WRIGHT MEDICAL GROUP INC
Form 10-K
February 11, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2010

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number: 000-32883

WRIGHT MEDICAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**13-4088127**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
5677 Airline Road, Arlington, Tennessee	**38002**
(Address of principal executive offices)	(Zip code)

Registrant s telephone number, including area code: **(901) 867-9971**

Securities registered pursuant to Section 12(b) of the Act**:**

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.01 per share	**NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes þ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes þ No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

The aggregate market value of the voting and non-voting common equity held by nonaffiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter was $642,695,746.

As of February 4, 2011, there were 39,179,731 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III is incorporated by reference from portions of the definitive proxy statement to be filed within 120 days after December 31, 2010, pursuant to Regulation 14A under the Securities Exchange Act of 1934 in connection with the annual meeting of stockholders to be held on May 11, 2011.

WRIGHT MEDICAL GROUP, INC.
ANNUAL REPORT ON FORM 10-K
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EX-101 PRESENTATION LINKBASE DOCUMENT
EX-101 DEFINITION LINKBASE DOCUMENT

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Safe-Harbor Statement

This annual report contains forward-looking statements as defined under U.S. federal securities laws. These statements reflect management s current knowledge, assumptions, beliefs, estimates, and expectations and express management s current views of future performance, results, and trends and may be identified by their use of terms such as anticipate, believe, could, estimate, expect, intend, may, plan, predict, project, will, and oth Forward-looking statements are subject to a number of risks and uncertainties that could cause our actual results to materially differ from those described in the forward-looking statements. Readers should not place undue reliance on forward-looking statements. Such statements are made as of the date of this Annual Report on Form 10-K, and we undertake no obligation to update such statements after this date.

Risks and uncertainties that could cause our actual results to materially differ from those described in forward-looking statements include those discussed in our filings with the Securities and Exchange Commission (including those described in Item 1A of this Annual Report on Form 10-K for the year ended December 31, 2010, under the heading, Risk Factors and elsewhere in this report), and the following:

- the impact of our settlement of the federal investigation into our consulting arrangements with orthopaedic surgeons relating to our hip and knee products in the United States, including our compliance with the Deferred Prosecution Agreement through September 2011 and the Corporate Integrity Agreement through September 2015;
- demand for and market acceptance of our new and existing products;
- recently enacted healthcare reform legislation and its future implementation, possible additional legislation, regulation and other governmental pressures in the United States or globally, which may affect pricing, reimbursement, taxation and rebate policies of government agencies and private payers or other elements of our business;
- tax reform measures, tax authority examinations and associated tax risks and potential obligations;
- our ability to identify business development and growth opportunities for existing or future products;
- product quality or patient safety issues, leading to product recalls, withdrawals, launch delays, sanctions, seizures, litigation or declining sales;
- individual, group or class actions alleging products liability claims, including an increase in the number of claims during any period;
- future actions of the FDA or any other regulatory body or government authority that could delay, limit or suspend product development, manufacturing or sale or result in seizures, injunctions, monetary sanctions or criminal or civil liabilities;
- our ability to enforce our patent rights or patents of third parties preventing or restricting the manufacture, sale or use of affected products or technology;
- the impact of geographic and product mix on our sales;
- retention of our sales representatives and independent distributors;
- inventory reductions or fluctuations in buying patterns by wholesalers or distributors; and
- any impact of the commercial and credit environment on us and our customers and suppliers.

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PART I

Item 1. Business.

Overview

Wright Medical Group, Inc., through Wright Medical Technology, Inc. (WMT) and other operating subsidiaries (Wright), is a global orthopaedic medical device company specializing in the design, manufacture and marketing of devices and biologic products for extremity, hip and knee repair and reconstruction. We are a leading provider of surgical solutions for the foot and ankle market. Reconstructive devices are used to replace or repair knee, hip and other joints and bones that have deteriorated or have been damaged through disease or injury. Biologics are used to replace damaged or diseased bone, to stimulate bone growth and to provide other biological solutions for surgeons and their patients. Within these markets, we focus on the higher-growth sectors of the orthopaedic industry, such as the foot and ankle market, as well as on the integration of our biologic products into reconstructive procedures and other orthopaedic applications.

