

DRAFT

REGISTERED MAIL - RETURN RECEIPT REQUESTED

Chattanooga Group, Inc.
Division of Encore Medical Corporation
4717 Adams Road
Hixson, TN 37343

Attn: *Paul Chapman*
President and Chief Executive Officer

Dear Mr. Chapman:

The Bureau of Industry and Security, United States Department of Commerce ("BIS") has reason to believe that Chattanooga Group, Inc., of Hixson, Tennessee ("CGI") has committed 13 violations of the Export Administration Regulations (the "Regulations"),¹ which are issued under the authority of the Export Administration Act of 1979 (the "Act").² Specifically, BIS charges that CGI committed the following violations:

Charge 1 (15 C.F.R. §764.2(d) - Conspiracy to Export Physical Therapy Equipment to Iran without the Required U.S. Government Authorizations)

In or about April 2000, CGI conspired and acted in concert with others, known and unknown, to bring about acts that constitute violations of the Regulations by agreeing to export physical therapy equipment from the United States to Iran without the required U.S. Government authorization. Pursuant to Section 746.7 of the Regulations, authorization was required from the Office of Foreign Assets Control, U.S. Department of Treasury ("OFAC") before the physical therapy equipment, items subject to the Regulations and the Iranian Transactions Regulations, could be exported from the United States to Iran.

¹ The Regulations are currently codified in the Code of Federal Regulations at 15 C.F.R. Parts 730-774 (2004). The violations charged occurred in 2000. The Regulations governing the violations at issue are found in the 2000 version of the Code of Federal Regulations (15 C.F.R. Parts 730-774 (2000)). The 2004 Regulations establish the procedures that apply to this matter.

² 50 U.S.C. app. §§ 2401- 2420 (2000). From August 21, 1994 through November 12, 2000, the Act was in lapse. During that period, the President, through Executive Order 12924, which had been extended by successive Presidential Notices, the last of which was August 3, 2000 (3 C.F.R., 2000 Comp. 397 (2001)), continued the Regulations in effect under the International Emergency Economic Powers Act (50 U.S.C. §§ 1701 - 1706 (2000)) ("IEEPA"). On November 13, 2000, the Act was reauthorized by Pub. L. No. 106-508 (114 Stat. 2360 (2000)) and it remained in effect through August 20, 2001. Executive Order 13222 of August 17, 2001 (3 C.F.R., 2001 Comp., p. 783 (2002)), which has been extended by successive Presidential Notices, the most recent being that of August 6, 2004 (69 Fed. Reg. 48763 (August 10, 2004)), continues the Regulations in effect under IEEPA.

In furtherance of the conspiracy, CGI and its co-conspirators devised and employed a scheme under which CGI would sell the items to a co-conspirator in Australia, which would then forward the items to Iran. In so doing, CGI committed one violation of Section 764.2(d) of the Regulations.

Charges 2-4 (15 C.F.R. §764.2(a) - Exporting Physical Therapy Equipment to Iran Without the Required U.S. Government Authorization)

As described in greater detail in the Schedule of Violations, which is enclosed herewith and incorporated herein by reference, from on or about April 5, 2000 through and including April 14, 2000, CGI engaged in conduct prohibited by Regulations when it, on three occasions, exported physical therapy equipment from the United States to Iran, via Australia, without the required U.S. Government authorization. Pursuant to Section 746.7 of the Regulations, authorization from OFAC was required for the export of physical therapy equipment, items subject to the Regulations and the Iranian Transactions Regulations, from the United States to Iran. CGI did not have OFAC authorization for the export. In so doing, CGI committed three violations of Section 764.2(a) of the Regulations.

