Ossur Third Quarter Report 2008

Press release from Ossur hf.

Reykjavik, 28 October 2008

Third Quarter 2008 Financial Highlights

- Sales USD 87.3 million, up by 6%
- EBITDA USD 21.1 million, up by 50%
- EBITDA margin 24%, compared to 17% in Q3 2007
- Net profit USD 13.7 million, compared to USD 2.2 million in Q3 2007
- Cash EPS diluted 4.60 US cents, compared to 2.10 US cents in Q3 2007
- EPS diluted 3.24 US cents, compared to 0.56 US cents in Q3 2007

YTD 2008 Financial Highlights

- Sales USD 269.9 million, up by 8%
- EBITDA USD 63.1 million, up by 52%
- EBITDA margin 23%, compared to 17% for the same period 2007
- Net profit USD 24.3 million, compared to USD 0.9 million for the same period 2007
- Cash EPS diluted 10.0 US cents, compared to 4.94 US cents, for the same period 2007
- EPS diluted 5.75 US cents, compared to 0.24 US cents, for the same period 2007

Jon Sigurdsson, President & CEO, comments:

"We are quite satisfied with the results for the quarter and the first nine months of the year. We have managed to increase the profitability of our business handsomely, despite the fact that sales growth has been slower than anticipated. In the past two years we have focused on integration and to build a strong player in the field of non-invasive orthopaedics. Today Ossur has a diverse revenue base, well balanced between Europe and the United States and strong balance sheets with a 43% equity ratio. We do not expect the financial crisis in the world today to have significant impact on Ossur's operations as Ossur operates within the health care sector. Overall, we are confident that we have managed to build a strong Company with a solid foundation for future growth."

Ossur - Investor meeting Tuesday 28 October – live webcast at 12:00 GMT / 13:00 CET/ 8:00 EST

Ossur announces the results of the third quarter 2008 before the opening of the markets on Tuesday 28 October.

Tuesday 28 October 2008 Jon Sigurdsson, President and CEO, and Hjorleifur Palsson, CFO, will host a meeting presenting and discussing the results of the third quarter for investors, analysts and shareholders. The meeting will be at Grand Hotel Reykjavik and will be conducted in English.

There will be a live broadcast from the meeting on the Ossur website: www.ossur.com/investors

To call in and participate in the meeting please call the following telephone numbers:
Telephone number for Europe: +44 (0)20 3043 2436
Telephone number for the United States: +1 866 458 40 87
Local Icelandic number: 800 8660

Presentation material will be available on the Company's website www.ossur.com and the News System of the Iceland Stock Exchange/ Nasdaq OMX: www.omxnordicexchange.com/newsandstatistics/companynotices and on www.huginonline.com

Advanced Wound Care - Product Line delivered and litigation settlement

As announced earlier this year, Ossur divested its Advanced Wound Care product line to BSN medical GmbH. In August Ossur delivered the production line and inventory in accordance with the contract and has received additional milestone payments due to outstanding execution of the handover of the product line.

As previously disclosed, Ossur was involved in intellectual property litigation related to the Advanced Wound Care product line. All intellectual property litigation related to the product line has been settled. Part of the transaction value was reserved to cover the litigation expense exposure.

In the third quarter other income related to the wound care divestment amounted to USD 2.3 million. Net effect on Ossur's income statements YTD 2008, amount to USD 8.8 million as other income.

Operating results for the third quarter of 2008

The operating results for the third quarter of 2008 are presented below.