For the year ended December 31, 2010, we had net sales of $519 million and net income of $17.8 million. As of December 31, 2010, we had total assets of $755 million. Detailed information on our net sales by product line and our net sales, operating income and long-lived assets by geographic region can be found in Note 17 to the consolidated financial statements contained in Financial Statements and Supplementary Data.

Orthopaedic Industry

The total worldwide orthopaedic industry is estimated at approximately $28 billion in 2010. We believe this figure will grow by approximately 3-5% annually over the next three years. Five multinational companies currently dominate the orthopaedic industry, each with approximately $2 billion or more in annual sales. The size of these companies often leads them to concentrate their marketing and research and development efforts on products they believe will have a relatively high minimum threshold level of sales. As a result, there is an opportunity for a mid-sized orthopaedic company, such as Wright, to focus on less contested, higher-growth sectors of the orthopaedic market.

In recent years, we focused our efforts into growing our position in the higher-growth extremities and biologics markets, and we believe that this market will continue to grow by approximately 9-11% annually over the next three years. We currently estimate the market for all surgical products used by extremity-focused surgeons to be $3.3 billion in the U.S.

Orthopaedic devices are commonly divided into several primary sectors corresponding to the major product categories within the orthopaedic field: reconstruction, trauma, arthroscopy, spine and biologics. We specialize in those products used by extremity focused surgeon specialists, which include products from the reconstruction, trauma and arthroscopy markets, hip and knee reconstructive joint devices and biologic products.

Extremity Hardware. Extremity hardware includes implants and other devices to replace or reconstruct injured or diseased joints and bones of the foot, ankle, hand, wrist, elbow and shoulder. Extremities hardware is one of the fastest growing market segments within orthopaedics with annual growth rates of 9-11%. Major trends in extremity hardware include procedure-specific and anatomy-specific devices, locking plates and an increase in total ankle arthroplasty procedures.

Foot and Ankle Hardware

Foot and ankle reconstruction includes implants and other devices to replace or reconstruct injured or diseased joints and bones in the foot and ankle. A large segment of the foot and ankle hardware market is comprised of plating and screw systems for reconstructing and fusing joints or repairing bones after traumatic injury. Major trends in foot and ankle hardware include the use of external fixation devices in diabetic patients, total ankle arthroplasty, and advanced tissue fixation devices and biologics. According to two recent customer and market surveys, we are deemed the market leader in foot and ankle surgical products, and hold an estimated 25% of the U.S. total ankle arthroplasty market in 2010.

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Upper Extremity Reconstruction

Upper extremity reconstruction involves implanting devices to replace or reconstruct or fixate injured or diseased joints and bones in the hand, wrist, elbow and shoulder. It is estimated that approximately 30% of the upper extremity hardware market is in total shoulder replacement implants. Major trends in upper extremity hardware include minimally invasive fracture repair devices and next generation joint arthroplasty systems. We are the market leader in several segments of the upper extremity market including finger joints, radial head replacement, ulnar shortening systems and intramedullary wrist fracture repair devices.

Biologics Market. Biologic products use both biological tissue-based and synthetic materials to regenerate damaged or diseased bone and to repair damaged or diseased soft tissue. These products stimulate the body s natural regenerative capabilities to heal itself, minimizing, delaying or complementing the need for invasive implant surgery.

Our biologic products are primarily used in extremity-related procedures as well as in trauma and tumor induced voids of the long bones, joint replacements and some spine procedures. Biologic products provide a lower morbidity solution to autografting, a procedure that involves harvesting a patient s own bone or soft tissue and transplanting it to a different site. Following an autografting procedure, the patient typically has pain, and at times, complications result at the harvest site after surgery.