Charges 5-7 (15 C.F.R. § 764.2(e) - Selling Physical Therapy Equipment with Knowledge that A Violation of the Regulations was to Occur)

As described in greater detail in the Schedule of Violations, which is enclosed herewith and incorporated herein by reference and in connection with export referenced in Charges 2-4, on three occasions, CGI sold physical therapy equipment with knowledge that violations of the Regulations would occur. At all times relevant hereto, CGI knew that prior authorization was required from OFAC to export the physical therapy equipment, items subject to the Regulations and the Iranian Transactions Regulations, from the United States to Iran. CGI sold the items knowing that they would be exported to Iran, via Australia without the required U.S. Government authorization. In so doing, CGI committed three violations of Section 764.2(e) of the Regulations.

Charges 8-10 (15 C.F.R. §764.2(h) - Actions to Evade the Requirements of the Regulations)

As described in greater detail in the Schedule of Violations, which is enclosed herewith and incorporated herein by reference, in connection with the exports referenced in Charges 2-4 above, on three occasions, CGI took actions to evade the U.S. Government's licensing requirements for the export of physical therapy equipment to Iran. Specifically, CGI routed sales to Iran through Australia to conceal the fact that the physical therapy equipment was destined for Iran. In so doing, CGI committed three violations of Section 764.2(h) of the Regulations.

Charges 11-13 (15 C.F.R. §764.2(a) - Failure to File Shipper's Export Declarations)

As described in greater detail in the Schedule of Violations, which is enclosed herewith and incorporated herein by reference, in connection with the exports referenced in Charges 2-4 above, on three occasions, CGI engaged in conduct prohibited by Regulations when it failed to file Shipper's Export Declarations ("SED") with the U.S. Government. Pursuant to Section 758.1(b) of the Regulations, an SED must be filed with the U.S. Government for an export to Iran of any item subject to the Regulations. The physical therapy equipment were items subject to the Regulations. In failing to file SEDs, CGI committed three violations of Section 764.2(a) of the Regulations.

Accordingly, CGI is hereby notified that an administrative proceeding is instituted against it pursuant to Section 13(c) of the Act and Part 766 of the Regulations for the purpose of obtaining an order imposing administrative sanctions, including any or all of the following:

The maximum civil penalty allowed by law of \$11,000 per violation;³

Denial of export privileges; and/or

Exclusion from practice before BIS.

If CGI fails to answer the charges contained in this letter within 30 days after being served with notice of issuance of this letter, that failure will be treated as a default. (Regulations, Sections 766.6 and 766.7). If CGI defaults, the Administrative Law Judge may find the charges alleged in this letter are true without hearing or further notice to CGI. The Under Secretary of Commerce for Industry and Security may then impose up to the maximum penalty on each charge in this letter.

CGI is further notified that it is entitled to an agency hearing on the record if it files a written demand for one with its answer. (Regulations, Section 766.6). CGI is also entitled to be represented by counsel or other authorized representative who has power of attorney to represent it. (Regulations, Sections 766.3(a) and 766.4).

The Regulations provide for settlement without a hearing. (Regulations, Section 766.18). Should CGI have a proposal to settle this case, CGI or its representative should transmit the offer to me through the attorney representing BIS named below.

The U.S. Coast Guard is providing administrative law judge services in connection with the matters set forth in this letter. Accordingly, CGI's answer must be filed in accordance with the instructions in Section 766.5(a) of the Regulations with:

³ See 15 C.F.R. §6.4(a)(2) (2003).

CGI
Proposed Charging Letter
Page 4

U.S. Coast Guard ALJ Docketing Center
40 S. Gay Street
Baltimore, Maryland 21202-4022

In addition, a copy of CGI's answer must be served on BIS at the following address:

Chief Counsel for Industry and Security
Attention: Philip Ankel
Room H-3839
United States Department of Commerce
14th Street and Constitution Avenue, N.W.
Washington, D.C. 20230

Philip Ankel is the attorney representing BIS in this case; any communications that you may wish to have concerning this matter should occur through him. he may be contacted by telephone at (202) 482-5301.

Sincerely,

Michael D. Turner
Director
Office of Export Enforcement

Attachment

SCHEDULE A
CHATTANOOGA GROUP, INC.