Income Statements (USD '000)	Q3 2008	% of sales	Q3 2007	% of sales	Change
Net sales	87,264	100.0%	82,322	100.0%	6.0%
Cost of goods sold	(35,499)	-40.7%	(34,967)	-42.5%	1.5%
Gross profit	**51,765**	**59.3%**	**47,355**	**57.5%**	**9.3%**
Other income	2,479	2.8%	311	0.4%	697.1%
Sales & marketing expenses	(22,059)	-25.3%	(20,716)	-25.2%	6.5%
Research & development expenses	(5,100)	-5.8%	(5,114)	-6.2%	-0.3%
General & administrative expenses	(11,727)	-13.4%	(13,711)	-16.7%	-14.5%
Profit from operations	**15,358**	**17.6%**	**8,125**	**9.9%**	**89.0%**
Financial income	27	0.0%	5,098	6.2%	-99.5%
Financial expenses	2,355	20.3%	(10,937)	-13.3%	n/a
Profit before tax	**17,740**	**20.3%**	**2,285**	**2.8%**	**676.4%**
Income tax	(4,051)	-4.6%	(130)	-0.2%	3016.2%
Net profit for the period	**13,689**	**15.7%**	**2,155**	**2.6%**	**535.2%**
EBITDA	**21,128**	**24.2%**	**14,068**	**17.1%**	**50.2%**
EBITDA adj.*	**19,112**	**21.9%**	**14,068**	**17.1%**	**35.8%**

* Adjusted for one-time income and expenses.

Gibaud has been fully aligned to IFRS and Ossur's accounting methods resulting in expenses recorded as G&A in 2007 are now classified as cost of goods sold and sales and marketing expenses. Comparison numbers have been adjusted accordingly.

Income Statements for the third quarter 2008

The total sales for the third quarter amounted to 87.3 million, representing a 6% growth, compared to the third quarter of 2007. Exchange rate trends had a positive impact on sales. Sales growth measured in local currency was 3%.

Seasonality has increased since the acquisition of Gibaud where operations close for 4-6 weeks during summer vacations in July and August affecting the sales in the third quarter. One of the main focuses in 2008 has been on profitability and the third quarter shows clear signs of increased profitability.

The gross profit was USD 51.8 million compared to USD 47.4 million in the third quarter of 2007, representing an increase of 9%. The gross profit margin improved by 1.8 percentage points. Weakening of the ISK against the USD has a positive effect on cost of goods sold contributing to this improvement.

Other income amounted to USD 2.5 million. One-time other income includes a USD 2.3 million related to the divestment of the Advanced wound care product line earlier this year.

Operating expenses as a ratio to sales were 45%, compared to 48% in the third quarter of 2007. The decrease is partly due to unusual litigation expenses in the G&A line in the third quarter of 2007.

Profit from operations amounted to USD 15.4 million or 18% of sales, compared to USD 8.1 million and 10% of sales in the third quarter of 2007, representing an increase of 90%. One time-income and positive exchange rate trends contribute to this improvement.

Amortization of intangible assets relating to acquisitions amounted to USD 3.7 million, the same amount as in the third quarter of 2007. The amortization following acquisitions in the past is in accordance with accounting standards, affecting the income statement although the underlying intangible assets are not decreasing in value. Amortization of intangible assets is expected to start to decline already in 2009.

The net interest expenses/revenues in the third quarter were positive by USD 2.4 million, compared to USD 5.8 million expenses for the third quarter of 2007, decreasing due to decreased leverage and the exchange rate developments of the EUR against the USD.

For the long term debt Ossur has an interest rate swap agreements, fixing the interest rates at a weighted average of 5.99% per annum. Exchange rate difference in the quarter had positive impact on the Company's long term debt in Euros. Total exchange rate gains during the quarter amounted to USD 7 million, compared to USD 3.9 million negative exchange rate differences in the third quarter of 2007.

Income tax was USD 4.1 million, corresponding to a 23% effective tax rate, compared to 6% in the third quarter of 2007. The income tax in the third quarter of 2007 was unusually low. The effective tax rate should remain at the same level for the rest of the year.

Net profit amounted to USD 13.7 million, compared to USD 2.2 million in the third quarter of 2007.

EBITDA increased by 50% from the third quarter of 2007 and amounted to USD 21.1 million and 24% of sales, compared to USD 14.1 million and 17% of sales. EBITDA adjusted for one-time income amounts to USD 19.1 million and 22%.

