

All segments growth helps Aearo's sales gain 8.8%

Gross profit for the three months ended December 31, 2005 increased to \$52.0 million from \$47.1 million for the three months ended December 31, 2004. Gross profit in the three months ended December 31, 2005 and the three months ended December 31, 2004 as a percentage of net sales was 49.9 percent and 49.1 percent, respectively.

The 80 basis point improvement in the gross profit percentage is primarily due to productivity, the favorable impacts of higher manufacturing volumes in the Company's plants covering its manufacturing costs and the favorable impact of foreign currency translation.

Operating income for the three months ended December 31, 2005 increased 29.1 percent to \$15.3 million from \$11.9 million for the three months ended December 31, 2004.

Operating income as a percentage of net sales for the three months ended December 31, 2005 increased to 14.7 percent from 12.4 percent for the three months ended December 30, 2004.

Interest expense, net, for the three months ended December 31, 2005 increased to \$5.7 million from \$5.2 million for the three months ended December 31, 2004. The increase was primarily due to the impact of increasing interest rates on the Company's variable rate debt.

Net income for the three months ended December 31, 2005 increased 16.4 percent to \$5.8 million from \$5.0 million for the three months ended December 31, 2004. Net income as a percentage of net sales for the three months ended December 31, 2005 increased to 5.6 percent from 5.2 percent for the three months ended December 31, 2004.

The increase in net income is primarily attributed to improvement in sales and gross profit, as mentioned above, combined with controlled operating expenses that declined as a percentage of net sales.

Adjusted EBITDA, defined as earnings before interest, taxes, depreciation, amortization and other non-cash charges increased 20.9 percent to \$19.0 million for the three months ended December 31, 2005 from \$15.8 million in the three months ended December 31, 2004.

A reconciliation of Adjusted EBITDA to income before provision for income taxes determined in accordance with accounting principles generally accepted in the United States of America ("GAAP") is set forth below.

The increase in Adjusted EBITDA was primarily driven by organic growth in all of the Company's segments, productivity improvements and controlled operating expenses that declined as a percentage of net sales.

The Company uses Adjusted EBITDA, as defined above, a non-GAAP financial measure, as a management tool to measure and monitor financial performance and as part of the calculation of Company performance as stated in senior bank facility covenants.

While the Company believes Adjusted EBITDA is a useful indicator of its ability to service debt, Adjusted EBITDA should not be considered as a substitute for net income determined in accordance with GAAP as an indicator of operating performance, or as an alternative to cash flow as a measure of liquidity.

Investors should be aware that Adjusted EBITDA may not be comparable to similarly titled measures presented by other companies and comparisons could be misleading unless all companies and analysts calculate this measure in the same fashion.

The Company believes that the most directly comparable financial measure to Adjusted EBITDA in accordance with GAAP is income before provision for income taxes. The following table provides a reconciliation of Adjusted EBITDA to income before provision for income taxes for the three months ended December 31, 2004 and 2005, respectively:

As previously disclosed, on February 1, 2006, Aearo Technologies Inc., the ultimate parent of the Company, entered into an agreement and plan of merger pursuant to which Pacer Merger Company will be merged with and into Aearo Technologies, with Aearo Technologies surviving the merger as a wholly-owned subsidiary of Pacer Holding Company.

In connection with the transaction, the Company intends to make a tender offer to purchase for cash any and all of its outstanding \$175,000,000 aggregate principal amount of 8 1/4 percent senior subordinated notes due 2012.

Any such offer will be made only upon an official announcement, and the terms and conditions of the offer will be set forth in an offer to purchase and consent solicitation statement that will be made available to bondholders upon launch of the offer.

This press release does not constitute an offer to purchase any securities. Certain statements in this paragraph may contain forward-looking statements concerning the transaction described herein. These statements are based on current expectations and there can be no assurance that such expectations will prove to be correct.

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