Charges	Date of Export (on or about)	Item	ECCN	Destination	Value
2,5,8,11	4/5/00	Physical Therapy Equipment	EAR99	Iran	\$1288
3,6,9,12	4/6/00	Physical Therapy Equipment	EAR99	Iran	\$2510
4,7,10,13	4/14/00	Physical Therapy Equipment	EAR99	Iran	\$3604

UNITED STATES DEPARTMENT OF COMMERCE
BUREAU OF INDUSTRY AND SECURITY
WASHINGTON, D.C. 20230

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In the Matter of:)
)
Encore Medical, L.P.)
Successor by merger to)
Chattanooga Group, Inc.)
4717 Adams Road)
Hixson, TN 37343)
)
Respondent)
.....

SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") is made by and between Encore Medical, L.P. ("Encore"), successor by merger to Chattanooga Group, Inc. ("CGI") and the Bureau of Industry and Security, U.S. Department of Commerce ("BIS") (collectively referred to as "Parties"), pursuant to Section 766.18(a) of the Export Administration Regulations (currently codified at 15 C.F.R. Parts 730-774 (2005)) ("Regulations"),¹ issued pursuant to the Export Administration Act of 1979, as amended (50 U.S.C. app. §§ 2401-2420 (2000)) ("Act"),²

¹ The violations charged occurred in 2000. The Regulations governing the violations at issue are found in the 2000 version of the Code of Federal Regulations (15 C.F.R. Parts 730-774 (2000)). The 2005 Regulations establish the procedures that apply to this matter.

² From August 21, 1994 through November 12, 2000, the Act was in lapse. During that period, the President, through Executive Order 12924, which had been extended by successive Presidential Notices, the last of which was August 3, 2000 (3 C.F.R., 2000 Comp. 397 (2001)), continued the Regulations in effect under the International Emergency Economic Powers Act (50 U.S.C. §§ 1701 - 1706 (2000)) ("IEEPA"). On November 13, 2000, the Act was reauthorized and it remained in effect through August 20, 2001. Since August 21, 2001, the Act has been in lapse and the President, through Executive Order 13222 of August 17, 2001 (3 C.F.R., 2001 Comp. 783 (2002)), as extended by the Notice of August 6, 2004, (69 Fed. Reg. 48763 (August 10, 2004)), has continued the Regulations in effect under IEEPA.

WHEREAS, BIS has notified Encore of its intention to initiate an administrative proceeding against Encore, pursuant to the Act and the Regulations;

WHEREAS, BIS has issued a proposed charging letter to Encore that alleged that CGI committed 13 violations of the Regulations, specifically:

1. *One Violation of 15 C.F.R. §764.2(d) - Conspiracy to Export Physical Therapy Equipment to Iran without the Required U.S. Government Authorizations:* In or about April 2000, CGI conspired and acted in concert with others, known and unknown, to bring about acts that constitute violations of the Regulations by agreeing to export physical therapy equipment from the United States to Iran without the required U.S. Government authorization. Pursuant to Section 746.7 of the Regulations, authorization was required from the Office of Foreign Assets Control, U.S. Department of Treasury ("OFAC") before the physical therapy equipment, items subject to the Regulations and the Iranian Transactions Regulations, could be exported from the United States to Iran. In furtherance of the conspiracy, CGI and its co-conspirators devised and employed a scheme under which CGI would sell the items to a co-conspirator in Australia, which would then forward the items to Iran.
2. *Three Violations of 15 C.F.R. §764.2(a) - Exporting Physical Therapy Equipment to Iran Without the Required U.S. Government Authorization:* From on or about April 5, 2000 through and including April 14, 2000, CGI engaged in conduct prohibited by Regulations when it, on three occasions, exported physical therapy equipment from the United States to Iran, via Australia, without the required U.S.