Product groups

The breakdown of sales between main product groups in the third quarter of 2008, was as follows:

USD '000	Q3 2008	% of sales	Growth USD	Growth LCY
Bracing & supports	44,524	51%	2%	0%
Prosthetics	37,618	43%	10%	7%
Compression therapy	3,790	5%	23%	12%
Other	1,332	1%	-21%	-23%
Total	**87,264**	**100%**	**6%**	**3%**

Sales growth in bracing and supports was 2%. Sales growth in local currency was flat. Sales of bracing and supports in the Americas throughout 2008 has been below target, affecting the overall growth of the segment. Following the reorganization of the sales channel in the US the sales is not yet back on track. Bracing and supports in Americas continue to be demanding. In the third quarter three new product upgrades were introduced to the market including the Exoform Dorsal Night Splint which is for treatment of plantar fasciitis, achilles tendonitis, drop foot and post static pain.

Sales growth in prosthetics was 10%. Sales growth in local currency was 7%. Sales of prosthetic products continue to grow handsomely. One new product was launched in the quarter, Iceross Seal-In X5 for transtibial (below knee) and transfemoral (above knee) amputees. The Seal-In X5 has been well received by the market.

Sales growth of compression therapy products was 23%. Sales growth measured in local currency was 12%, well above market growth of 5-7%. New products and product upgrades have been introduced in 2008.

Rationalization of product lines continues. Seven products were discontinued in the third quarter.

Geographical markets

The distribution of sales, according to market regions, in the third quarter of 2008 was as follows:

USD '000	Q3 2008	% of sales	Growth USD	Growth LCY
Americas	43,864	50%	3%	3%
EMEA	39,857	46%	9%	2%
Asia	3,543	4%	21%	20%
Total	**87,264**	**100%**	**6%**	**3%**

Americas

Sales growth in Ossur Americas was 3%. Sales of bracing and support products were flat offsetting the sales growth in this market. Sales of B&S products in this market has been demanding and changes in the sales channel have not yet resulted in increased sales. Management changes and tactical sales management are expected to have significant impact.

Sales in the Americas accounted for 50% of total sales, compared to 51% in the third quarter last year.

EMEA

Growth in EMEA was 9% and 2% measured in local currency. In 2008 EMEA has increased focus on direct sales in the bracing and support segment instead of distributors. This has temporarily negative effect on the overall sales growth, but increases the profitability. EMEA sales growth excluding the distribution channel were 5%, measured in local currency. The transfer to direct sales will reduce channel conflict and is expected to contribute to faster growth in 2009.

Sales in EMEA accounted for 46% of total sales, compared to 45% in the same period last year. In the second quarter of 2008 EMEA accounted for 54%. The decrease is due to the seasonality at Gibaud and lower sales due to the closing of the operation during a 4-6 week period in July and August.

Asia

Asia continues to show excellent growth, 21% and 20% measured in local currency. Ossur Asia played an important role at the Paralympics last September in Bejing, supporting the Ossur Team members and using the opportunity to further introduce the Ossur Asia operation in China. Ossur Team members showed a great performance and received 21 medals.

Sales in Asia accounted for 4% of sales, same as in the third quarter of 2007.

Balance Sheets

Consolidated Balance Sheets (USD '000)	30 Sept . 2008	30 Dec. 2007	Change
Fixed assets	478,465	503,564	-5%
Current assets	136,479	132,257	3%
Total assets	**614,944**	**635,821**	**-3%**
Stockholders' equity	264,383	250,282	6%
Long-term liabilities	223,738	239,361	-7%
Current liabilities	126,823	146,178	-13%
Total equity and liabilities	**614,944**	**635,821**	**-3%**
Net Debt / EBITDA LTM	3.2	4.4	
Net Debt / EBITDA LTM adj.*	3.7	4.8	
Equity ratio	43%	39%	

* Adjusted for one-time income and expenses.

Ossur has a strong balance sheet and debt is within all prudent norms. The equity ratio at the end of the third quarter was 43% compared to 39% at the end of 2007. Net interest bearing debt over EBITDA was 3.2x at the end of the quarter (3.7x EBITDA adjusted). Ossur's financial strength is healthy and in line with the Company's policy. The decrease of assets is mainly due to change in the EUR/USD exchange rate.

