Hanger Orthopedic Group, Inc. Announces Third Quarter Net Income of $0.30 Per Diluted Share

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BETHESDA, Md., Oct 31, 2002 /PRNewswire-FirstCall via COMTEX/ -- Hanger Orthopedic Group, Inc. (NYSE: HGR) today announced net income of $0.30 per diluted share for the three-month period ended September 30, 2002 and $0.74 per diluted share before extraordinary item for the first nine months of 2002.

Net sales for the quarter ended September 30, 2002 increased by $4.4 million, or 3.4%, to $134.0 million from $129.6 million in the prior year's comparable quarter. The sales growth was primarily the result of a 4.6% increase in same center sales in the Company's O&P practices, offset by a $1.5 million or 1.2% reduction in net sales as result of the October 2001 sale of Seattle Orthopedic Group, Inc. ("SOGI"). Gross profit for the third quarter of 2002 was $74.0 million, or 55.2% of net sales, compared to $68.0 million, or 52.5% of net sales, in the third quarter of the prior year. The improvement in gross profit, in both dollars and as a percentage of net sales, was due to a reduction in labor and material costs. Income from operations for the third quarter of 2002 improved, by $8.7 million, to $23.1 million from $14.4 million in the prior year's comparable quarter. The increase in income from operations is the result of a combination of increased sales, gross profit and the elimination of both unusual charges and the amortization of goodwill that were reported in the third quarter of 2001.

Net income applicable to common stock for the third quarter of 2002 was $6.5 million, or $0.30 per diluted share, on 21.9 million weighted average shares outstanding, an improvement of $7.7 million over the comparable period last year. For the corresponding period of the prior year, Hanger had a net loss applicable to common stock of $1.2 million, or $0.07 per diluted share, on 18.9 million weighted average shares outstanding.

Net sales for the nine months ended September 30, 2002 increased by $11.1 million, or 2.9%, to $390.5 million from $379.4 million in the prior year's comparable period. The sales growth was primarily the result of a 5.1% increase in same center sales in the Company's O&P practices, offset by a $4.7 million or 1.2% reduction in net sales as result of the sale of SOGI. Gross profit for the first nine months of 2002 was $209.7 million, or 53.7% of net sales, compared to $191.4 million, or 50.4% of net sales, in the prior year. The improvement in gross profit, in both dollars and as a percentage of net sales, was due to a reduction in labor and material costs. Income from operations for the first nine months of 2002 increased by $37.3 million to $62.4 million from $25.1 million in the prior year's comparable period. The increase in income from operations is the result of increased sales, gross profit and the elimination of both unusual charges and the amortization of goodwill that were reported in the prior year.

Net income applicable to common stock before extraordinary item for the first nine months of 2002 was $16.0 million, or $0.74 per diluted share on 21.5 million weighted average shares outstanding, an improvement of $24.2 million over the comparable period last year. For the corresponding period of the prior year, Hanger had a net loss applicable to common stock of $8.2 million, or $0.44 per diluted share, on 18.9 million weighted average shares outstanding. Net income applicable to common stock was $13.2 million, or $0.61 per share, in the first nine months of 2002, compared to a net loss of $8.2 million, or $0.44 per share, in the prior year.

The $2.8 million extraordinary loss on the early extinguishment of debt in the nine months ended September 30, 2002, was recorded in this year's first quarter in connection with the Company's refinancing of bank debt. The unusual charges of $1.4 million and $16.2 million recorded in the third quarter ended September 30, 2001 and the nine-month period then ended, respectively, consisted of restructuring and performance improvement costs as well as the loss on disposal of assets.

As reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2001, SFAS 142 was adopted as of January 1, 2002. Accordingly, amortization of goodwill ceased in the quarter ended March 31, 2002. The Company reported $3.3 million in amortization of goodwill for the quarter ended September 30, 2001 and $9.9 million for the nine months ended September 30, 2001.

Chairman and CEO, Ivan R. Sabel stated, "The results of our employees' diligent efforts to continually improve our operations is very evident. We have integrated all of our ongoing reengineering improvements into our daily work processes and will continue our focus on enhancing shareholder value."