Government authorization. Pursuant to Section 746.7 of the Regulations, authorization from OFAC was required for the export of physical therapy equipment, items subject to the Regulations and the Iranian Transactions Regulations, from the United States to Iran. CGI did not have OFAC authorization for the export.

3. *Three Violations of 15 C.F.R. § 764.2(e) - Selling Physical Therapy Equipment with Knowledge that A Violation of the Regulations was to Occur:* In connection with the exports referenced above, on three occasions, CGI sold physical therapy equipment with knowledge that violations of the Regulations would occur. At all times relevant hereto, CGI knew that prior authorization was required from OFAC to export physical therapy equipment, items subject to the Regulations and the Iranian Transactions Regulations, from the United States to Iran. CGI sold the items knowing that they would be exported to Iran, via Australia, without the required U.S. Government authorizations.
4. *Three Violations of 15 C.F.R. § 764.2(h) - Actions to Evade the Requirements of the Regulations:* In connection with the exports referenced, on three occasions, CGI took actions to evade the U.S. Government's licensing requirements for the export of physical therapy equipment to Iran. Specifically, CGI routed sales to Iran through Australia to conceal the fact that the physical therapy equipment was destined for Iran.

5. *Three Violations of 15 C.F.R. §764.2(a) - Failure to File Shipper's Export*

Declarations: In connection with the exports referenced above, on three occasions, CGI engaged in conduct prohibited by Regulations when it failed to file Shipper's Export Declarations ("SED") with the U.S. Government. Pursuant to Section 758.1(b) of the Regulations, an SED must be filed with the U.S. Government for an export to Iran of any item subject to the Regulations. The physical therapy equipment were items subject to the Regulations.

WHEREAS, Encore has reviewed the proposed charging letter and is aware of the allegations made in it and the administrative sanctions which could be imposed against it if the allegations are found to be true;

WHEREAS, Encore fully understands the terms of this Agreement and the Order ("Order") that the Assistant Secretary of Commerce for Export Enforcement will issue if she approves this Agreement as the final resolution of this matter;

WHEREAS, Encore enters into this Agreement voluntarily and with full knowledge of its rights;

WHEREAS, Encore states that no promises or representations have been made to it other than the agreements and considerations herein expressed;

WHEREAS, Encore neither admits nor denies the allegations contained in the proposed charging letter;

WHEREAS, Encore wishes to settle and dispose of all matters alleged in the proposed charging letter by entering into this Agreement; and

WHEREAS, Encore agrees to be bound by the Order, if entered;

NOW THEREFORE, the Parties hereby agree as follows:

1. BIS has jurisdiction over Encore, under the Regulations, in connection with the matters alleged in the proposed charging letter.
2. The following sanction shall be imposed against Encore in complete settlement of the violations of the Regulations set forth in the proposed charging letter:
 - a. Encore shall be assessed a civil penalty in the amount of \$101,000 which shall be paid to the U.S. Department of Commerce within 30 days from the date of entry of the Order.
 - b. The timely payment of the civil penalty agreed to in paragraph 2.a. is hereby made a condition to the granting, restoration, or continuing validity of any export license, permission, or privilege granted, or to be granted, to Encore. Failure to make timely payment of the civil penalty set forth above shall result in the denial of all of Encore's export privileges for a period of one year from the date of imposition of the penalty.
3. Subject to the approval of this Agreement pursuant to paragraph 8 hereof, Encore hereby waives all rights to further procedural steps in this matter (except with respect to any alleged violations of this Agreement or the Order, if entered), including, without limitation, any right to: (a) an administrative hearing regarding the allegations in the proposed charging letter; (b) request a refund of any civil penalty paid pursuant to this Agreement and the Order, if entered; (c) request any relief from the Order, if entered, including without limitation relief from the terms of a denial order under 15 C.F.R. § 764.3(a)(2); and (d) seek judicial review or otherwise contest the validity of this Agreement or the Order, if entered.

