became effective in January 2003, as discussed in the Company's Forms 10-K and 10-Q, filed with the SEC on March 28, and May 13, 2003, respectively.

Net revenues for the first six months of 2003 for the Company's business segments DonJoy®, ProCare®, OfficeCare® and International, were $46.0 million, $22.9 million, $11.8 million and $13.7 million, respectively, compared to prior year amounts of $44.4 million, $23.0 million, $11.6 million and $11.1 million, respectively.

Gross Profit Margin

For the second quarter of 2003, the Company reported gross profit of $26.2 million, or 55.2 percent of net revenue, compared to $21.3 million, or 46.5 percent of net revenue for the second quarter of 2002. Gross profit in the second quarter of 2002 was reduced by a $1.3 million charge for reserves for excess inventories. The improvement in gross profit margin from 2002 to the current quarter primarily reflects lower manufacturing costs achieved through the Company's successful relocation of a substantial portion of its U.S. manufacturing capacity to Mexico during the fourth quarter of 2002, as well as the completion of other manufacturing cost reduction initiatives. Although total gross profit was increased by the Company's manufacturing move to Mexico, gross profit for the DonJoy segment was reduced by the reallocation of certain United States manufacturing overhead expenses from products moved to Mexico to DonJoy custom rigid bracing products, which continue to be manufactured in the United States.

For the first six months of 2003, the Company reported gross profit of $52.0 million, or 55.0 percent of net revenue, compared to $45.1 million, or 50.0 percent of net revenue in the first six months of 2002.

Second Quarter Business Highlights:

-- The Company acquired patent licenses as part of a litigation settlement covering the use of knee braces in treating unicompartmental osteoarthritis. The osteoarthritis knee bracing market is the fastest growing rigid bracing segment.

-- dj Orthopedics completed the acquisition of the DuraKold line of cold therapy products. The broad product line features a patented and reusable ice wrap to achieve adjustable and uniform compression for the shoulder, lower back, arm and wrist, and lower leg and ankle. The vertical integration of the DuraKold line into the Company's Mexico manufacturing facility enables the Company to capture the full manufacturing gross margin, while incrementally reducing the related cost of goods sold.

-- Two new directors were appointed to the Company's Board of Directors: Lewis Parker and Benjamin B. Edmands.

-- For the second year in a row, dj Orthopedics' manufacturing operation in Tijuana, Mexico, was named among the top 25 finalists in Industry Week's "Best Plants in North America" award.

dj Orthopedics has scheduled an investor conference call to discuss this announcement beginning at 5:00 p.m. Eastern Time today, August 5, 2003. Individuals interested in listening to the conference call may do so by dialing (706) 634-0177, using the reservation code 1575434. A telephone replay will be available for 48 hours following the conclusion of the call by dialing (706) 645-9291 and using the reservation code above. 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.

About dj Orthopedics, Inc.

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 .

Safe Harbor Statement

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 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 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 Annual Report on Form 10-K, filed on March 28, 2003 with the Securities and Exchange Commission.

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

	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	June 28, 2003	June 29, 2002
Net revenues	$47,420	$45,709	$94,474	$90,148
Costs of goods sold	21,254	24,455	42,515	45,061
Gross profit	26,166	21,254	51,959	45,087
Operating expenses:				
Sales and marketing	12,617	16,882	25,069	28,967
General and administrative	5,402	6,430	12,035	12,034
Research and development	1,060	739	1,994	1,368
Impairment of long-lived assets	--	1,918	--	1,918
Total operating expenses	19,079	25,969	39,098	44,287
Income (loss) from operations	7,087	(4,715)	12,861	800
Interest expense, net of interest income	(2,998)	(2,941)	(6,157)	(5,924)
Other income (expense)	398	(46)	547	(201)
Income (loss) before income taxes	4,487	(7,702)	7,251	(5,325)
(Provision) benefit for income taxes	(1,798)	2,843	(2,903)	1,916
Net income (loss)	$2,689	$(4,859)	$4,348	$(3,409)
Net income (loss) per share:				
Basic	$0.15	$(0.27)	$0.24	$(0.19)
Diluted	$0.15	$(0.27)	$0.24	$(0.19)
Weighted average shares outstanding used to calculate per share information:				
Basic	17,902	17,856	17,902	17,856
Diluted	18,336	17,856	18,178	17,856
Adjusted EBITDA (1)	$9,368	$5,337	$17,119	$12,358

