Hanger Orthopedic Group, Inc. Announces First Quarter Net Income Of $0.14 Per Diluted Share Before Extraordinary Item

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BETHESDA, Md., May 13, 2002 /PRNewswire/ -- Hanger Orthopedic Group, Inc. (NYSE: HGR) today announced net income of $0.14 per diluted share before extraordinary item for the three-month period ended March 31, 2002.

Net sales for the three months ended March 31, 2002 increased by $2.9 million, or 2.4%, to $123.5 million from $120.6 million in the prior year's first quarter. The sales growth was primarily the result of a 5.4% increase in same center sales in the Company's O&P practices, offset by a $1.6 million or 1.3% reduction in net sales as result of the October 2001 sale of Seattle Orthopedic Group, Inc. ("SOGI"). Gross profit for the first quarter of 2002 was $64.0 million, or 51.8% of net sales, compared to $57.6 million, or 47.8% 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.

Net income applicable to common stock before extraordinary item for the first quarter of 2002 was $3.1 million, or approximately $0.14 per diluted share on 21.6 million weighted average shares outstanding, an improvement of $4.1 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 $1.1 million, or approximately $0.06 per diluted share, on 18.9 million weighted average shares outstanding. Net income applicable to common stock was $0.3 million, or $0.01 per share, in the first quarter of 2002, compared to a loss of $1.1 million, or $0.06 per share, in the prior year.

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. The company has completed the transitional impairment test, which did not result in the impairment of recorded goodwill. Accordingly, amortization of goodwill has ceased in the quarter ended March 31, 2002, compared to the $3.0 million in amortization of goodwill that was reported for the quarter ended March 31, 2001.

Chairman and CEO, Ivan R. Sabel stated, "The dedication of all our employees to implementing our new business processes is obviously having a dramatic, positive impact on our performance. This quarter has produced an excellent start for the year, especially since it traditionally has been our slowest quarter from a sales perspective."

The Company successfully completed the sale of $200.0 million in senior unsecured notes, with a coupon of 10 3/8%, and established a new $75.0 million revolving line of credit on February 15, 2002. The proceeds from the sale of the notes and a $37.0 million draw on the new revolver were used to repay and retire all the then existing bank debt. In connection with this transaction the Company recorded a $2.8 million extraordinary charge, net of the tax benefit, due to the early extinguishment of the bank loans.

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 591 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 is engaged in the distribution of components and finished patient-care products to the O&P industry and through the Hanger OPNET program it provides O&P services to over 1,000 managed care programs.

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 Per Share Data)

Income Statement:	For the Three Months Ended March 31,	
	2002	2001
Net sales	$123,510	$120,573
Cost of products and services sold	59,537	62,974
Gross profit	63,973	57,599
Selling, general and administrative	44,777	42,689
Depreciation and amortization	2,784	3,058
Amortization of excess cost over net assets acquired	---	3,046
Unusual items	---	1,515
Income from operations	16,412	7,291

Interest expense	(9,079)	(12,258)
Income (loss) from operations before Income taxes and extraordinary item	7,333	(4,967)
Provision (benefit) for income taxes	3,000	(5,099)
Net income before extraordinary item	4,333	132
Extraordinary loss on early extinguishment of debt, net of tax benefit	(2,811)	----
Net income	$1,522	132
Net income (loss) before extraordinary item applicable to common Stock	$3,067	$(1,052)
Net income (loss) applicable to common stock	$256	$(1,052)
Diluted Per Share Data:		
Income (loss) before extraordinary item	$0.14	$(0.06)
Extraordinary item, net of tax benefit	(0.13)	----
Net income (loss)	$0.01	$(0.06)
Weighted average number of diluted common shares outstanding	21,642,231	18,910,002

Balance Sheet Data:	March 31, 2002	March 31, 2001
Working Capital	$137,918	$129,443
Total Debt	406,808	447,956
Shareholders' Equity	146,657	153,328

Hanger Orthopedic Group, Inc.

Statistical Data:	For the Three Months Ended March 31, 2002	2001
Patient-care centers	591	602
Certified practitioners	864	895
Number of states (including D.C.)	45	45
Payer Mix:		
Private pay and other	57.2%	60.2%
Medicare/Medicaid/VA	42.8%	39.8%
EBITDA(millions)(1)	$19.2	$14.9
EBITDA(1) margin	15.5%	12.4%
Operating margin	13.3%	6.0%
Percentage of net sales from:		
Patient-care services	94.7%	92.1%
Manufacturing	0.0%	1.3%
Distribution	5.3%	6.6%

(1) EBITDA is defined as net income (loss) before interest, taxes, depreciation and amortization, loss on disposal of assets, 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.

SOURCE Hanger Orthopedic Group, Inc.

URL: http://www.hanger.com