Headquartered in Bethesda, Maryland, Hanger is a national public company specializing in patient-care services for orthotics and prosthetics ("O&P"). The Company now provides O&P services in 578 patient-care centers located in 44 states as well as the District of Columbia and is the largest distributor of O&P supplies and components in the country. Hanger also provides O&P services to over 1,000 managed care programs through the Hanger OPNET system.

Certain statements included in this press release are forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Please refer to the Company's SEC filings for factors that could cause actual results to differ materially from the Company's expectations.

-tables to follow-

Hanger Orthopedic Group, Inc.
(In Thousands, Except Share and Per Share Data)

	Three Months Ended	Nine Months Ended

Income Statement:	September 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
Net sales	$133,980	$129,605	$390,546	$379,365
Cost of goods sold	59,971	61,606	180,806	188,014
Gross profit	74,009	67,999	209,740	191,351
Selling, general and administrative	48,541	45,791	139,900	131,118
Depreciation and amortization	2,400	3,091	7,478	9,045
Amortization of excess cost over net assets acquired	-	3,306	-	9,863
Unusual charges	-	1,381	-	16,220
Income from operations	23,068	14,430	62,362	25,105
Interest expense, net	9,870	10,768	28,926	34,059
Income (loss) before taxes	13,198	3,662	33,436	(8,954)
Provision (benefit) for income taxes	5,368	3,679	13,602	(4,328)
Income (loss) before extraordinary item	7,830	(17)	19,834	(4,626)
Extraordinary loss on early extinguishment of debt, net of tax benefit	-	-	2,811	-
Net income (loss)	$7,830	$(17)	$17,023	$(4,626)
Income (loss) before extraordinary item applicable to common stock	$6,519	$(1,242)	$15,966	$(8,239)
Net income (loss) applicable to common stock	$6,519	$(1,242)	$13,155	$(8,239)
Diluted Per Share Data:				
Income (loss) before extraordinary item	$0.30	$(0.07)	$0.74	$(0.44)
Extraordinary item, net of tax benefit	-	-	(0.13)	-
Net income (loss)	$0.30	$(0.07)	$0.61	$(0.44)
Weighted average number of diluted common shares outstanding	21,913,967	18,910,002	21,502,115	18,910,002

Balance Sheet Data:	September 30, 2002	September 30, 2001
Working Capital	$132,992	$134,957
Total Debt	393,822	423,989
Shareholders' Equity	159,503	146,142

Hanger Orthopedic Group, Inc.

Statistical Data:	Three Months Ended September 30, 2002	2001	Nine Months Ended September 30, 2002	2001
Patient-care centers	578	593	578	593
Certified practitioners	873	874	873	874
Number of states (including D.C.)	45	45	45	45
Payor mix:				
Private pay and other	56.4%	58.3%	56.8%	60.0%
Medicare/Medicaid/VA	43.6%	41.7%	43.2%	40.0%
EBITDA(1) (millions)	$25.5	$22.2	$69.9	$60.2
EBITDA(1) margin	19.0%	17.1%	17.9%	15.9%
Operating margin(2)	17.2%	14.8%	16.0%	13.5%

Percentage of net sales from:				
Patient-care services	94.0%	93.3%	94.5%	92.8%
Manufacturing	0.0%	1.2%	0.0%	1.2%
Distribution	6.0%	5.5%	5.5%	6.0%

(1) EBITDA is defined as net income (loss) before interest, taxes, depreciation and amortization, unusual charges and extraordinary losses. EBITDA is not a measure of performance under GAAP. While 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 GAAP, or as a measure of profitability or liquidity, we understand that EBITDA is customarily used by financial and credit analysts as a criteria in evaluating healthcare companies. Moreover, substantially all of our financing agreements contain covenants in which EBITDA is used as a measure of financial performance. Our definition of EBITDA may not be comparable to the definition of EBITDA used by other companies. EBITDA margin is defined as EBITDA as a percent of net sales.

(2) Operating margin is defined as income from operations plus unusual items and amortization of excess cost over net assets acquired divided by net sales.

SOURCE Hanger Orthopedic Group, Inc.

URL: http://www.hanger.com