(1)"EBITDA" is defined as net income (loss) plus interest expense (net of interest income), income taxes, depreciation and amortization. "Adjusted EBITDA" represents EBITDA, as defined, adjusted to eliminate amounts permitted under the bank credit facility. EBITDA is not a measure of performance under generally accepted accounting principles. EBITDA should not be considered in isolation or as a substitute for net income, cash flows from operating activities and other income or cash flow statement data prepared in accordance with generally accepted accounting principles, or as a measure of profitability or liquidity. Management has included Adjusted EBITDA because it may be used by our lenders or certain investors to analyze and compare companies on the basis of operating performance, leverage and liquidity and to determine a company's ability to service debt. Set forth below is a comparable reconciliation of the Company's net income to Adjusted EBITDA:

	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	June 28, 2003	June 29, 2002
Net income (loss)	$2,689	$(4,859)	$4,348	$(3,409)
Interest expense, net of interest income	2,998	2,941	6,157	5,924
Income taxes	1,798	(2,843)	2,903	(1,916)
Depreciation and amortization	1,883	1,967	3,711	3,628
EBITDA	9,368	(2,794)	17,119	4,227
Net adjustments in accordance with the bank credit facility	--	8,131	--	8,131
Adjusted EBITDA	$9,368	$5,337	$17,119	$12,358

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

Assets	June 28, 2003	December 31, 2002
Current assets:		
Cash and cash equivalents	$11,016	$32,085
Accounts receivable, net	37,390	33,705
Inventories, net	13,588	14,583
Deferred tax asset, current portion	10,247	10,247
Other current assets	2,580	4,970
Total current assets	74,821	95,590
Property, plant and equipment, net	14,131	14,082
Goodwill, intangible assets and other assets	77,209	72,568
Deferred tax asset	52,679	55,484
Total assets	$218,840	$237,724
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and other accrued liabilities	$23,154	$26,995
Long-term debt, current portion	568	1,274
Total current liabilities	23,722	28,269
Long-term debt, less current portion	89,326	108,542
Total stockholders' equity	105,792	100,913
Total liabilities and stockholders' equity	$218,840	$237,724

dj Orthopedics, Inc.
Unaudited Segment Information
(In thousands)

	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	June 28, 2003	June 29, 2002
Net revenues:				
DonJoy	$23,192	$22,339	$46,046	$44,401
ProCare	11,659	12,018	22,926	23,035
OfficeCare	6,005	5,525	11,827	11,624
International	6,564	5,827	13,675	11,088
Consolidated net revenues	47,420	45,709	94,474	90,148
Gross profit:				
DonJoy	13,047	12,692	25,626	26,330
ProCare	4,879	3,071	9,339	5,957
OfficeCare	4,567	3,955	8,977	8,560
International	3,673	2,816	8,017	5,520
Gross profit from reportable segments	26,166	22,534	51,959	46,367
Costs not allocated				

to segments	--	(1,280)	--	(1,280)
Consolidated gross profit	26,166	21,254	51,959	45,087
Income (loss) from operations:				
DonJoy	5,325	4,830	10,333	11,154
ProCare	2,526	620	4,779	1,463
OfficeCare	258	(3,736)	390	(3,137)
International	1,623	472	3,715	1,272
Income from reportable segments	9,732	2,186	19,217	10,752
Expenses not allocated to segments	(2,645)	(6,901)	(6,356)	(9,952)
Consolidated income (loss) from operations	$7,087	$(4,715)	$12,861	$800

SOURCE dj Orthopedics, Inc.
-0-   08/05/2003

/CONTACT: Investors, Media, Mark Francois, Director of Investor Relations of dj Orthopedics, Inc., +1-760-734-4766, mark.francois@djortho.com/
/Web site: http://www.djortho.com /
(DJO)
CO: dj Orthopedics, Inc.
ST: California
IN: HEA MTC SPM
SU: ERN CCA
MS
-- LATU099 --
1622 08/05/2003 16:05 EDT http://www.prnewswire.com