4. Upon entry of the Order and timely payment of the \$101,000 civil penalty, BIS will not initiate any further administrative proceeding against Encore in connection with any violation of the Act or the Regulations arising out of the transactions identified in the proposed charging letter.

5. BIS will make the proposed charging letter, this Agreement, and the Order, if entered, available to the public.

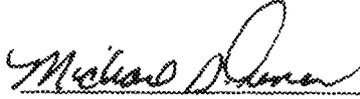
6. This Agreement is for settlement purposes only. Therefore, if this Agreement is not accepted and the Order is not issued by the Assistant Secretary of Commerce for Export Enforcement pursuant to Section 766.18(a) of the Regulations, no Party may use this Agreement in any administrative or judicial proceeding and the Parties shall not be bound by the terms contained in this Agreement in any subsequent administrative or judicial proceeding.

7. No agreement, understanding, representation or interpretation not contained in this Agreement may be used to vary or otherwise affect the terms of this Agreement or the Order, if entered, nor shall this Agreement serve to bind, constrain, or otherwise limit any action by any other agency or department of the United States Government with respect to the facts and circumstances addressed herein.

8. This Agreement shall become binding on BIS only if the Assistant Secretary of Commerce for Export Enforcement approves it by entering the Order, which will have the same force and effect as a decision and order issued after a full administrative hearing on the record.

9. Each signatory affirms that he has authority to enter into this Settlement Agreement and to bind his respective party to the terms and conditions set forth herein.

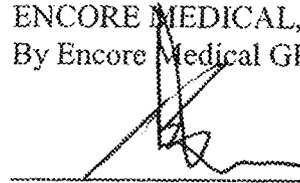
BUREAU OF INDUSTRY AND SECURITY
U.S. DEPARTMENT OF COMMERCE



Michael D. Turner
Director
Office of Export Enforcement

Date: 7/27/2005

ENCORE MEDICAL, L.P.
By Encore Medical GP, Inc., General Partner



Paul Chapman
President and Chief Operating Officer
of Encore Medical GP, Inc.

Date: 7/22/05

UNITED STATES DEPARTMENT OF COMMERCE
BUREAU OF INDUSTRY AND SECURITY
WASHINGTON, D.C. 20230

In the Matter of:)
)
Encore Medical, L.P)
Successor by merger to)
Chattanooga Group, Inc.)
4717 Adams Road)
Hixson, TN 37343)
)
Respondent)

ORDER RELATING TO ENCORE MEDICAL L.P.

The Bureau of Industry and Security, U.S. Department of Commerce ("BIS") has notified Encore Medical, L.P., ("Encore") successor by merger to Chattanooga Group, Inc. ("CGI") of its intention to initiate an administrative proceeding against Encore pursuant to Section 766.3 of the Export Administration Regulations (currently codified at 15 C.F.R. Parts 730-774 (2005)) ("Regulations"),¹ and Section 13(c) of the Export Administration Act of 1979, as amended (50 U.S.C. app. §§ 2401-2420 (2000)) ("Act"),² by issuing a proposed charging letter to Encore that alleged that CGI committed 13 violations of the Regulations. Specifically, the charges are:

¹ The violations charged occurred in 2000. The Regulations governing the violations at issue are found in the 2000 version of the Code of Federal Regulations (15 C.F.R. Parts 730-774 (2000)). The 2005 Regulations establish the procedures that apply to this matter.

² From August 21, 1994 through November 12, 2000, the Act was in lapse. During that period, the President, through Executive Order 12924, which had been extended by successive Presidential Notices, the last of which was issued on August 3, 2000 (3 C.F.R., 2000 Comp. 397 (2001)), continued the Regulations in effect under the International Emergency Economic Powers Act (50 U.S.C. §§1701 - 1706 (2000)) ("IEEPA"). On November 13, 2000, the Act was reauthorized and it remained in effect through August 20, 2001. Since August 21, 2001, the Act has been in lapse and the President, through Executive Order 13222 of August 17, 2001 (3 C.F.R., 2001 Comp. 783 (2002)), as extended by the Notice of August 6, 2004, (69 *Fed. Reg.* 48763 (August 10, 2004)), has continued the Regulations in effect under IEEPA.