Currently, there are three main types of biological bone grafting products: osteoconductive, osteoinductive and osteogenic. Each category refers to the way in which the materials affect bone growth. Osteoconductive materials serve as a scaffold that supports the formation of bone but do not induce or trigger new bone growth, whereas osteoinductive materials induce bone growth. Osteogenic materials combine the osteoinductive materials with a cell-based component. Our flagship, PRO-DENSE® injectable regenerative graft is an osteoconductive bone graft which provides the benefits of injectability, hardness to support bone and predictable bone regeneration. In 2010, we launched PRO-STIM® osteoinductive bone graft substitute, which is a graft that is injected through a small needle, hardens, and will be replaced by the patient s new bone over time.

Soft tissue repair products, such as our GRAFTJACKET® regenerative tissue matrix, enable the repair of soft tissue such as tendons (e.g., rotator cuff and Achilles), ligaments or chronic wounds such as diabetic foot ulcers.

Hip and Knee Reconstructive Joint Device Market

Most reconstructive joint devices are used to replace or repair joints that have deteriorated or have been damaged as a result of disease or injury. Despite the availability of non-surgical treatment alternatives such as oral medications, injections and joint fluid supplementation, severe cases of disease or injury often require reconstructive joint surgery. Reconstructive joint surgery involves the modification of the bone area surrounding the affected joint and the insertion of one or more manufactured components, and may also involve the use of bone cement.

Knee Reconstruction. The knee joint involves the surfaces of three distinct bones: the lower end of the femur or thigh bone, the upper end of the tibia or shin bone and the patella or kneecap. Cartilage on any of these surfaces can be damaged due to disease or injury, leading to pain and inflammation requiring knee reconstruction.

One of the major trends in knee reconstruction includes the use of alternative surface materials to extend the implant life and increase conservation of the patient s bone to minimize surgical trauma and accelerate recovery. Our BIOFOAM material is a 70% porous material which provides a trabecular structure that acts as an interface for bone in-growth. The microstructure of our BIOFOAM material is designed to allow rigid fixation for faster biological attachment. This material made its debut on the ADVANCE® BIOFOAM tibial base, and will eventually be incorporated into a number of our products spanning from hip arthroplasty to foot and ankle reconstruction. Another example of our innovation in knee arthroplasty was the introduction of the PROPHECY pre-operative navigation system in 2009. The PROPHECY system allows surgeons to visualize what the implant will look like after the surgery is performed before the skin is dissected. This patent-pending process utilizes custom fit cutting instruments made for each specific patient, thus reducing time in the operating room. In 2010, we launched our EVOLUTION Medial-Pivot Knee System. The EVOLUTION system builds upon ten years of clinical experience with the ADVANCE® Medical-Pivot Knee System, offering more sizing options and a medial-pivoting posterior stabilized option.

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Hip Reconstruction. The hip joint is a ball-and-socket joint that enables the wide range of motion that the hip performs in daily life. The hip joint is most commonly replaced due to degeneration of the cartilage between the head of the femur or the ball and the acetabulum or hollow portion of the pelvis or the socket. This degeneration causes pain, stiffness and a reduction in hip mobility.

Similar to the knee reconstruction market, major trends in hip replacement procedures and implants are to extend implant life and to preserve bone stock for possible future procedures. New products have been developed that incorporate advances in bearing surfaces from the traditional polyethylene surface. These alternative bearing surfaces include metal-on-metal, cross-linked polyethylene and ceramic-on-ceramic combinations, which exhibit improved wear characteristics and lead to longer implant life. We offer a complete array of bearing surface options including metal-on-metal, cross-linked polyethylene and ceramic-on-ceramic. In addition to advances in bearing surfaces, implants that preserve more natural bone have been developed in order to minimize surgical trauma and recovery time for patients. These implants, known as bone-conserving implants, leave more of the hip bones intact, which is beneficial given the likelihood of future revision replacement procedures as the average patient s lifetime increases. Bone-conserving procedures are intended to enable patients to delay their first total hip procedure and may significantly increase the time from the first procedure to the time when a revision replacement implant is required. One example of bone conserving implant technology is our CONSERVE® Plus total hip resurfacing system, which was approved by the United States Food and Drug Administration (FDA) in 2009. Resurfacing of the femoral head allows surgeons to reconstruct the patient s hip while leaving the femoral head and neck in place. Additionally, PATH® surgical technique is a tissue sparing hip replacement technique that offers patients quicker recovery due to a decrease of intraoperative soft tissue trauma. The decreased soft tissue trauma results in less pain and blood loss for the patient, as well as a lower risk of dislocation.

