



## **dj Orthopedics Announces Third Quarter 2002 Financial Results and Reports Progress With Corporate Performance Improvement Program**

SAN DIEGO--(BUSINESS WIRE)--Nov. 5, 2002--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 third quarter and nine months ended Sept. 28, 2002.

The company also provided an update on its corporate performance improvement program announced on Aug. 1, 2002, which is designed to streamline the company's organizational structure and improve its profitability.

Net revenues for the third quarter of 2002 were \$45.8 million, an increase of four percent compared with net revenues of \$44.1 million reported in the third quarter of 2001. Net loss for the third quarter of 2002 was \$5.8 million, or \$0.33 per share, compared with net income of \$1.7 million for the third quarter of 2001.

The results for the third quarter of 2002 include charges totaling \$9.4 million (\$6.0 million, net of income taxes) related to the company's performance improvement program, including charges for severance expense, consultants, moving costs and accrued rent related to U.S. manufacturing facilities to be vacated by the company (aggregating \$6.1 million) and reserves for inventory (\$2.8 million) and intangible assets (\$0.5 million) related to discontinued product lines. The severance expense relates to U.S. manufacturing positions eliminated in connection with the company's manufacturing move to Mexico, previously announced on Sept. 4, 2002, and the elimination of several senior management positions in the third quarter of 2002.

Net revenues for the nine months ended Sept. 28, 2002 were \$136.0 million, an increase of seven percent compared with net revenues of \$127.4 million reported for the nine months ended Sept. 29, 2001. Net loss for the nine months ended Sept. 28, 2002 was \$9.2 million, or \$0.52 per share, compared with net income of \$4.3 million for the nine months ended Sept. 29, 2001. The results for the nine months ended Sept. 28, 2002 include the charges noted above and certain charges aggregating \$7.6 million, (\$4.8 million net of income taxes) recorded in the second quarter of 2002.

"Our core rehabilitation business remains strong and continues to grow," said Les Cross, president and chief executive officer of dj Orthopedics. "The company also continues to generate positive cash flow, with \$6 million provided by operations in the third quarter, the result of better accounts receivable collections and lower inventory levels. While charges related to our performance improvement program affected our profitability in our third quarter, they are directly tied to our targets for improving profitability and cash flow in the future."

### **Revenue Segment Information**

Exclusive of freight revenue, net revenues for the third quarter of 2002 for rigid knee bracing, soft goods and specialty and other complementary orthopedic products were \$17.6 million, \$15.3 million and \$11.6 million, respectively. Exclusive of freight revenue, net revenues for the first nine months of 2002 for rigid knee bracing, soft goods and specialty and other complementary orthopedic products were \$53.1 million, \$46.1 million and \$33.1 million, respectively.

Domestic net revenues increased by five percent and seven percent during the third quarter and the nine months ended Sept. 28, 2002, respectively, over the comparable prior year periods, primarily due to growth in the company's rigid knee bracing and specialty and other complementary orthopedic products, including its DonJoy Defiance® rigid braces, lower extremity fracture boots and cold therapy system product lines. International net revenues decreased by one percent during the third quarter of 2002 compared to the prior year period. The decline is attributable to deliveries made to the company's former stocking distributor in Germany in the third quarter of 2001, which exceeded revenues from the company's new German subsidiary in the current quarter. International net revenues increased seven percent for the nine months ended Sept. 28, 2002, compared to the prior year nine-month period.

### **Gross Profit Margin**

The company reported gross profit of \$23.2 million, or 50.6 percent of net revenues, for the third quarter of 2002, compared to \$24.9 million, or 56.5 percent of net revenues, for the third quarter of 2001. The decrease in gross profit and gross profit margin for the current period primarily reflects the \$2.8 million charge related to inventory reserves discussed above as part of the charges related to the company's performance improvement program. Gross profit for the third 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 \$12.5 million, \$6.7 million and \$6.9 million, respectively, representing gross profit margins of 71.0 percent, 44.0 percent and

- 58.9 percent, respectively. The company reported gross profit of \$73.8 million, or 54.3 percent of net revenues, for the nine months ended Sept. 28, 2002, compared to \$73.5 million, or 57.7 percent of net revenues for the nine months ended Sept. 29, 2001. Reduced gross profit margins in the current nine-month period reflect the \$2.8 million charge noted above, as well as a \$1.3 million charge taken in the second quarter of 2002. Gross profit for the nine months, 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 \$38.6 million, \$20.3 million and \$18.8 million, respectively, representing gross profit margins of 72.7 percent, 44.0 percent and 56.8 percent, respectively.

#### Corporate Performance Improvement Program Update

The company reported that its performance improvement program is well under way and provided an update on several focus areas:

- Manufacturing Move to Mexico: On Sept. 4, 2002, the company announced the move of certain manufacturing operations and up to 250 manufacturing jobs to its facilities in Mexico. The move is approximately 50 percent complete and is expected to be fully complete before year-end with a significant annualized cost benefit.