The remainder of the Bridge loan facility, entered into in relation to the Gibaud acquisition, has been extended to 1 January 2009. The remainder of the bridge loan amounts to USD 53.6 million. Refinancing or extension of the bridge loan has not been finalized due to the recent changes in the banking system in Iceland. Ossur is very cash generative, giving the Company the ability to decrease debt quite fast.

Cash Flow

Cash Flow (USD '000)	Q3 2008	% of Sales	Q3 2007	% of sales
Working capital provided by operating activities	17,336	20%	(2,205)	n/a
Net cash provided by operating activities	11,809	14%	12,324	15%

Capital investments amounted to USD 2.0 million or 2.3% of sales, compared to USD 1.1 million or 1.4% of sales in the third quarter of 2007.

Earnings per share

Earnings Per Share	Q3 2008	Q3 2007	Change
EPS diluted (US cents)	3.24	0.56	479%
Cash EPS diluted (US cents)	4.60	2.10	119%

When comparing EPS between years it must be taken into account that in Q3 it's affected by one-time income and in Q3 2007 by one-time expenses.

Five quarter comparison

Five Quarter Comparison	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007
Net sales	87,264	92,881	89,754	84,870	82,322
Gross profit	51,765	54,247	53,177	46,227	47,355
Profit from operations	15,358	12,744	17,041	16,157	8,125
Financial income / (expenses)	2,382	(5,095)	(9,043)	(8,445)	(5,840)
Profit before tax	17,740	7,649	7,998	7,712	2,285
Net profit	13,689	3,944	6,684	6,648	2,155
EBITDA	21,128	19,040	22,950	22,732	14,068
EBITDA adj*	19,112	19,040	17,449	13,474	14,068
Gross profit margin	59%	58%	59%	54%	58%
EBITDA margin	24%	21%	26%	27%	17%
EBITDA adj.* margin	22%	21%	19%	16%	17%
Stockholders' equity	264,383	268,931	259,336	250,282	171,089
Total assets	614,944	645,924	651,358	635,821	625,068
Current ratio	1.1	1.1	0.6	0.9	0.6
Equity ratio	43%	42%	40%	39%	27%
Net debt / EBITDA LTM	3.2	3.5	3.6	4.4	7.8
Net debt / EBITDA LTM adj.*	3.7	4.3	4.4	4.8	6.8
Working capital from operating activities	17,336	13,352	19,505	31,180	-2,205
Net cash provided by operating activities	11,809	7,376	14,278	19,982	12,324
Earnings per share (US cents)	3.24	0.93	1.58	1.62	0.56
Cash earnings per share (US cents)	4.60	2.42	2.98	3.22	2.1
Price per share at period end (ISK)	93.8	93.4	92.7	98.5	101.5

Market value at period end (USD million)	391	498	511	731	630

* Adjusted for one-time income and expenses.

Income Statements for the first nine months of 2008

Income Statements (USD '000)	YTD 2008	% of sales	YTD 2007	% of sales	Change
Net sales	269,899	100.0%	250,739	100.0%	7.6%
Cost of goods sold	(110,710)	-41.0%	(102,870)	-41.0%	7.6%
Gross profit	**159,189**	**59.0%**	**147,869**	**59.0%**	**7.7%**
Other income	9,482	3.5%	828	0.3%	1045.2%
Sales & marketing expenses	(68,946)	-25.5%	(63,961)	-25.5%	7.8%
Research & development expenses	(15,903)	-5.9%	(14,917)	-5.9%	6.6%
General & administrative expenses	(38,679)	-14.3%	(46,260)	-18.4%	-16.4%
Profit from operations	**45,143**	**16.7%**	**23,559**	**9.4%**	**91.6%**
Financial income	225	0.1%	5,576	2.2%	-96.0%
Financial expenses	(11,981)	-4.4%	(28,794)	-11.5%	-58.4%
Profit before tax	**33,387**	**12.4%**	**341**	**0.1%**	**9690.9%**
Income tax	(9,070)	-3.4%	591	0.2%	2509.1%
Net profit for the period	**24,317**	**9.0%**	**932**	**0.4%**	**2509.1%**
EBITDA	**63,116**	**23.4%**	**41,661**	**16.6%**	**51.8%**
EBITDA adjusted*	**55,601**	**20.6%**	**42,949**	**17.1%**	**29.5%**

* Adjusted for one-time income and expenses.