Government Regulation

United States

Our products are strictly regulated by the FDA under the Food, Drug, and Cosmetic Act (FDC Act). Some of our products are also regulated by state agencies. FDA regulations and the requirements of the FDC Act affect the pre-clinical and clinical testing, design, manufacture, safety, efficacy, labeling, storage, recordkeeping, advertising and promotion of our medical device products. Our tissue-based products are subject to FDA regulations, the National Organ Transplant Act (NOTA) and various state agency regulations. We are an accredited member of the American Association of Tissue Banks (AATB) and an FDA registered tissue establishment, which includes the packaging, processing, storage, labeling and distribution of tissue products regulated as medical devices and the storage and distribution of tissue products regulated solely as human cell and tissue products. In addition, we maintain tissue bank licenses in Florida, Maryland, New York, California and Oregon.

Generally, before we can market a new medical device, marketing clearance from the FDA must be obtained through either a premarket notification under Section 510(k) of the FDC Act or the approval of a premarket approval (PMA) application. The FDA typically grants a 510(k) clearance if the applicant can establish that the device is substantially equivalent to a predicate device. It usually takes about three months from the date of a 510(k) submission to obtain clearance, but it may take longer, particularly if a clinical trial is required. The FDA may find that a 510(k) is not appropriate or that substantial equivalence has not been shown and, as a result, require a PMA application. PMA applications must be supported by valid scientific evidence to demonstrate the safety and effectiveness of the device, typically including the results of human clinical trials, bench tests and laboratory and animal studies. The PMA application must also contain a complete description of the device and its components, and a detailed description of the methods, facilities and controls used to manufacture the device. In addition, the submission must include the proposed labeling and any training materials. The PMA application process can be expensive and generally takes significantly longer than the 510(k) process. Additionally, the FDA may never approve the PMA application. As part of the PMA application review process, the FDA generally will conduct an inspection of the manufacturer s facilities to ensure compliance with applicable quality system regulatory requirements, which include quality control testing, documentation control and other quality assurance procedures.

If human clinical trials of a medical device are required and the device presents a significant risk, the sponsor of the trial must file an investigational device exemption (IDE) application prior to commencing human clinical trials. The

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IDE application must be supported by data, typically including the results of animal and/or laboratory testing. If the IDE application is approved by the FDA and one or more institutional review boards (IRBs), human clinical trials may begin at a specific number of institutional investigational sites with the specific number of patients approved by the FDA. If the device presents a non-significant risk to the patient, a sponsor may begin the clinical trial after obtaining approval for the trial by one or more IRBs without separate approval from the FDA. Submission of an IDE does not give assurance that the FDA will approve the IDE. If it is approved, there can be no assurance the FDA will determine that the data derived from the trials support the safety and effectiveness of the device or warrant the continuation of clinical trials. An IDE supplement must be submitted to and approved by the FDA before a sponsor or investigator may make a change to the investigational plan in such a way that may affect its scientific soundness, study indication or the rights, safety or welfare of human subjects. The trial must also comply with the FDA s IDE regulations, and informed consent must be obtained from each subject.