- OfficeCare®; and Insurance Channels: The company has begun a comprehensive review of its OfficeCare and Insurance businesses in an effort to improve the quality of revenue and profitability of these sales channels.

- Improved Product Development Processes: The company reported that it is refocusing most of its resources on strengthening its core business segments and is re-examining others. The company has introduced several new rehabilitation products, most recently its Defiance®; DropLock, with other new products scheduled for release over the next few quarters. The company will also concentrate on a smaller product offering in the short-term within its Alaron surgical product line and has decided not to enter the total joint replacement market at this time. As a result of the surgical refocus, third quarter results reflect \$3.3 million of aggregate reserves to write down certain surgical inventory and intangible assets, as discussed above.

- Operating Expense and Working Capital Reductions: With respect to operating expenses, the company has begun to reduce headcount at all levels of the organization, as well as reducing other costs to align its expense levels with its current revenue opportunities. The company has also reduced consolidated days sales outstanding in accounts receivable by six days during the quarter, with improvement shown in every business area within the company, especially from its OfficeCare and Insurance channels. Inventory levels were also reduced in the quarter.

The company expects to incur additional charges related to its performance improvement program of \$5 million to \$8 million, the majority of which are expected to occur in the fourth quarter of 2002, primarily for severance pay and consultants. The company expects the program's benefits to positively impact earnings beginning in the first quarter of 2003. It is the company's goal to achieve gradually improving profitability in 2003, and that by the end of 2003, the annualized run rate of operating income improvement should exceed the total cost of implementing this program.

## Bank Credit Facility

In October 2002, the company completed an amendment of its bank credit facility, including an amendment of certain financial covenants. On Sept. 28, 2002, the company was in compliance with all financial covenants, as amended.

dj Orthopedics has scheduled an investor conference call to discuss this announcement beginning at 5:00 p.m. Eastern Time today, Nov. 5, 2002. Individuals interested in listening to the conference call may do so by dialing 706/634-0177, using the reservation code 5985649. 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 5985649. The live conference call also will be available via the Internet at [www.djortho.com](http://www.djortho.com), and a recording of the call will be available on the company's Web site 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 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, visit [www.djortho.com](http://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 Sept. 3, 2002 with the Securities and Exchange Commission.

dj Orthopedics Inc.				
Unaudited Condensed Consolidated Statements of Operations				
(In thousands, except per share data)				
	Three Months Ended		Nine Months Ended	
	Sept. 28,	Sept. 29,	Sept. 28,	Sept. 29,
	2002	2001	2002	2001
Net revenues	\$45,828	\$44,078	\$135,976	\$127,361
Costs of goods sold	22,651	19,176	62,158	53,856
Gross profit	23,177	24,902	73,818	73,505
Operating expenses:				
Sales and marketing	14,394	12,147	47,216	35,661
General and administrative	7,492	6,206	21,366	18,270
Research and development	849	513	2,076	1,813
Impairment of long-lived assets	487	-	2,405	-
Performance improvement and restructuring				

costs	6,126	-	6,126	-
Total operating expenses	29,348	18,866	79,189	55,744
Income (loss) from operations	(6,171)	6,036	(5,371)	17,761
Interest expense and other, net	(2,915)	(4,308)	(9,040)	(13,471)
Income (loss) before income taxes	(9,086)	1,728	(14,411)	4,290
Benefit for income taxes	3,272	-	5,188	-
Net income (loss)	(5,814)	1,728	(9,223)	4,290
Less: Preferred unit dividends and accretion of preferred unit fees	-	(1,632)	-	(4,738)
Net income (loss) available to common stockholders	\$(5,814)	\$96	\$(9,223)	\$(448)
Basic and diluted net loss per share	\$(0.33)	N/A	\$(0.52)	N/A
Basic and diluted weighted average shares outstanding	17,873	N/A	17,873	N/A
Adjusted EBITDA(1)	\$5,077	\$8,399	\$17,436	\$24,762

(1) "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.

Condensed Consolidated Balance Sheets  
(In thousands)

	Sept. 28, 2002	Dec. 31, 2001
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	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents.....	\$ 28,556	\$ 25,814
Accounts receivable, net.....	41,476	45,176
Inventories, net.....	18,500	25,139
Deferred tax asset, current portion.....	6,350	6,350
Other current assets.....	2,899	4,285
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Total current assets.....	97,781	106,764
Property, plant and equipment, net.....	15,067	15,343
Goodwill, intangible assets and other assets.....	73,975	76,129
Deferred tax asset.....	55,592	49,686
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Total assets.....	\$ 242,415	\$ 247,922
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Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and other accrued liabilities..	\$ 25,538	\$ 21,594
Long-term debt, current portion.....	1,274	1,274
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Total current liabilities.....	26,812	22,868
Long-term debt, less current portion.....	109,141	109,660
Minority interest.....	199	154
Total stockholders' equity.....	106,263	115,240
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Total liabilities and stockholders' equity.....	\$ 242,415	\$ 247,922
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