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2. *Three Violations of 15 C.F.R. §764.2(a) - Exporting Physical Therapy Equipment to Iran Without the Required U.S. Government Authorization:* From on or about April 5, 2000 through and including April 14, 2000, CGI engaged in conduct prohibited by Regulations when it, on three occasions, exported physical therapy equipment from the United States to Iran, via Australia, without the required U.S. Government authorization. Pursuant to Section 746.7 of the Regulations, authorization from OFAC was required for the export of physical therapy equipment, items subject to the Regulations and the Iranian Transactions Regulations, from the United States to Iran. CGI did not have OFAC authorization for the export.

3. *Three Violations of 15 C.F.R. § 764.2(e) - Selling Physical Therapy Equipment with Knowledge that A Violation of the Regulations was to Occur:* In connection with the exports referenced above, on three occasions, CGI sold physical therapy equipment with knowledge that violations of the Regulations would occur. At all times relevant hereto, CGI knew that prior authorization was required from OFAC to export physical therapy equipment, items subject to the Regulations and the Iranian Transactions Regulations, from the United States to Iran. CGI sold the items knowing that they would be exported to Iran, via Australia without the required U.S. Government authorizations.
4. *Three Violations of 15 C.F.R. §764.2(h) - Actions to Evade the Requirements of the Regulations:* In connection with the exports referenced above, on three occasions, CGI took actions to evade the U.S. Government's licensing requirements for the export of physical therapy equipment to Iran. Specifically, CGI routed sales to Iran through Australia to conceal the fact that the physical therapy equipment was destined for Iran.
5. *Three Violations of 15 C.F.R. §764.2(a) - Failure to File Shipper's Export Declarations:* In connection with the exports referenced in above, on three occasions, CGI engaged in conduct prohibited by Regulations when it failed to file Shipper's Export Declarations ("SED") with the U.S. Government. Pursuant to Section 758.1(b) of the Regulations, an SED must be filed with the U.S. Government for an export to Iran of any item subject to the Regulations. The physical therapy equipment were items subject to the Regulations.

WHEREAS, BIS and Encore have entered into a Settlement Agreement pursuant to Section 766.18(a) of the Regulations whereby they agreed to settle this matter in accordance with the terms and conditions set forth therein, and

WHEREAS, I have approved of the terms of such Settlement Agreement;

IT IS THEREFORE ORDERED:

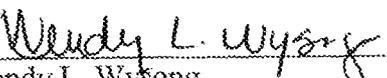
FIRST, that a civil penalty of \$101,000 is assessed against Encore, which shall be paid to the U.S. Department of Commerce within 30 days from the date of entry of this Order. Payment shall be made in the manner specified in the attached instructions.

SECOND, that, pursuant to the Debt Collection Act of 1982, as amended (31 U.S.C. §§ 3701-3720E (2000)), the civil penalty owed under this Order accrues interest as more fully described in the attached Notice, and, if payment is not made by the due date specified herein, Encore will be assessed, in addition to the full amount of the civil penalty and interest, a penalty charge and an administrative charge, as more fully described in the attached Notice.

THIRD, that the timely payment of the civil penalty set forth above is hereby made a condition to the granting, restoration, or continuing validity of any export license, license exception, permission, or privilege granted, or to be granted, to Encore. Accordingly, if Encore should fail to pay the civil penalty in a timely manner, the undersigned may enter an Order denying all of Encore's export privileges for a period of one year from the date of entry of this Order.

FOURTH, that the proposed charging letter, the Settlement Agreement, and this Order shall be made available to the public.

This Order, which constitutes the final agency action in this matter, is effective immediately.


Wendy L. Wyson
Acting Assistant Secretary of Commerce
for Export Enforcement

Entered this 28th day of July 2005.