The FDA has statutory authority to regulate allograft-based products, processing and materials. The FDA and other international regulatory agencies have been working to establish more comprehensive regulatory frameworks for allograft-based tissue-containing products, which are principally derived from human cadaveric tissue. The framework developed by the FDA establishes risk-based criteria for determining whether a particular human tissue-based product will be classified as human tissue, a medical device or a biologic drug requiring premarket clearance or approval. All tissue-based products are subject to extensive FDA regulation, including establishment registration requirements, product listing requirements, good tissue practice requirements for manufacturing and screening requirements that ensure that diseases are not transmitted to tissue recipients. The FDA has also proposed extensive additional requirements that address sub-contracted tissue services, tracking to the recipient/patient and donor records review. If a tissue-based product is considered human tissue, the FDA requirements focus on preventing the introduction, transmission and spread of communicable diseases to recipients. Neither clinical data nor review of safety and efficacy are required before the tissue can be marketed. However, if the tissue is considered a medical device or a biologic drug, then FDA clearance or approval is required.

The FDA and international regulatory authorities periodically inspect us for compliance with regulatory requirements that apply to our operations. These requirements include labeling regulations, manufacturing regulations, quality system regulations, regulations governing unapproved or off-label uses and medical device regulations. Medical device regulations require a manufacturer to report to the FDA serious adverse events or certain types of malfunctions involving its products.

Most of our products are FDA cleared through the 510(k) premarket notification process. We have conducted clinical trials to support some of our regulatory approvals. Regulations regarding the manufacture and sale of our products are subject to change. We cannot predict the effect, if any, that these changes might have on our business, financial condition and results of operations. If the FDA believes that we are not in compliance with the FDC Act, it can institute proceedings to detain or seize products, issue a market withdrawal, enjoin future violations and/or seek civil and criminal penalties against us and our officers and employees. If we fail to comply with these regulatory requirements, our business, financial condition and results of operations could be harmed.

In 2010, WMT entered into a 12-month Deferred Prosecution Agreement (DPA) with the United States Attorney s Office for the District of New Jersey (USAO). WMT also entered into a five year Corporate Integrity Agreement (CIA) with the Office of the Inspector General of the United States Department of Health and Human Services (OIG-HHS). See Item 1A Risk Factors for more information about our obligations under these agreements. We are continuing to enhance our Corporate Compliance Program and are applying these enhancements on a global basis. We monitor our practices on an ongoing basis to ensure that we have proper controls in place to comply with applicable laws in the jurisdictions in which we do business. Our failure to maintain compliance with U.S. healthcare regulatory laws could expose us to significant liability including, but not limited to, extension of the term of the DPA by up to six months, exclusion from federal healthcare program participation, including Medicaid and Medicare, civil and criminal fines or penalties, and additional litigation cost and expense.

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Further, we are subject to various federal and state laws concerning healthcare fraud and abuse, including false claims laws, anti-kickback laws and physician self-referral laws. Violations of these laws can result in criminal and/or civil punishment, including fines, imprisonment and, in the U.S., exclusion from participation in government healthcare reimbursement programs. If a governmental authority were to determine that we do not comply with these laws and regulations, then we and our officers and employees could be subject to criminal and civil penalties.

International

All of our products sold internationally are subject to certain foreign regulatory approvals. We must comply with extensive regulations governing product safety, quality, manufacturing and reimbursement processes in order to market our products in all major foreign markets. These regulations vary significantly from country to country and with respect to the nature of the particular medical device. The time required to obtain foreign approvals to market our products may be longer or shorter than the time required in the U.S., and requirements for such approvals may differ from FDA requirements.

To market our product devices in the member countries of the European Union (EU), we are required to comply with the European Medical Device Directives and obtain CE mark certification. CE mark certification is the European symbol of adherence to quality assurance standards and compliance with applicable European Medical Device Directives. Under the European Medical Device Directives, all medical devices including active implants must qualify for CE marking. We also are required to comply with other foreign regulations, such as obtaining Ministry of Health Labor and Welfare (MHLW) approval in Japan, Health Protection Branch (HPB) approval in Canada and Therapeutic Goods Administration (TGA) approval in Australia.

General initiatives sponsored by government agencies, legislative bodies and the private sector to limit the growth of healthcare expenses generally and hospital costs in particular, including price regulation and competitive pricing are ongoing. It is not possible to predict the impact of such cost containment measures on our future business.