Sales for the first nine months of 2008 amounted to USD 269.9 million, representing an increase of 8%, compared to the nine months of 2007. Sales growth measured in local currency was 2%. Profitability is improving. Exchange rate trends had a positive impact.

Sales in the Americas have been slow throughout 2008 and were flat in the first nine months of the year. Sales growth in EMEA was 14% and 4%, measured in local currency. The overall growth of EMEA is offset by lower growth at Gibaud and the increased focus on direct sales in the bracing and support segment instead of distributors. This has temporarily negative effect on sales growth. The transfer to direct sales will reduce channel conflict and is expected to contribute to faster growth in 2009.

Asia increased sales by 24% and 22% measured in local currency.

The gross profit was USD 159.2 million, compared to USD 147.9 million in the first nine months of 2007, representing an increase of 8%.

Other income amounted to USD 9.5 million. One-time income includes USD 8.8 million sales gain, realized through the divestment of the Advanced wound care product line.

Operational expenses as a ratio to sales were 46%, compared to 50% in the same period of 2007. The decrease is due to litigation expenses in the G&A line in 2007 and favourable exchange rate developments amounting to USD 3 million. In addition G&A expenses are below budget in 2008.

Profit from operations amounted to USD 45.1 million and 17% as a ratio to sales, compared to USD 23.6 and 9% in the first nine months of 2007, representing an increase of 92%. One time-income and positive exchange rate trends contribute to this improvement.

Net financial expenses/revenues for the first nine months amounted to USD 11.8 million, compared to USD 23.2 million for the first nine months of 2007, decreasing by 51% as a result of decreased leverage and exchange gain within the period.

Net profit for the period amounted to USD 24.3 million, compared to a USD 0.9 million, in the first nine months of 2007.

EBITDA amounted to USD 63.1 million and 23% of sales, compared to USD 41.7 million and 17% of sales, in the first nine months of 2007. EBITDA adjusted for one-time income and expenses amounted to USD 55.6 million and 21% of sales, compared to USD 42.9 million and 17% of sales, for the same period in 2007. Adjustments for one-time income includes USD 8.8 million, due to the divestment of the Advanced wound care product line and one-time expenses in 2007 amounted to USD 1.2 million due to unusual litigation expenses, severance payments and the integration of Somas.

Sales split between currencies

Due to the recent financial situation in Iceland the Financial Supervisory Authority requests an overview of the effect of the Icelandic Krona on the operations of the Company.

Currency Split YTD	Income	Cost
USD	47.3%	46.9%
EUR	33.4%	28.4%
ISK	0.7%	11.0%
Other European currencies	18.6%	13.7%

Operating prospects

The strengthening of the USD against the Euro is likely to deflate the Ossur income statement in Q4. Management estimates that sales in 2008 will close slightly above 350 million USD. EBITDA 2008 is estimated to be higher than expected and to be USD 70-75 million, instead of USD 67-70 million. EBITDA including the sales gain realized from the divestment of the Advanced wound care product line is estimated to be USD 79-84 million.

Approval of Financial Statements

The Ossur hf. Consolidated Financial Statements for the first nine months of 2008 were approved at a meeting of the Board of Directors on 27 October 2008. The statements are prepared in compliance with International Financial Reporting Standards (IFRS).

The estimated dates of publication of financial reports in 2008 are as follows:

Fourth quarter and annual 2008 results	5 February 2009
2008 Annual General Meeting	20 February 2009

Further information

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About Ossur
Ossur (OMX: OSSR) is a global leader in non-invasive orthopaedics that help people live a life without limitations. Its business is focused on improving people's mobility through the delivery of innovative technologies within the fields of braces, supports, prosthetic limbs and compression therapies. A recognized "Technology Pioneer", Ossur invests significantly in research and product development; its award-winning designs ensuring a consistently strong position in the market. Successful patient and clinical outcomes are further empowered via Ossur's educational programs and business solutions. Headquartered in Iceland, Ossur has major operations in the Americas, Europe and Asia, with additional distributors worldwide.