Products

We operate as one reportable segment, offering products in four primary market sectors: extremity reconstruction, biologics, knee reconstruction and hip reconstruction. Sales in each of these markets represent greater than 15% of our consolidated revenue. Detailed information on our net sales by product line can be found in Note 17 to the consolidated financial statements contained in Financial Statements and Supplementary Data.

Extremity Hardware

We offer extremity products for the foot and ankle and upper extremities in a number of markets worldwide. Some of our extremity implants have over 40 years of successful clinical history. We are a recognized leader in the U.S. and German markets for foot and ankle surgical products. Additionally, we hold leading positions in several segments of the upper extremity market such as radial head repair, finger joint replacements and intramedullary wrist fracture implants.

Foot and Ankle Hardware

Our CHARLOTTE foot and ankle system is an extensive offering of fixation products for foot and ankle surgery, and includes products that feature advanced design elements for simplicity, versatility and high performance. The CHARLOTTE portfolio includes the first ever locking compression plate designed for corrective foot surgeries.

The DARCO® foot and ankle plating systems were designed to address the specific needs of reconstructive foot and ankle surgery. The DARCO® MFS and MRS plates were the first implants to incorporate fixed angle, locking screw technology into a comprehensive fixation set for foot surgery. Surgeons believe that surgical repairs are more stable with locking screw technology, thus allowing patients to return to activity faster.

Our INBONE total ankle system represents the third generation in ankle replacement implants, utilizing a patented intramedullary alignment mechanism for more accurate placement of the implant. The unique modular nature of the implant allows the surgeon to customize the fixation stems for the tibial and talar components in order to maximize

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stability of the implant. Accuracy of placement and implant stability have been shown to be key factors impacting longevity of the implant. The INBONE system represents key advances in these critical arenas.

Our SIDEKICK line of external fixators is designed to facilitate compression or distraction of bones in the foot from the outside in and in a minimally invasive manner. In many cases, surgeons will opt for the minimally invasive nature of external fixation versus more invasive plate and screw internal fixation. One growing application of our SIDEKICK is in the diabetic population for which small incisions are preferred due to wound healing issues present with these patients.

Our ORTHOLOC system provides foot and ankle surgeons a comprehensive line of plates and screws to address most traumatic injuries of the foot and ankle. The polyaxial locking feature allows the surgeon to customize the angle of screw placement through the plate to maximize implant to-bone fit.

In June 2010, we announced the full commercial release of the VALOR TTC fusion nail, following a limited release in 2009. The VALOR nail provides surgeons with a solution for fusing the calcaneal, talar and tibial bones required in patients suffering from severe ankle arthritis. In combination with the INBONE™ total ankle replacement system, the VALOR fusion nail provides foot and ankle surgeons with what we believe to be the most compelling portfolio for treating patients with varying degrees of ankle arthritis.

Other products in our foot and ankle portfolio include our BIOARCH subtalar arthoereisis implant, our line of AM Surgical foot and ankle endoscopic tissue release products, and our line of Swanson toe joints.

Upper Extremity Hardware

Our EVOLVE® modular radial head replacement prosthesis addresses the need for modularity in the anatomically highly-variable joint of the elbow and is the market leading radial head prosthesis. The EVOLVE® modular radial head device provides 150 different combinations of heads and stems allowing the surgeon to choose implant heads and stems to accommodate the unpredictable anatomy of each patient. The smooth stem design allows for rotational motion at the implant and bone interface and for radiocapitellar articulation. Our EVOLVE® radial head plating system is for surgeons who wish to repair rather than replace the damaged radial head. With prostheses and plating, we have a comprehensive product offering for repair of radial head fractures. Further strengthening our position in the radial head market is our EVOLVE® proline system, which adds additional size offerings and in-situ locking of the implant, a favorable feature for surgeons treating patients with intact elbow ligaments.

Our line of Swanson finger joints are used in finger joint replacement for patients suffering from rheumatoid arthritis of the hand. With nearly 40 years of clinical success, Swanson digit implants are a foundation in our upper extremity business and are used by a loyal base of hand surgeons worldwide.

Our MICRONAIL® intramedullary wrist fracture repair system is a next-generation minimally invasive treatment for distal radius fractures that provides immediate fracture stabilization with minimal soft tissue disruption. The result is rapid recovery of hand and wrist functions. Also, as the product is implanted within the bone, it has no external profile on top of the bone, thereby removing the potential for tendon irritation or rupture, which is an appreciable problem with conventional plates designed to lie on top of the bone.

Our RAYHACK® system is comprised of a series of precision cutting guides and procedure-specific plates for ulnar and radial shortening procedures and the surgical treatment of radial malunions and Keinbock s Disease.

Biologics

We offer a broad line of biologic products that are used to replace and repair damaged or diseased bone, tendons and soft tissues and other biological solutions for surgeons and their patients. These products focus on biological musculoskeletal repair by utilizing synthetic and human tissue-based materials. Internationally, we offer bone graft products incorporating antibiotic delivery.

GRAFTJACKET® matrix is a human-derived soft tissue graft designed for augmentation of tendon and ligament repairs such as those of the rotator cuff in the shoulder and achilles tendon in the ankle. By augmenting the strength

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of the tendon repair and incorporating it biologically, GRAFTJACKET® regenerative tissue matrix increases surgeons confidence in the surgical outcome. GRAFTJACKET® Maxforce Extreme is a high strength form of GRAFTJACKET® matrix which provides maximum suture holding power for the most challenging of tendon and ligament repairs. We procure our GRAFTJACKET® product through an exclusive distribution agreement that expires December 31, 2018.

In June 2010, we announced the full commercial launch of the XPANSION® Micrografting System for split-thickness skin grafting via a minimized donor site. The XPANSION® system allows harvesting, expanding and applying split-thickness skin micro-autografts for the treatment of chronic and acute wounds. The standard of care for skin grafting procedures includes the use of a powered dermatome which can result in a large, painful donor site and is usually performed in the operating room under general anesthesia. The unique ability to micro-morselize the autograft with the proprietary XPANSION® System allows for a very small harvest site while providing coverage of up to 100 times the size of the donor site graft, compared to only 9-10 times the size of the donor graft with the conventional dermatome techniques.

Our BIOTAPE XM Reinforcement Matrix, an animal derived (xenograft) soft-tissue graft, expands our market-leading portfolio of soft-tissue reinforcement technologies and provides a less burdensome entry into many of our international markets where human tissue regulations make providing human tissue products difficult or impossible.

We sell our PRO-DENSE® injectable graft in the U.S. and select international markets. PRO-DENSE® injectable graft is a composite graft of surgical grade calcium sulfate and calcium phosphate. In animal studies, this unique graft composite has demonstrated excellent bone regenerative characteristics, forming new bone that is over three times stronger than the natural surrounding bone at the 13-week time point. Beyond 13 weeks, the regenerated bone gradually remodels to natural bone strength. Subsequent clinical data series have demonstrated dense new bone regeneration at an accelerated rate. Ultimately, we believe that this may allow patients to return to their pre-surgery activity levels at a faster pace. PRO-STIM injectable inductive graft is built on the PRO-DENSE® material platform, but adds demineralized bone matrix (DBM) for osteoinductive potential. PRO-STIM graft has demonstrated accelerated healing compared to autograft in pre-clinical testing. Since the mechanism of action is different than PRO-DENSE® graft, PRO-STIM graft will allow us to expand the applicable procedures to more challenging bone defects for the material platform.

Our OSTEOSET® bone graft substitute is a synthetic bone graft substitute made of surgical grade calcium sulfate. OSTEOSET® bone graft substitute provides an attractive alternative to autograft because it facilitates bone regeneration without requiring a painful, secondary bone-harvesting procedure. Additionally, being purely synthetic, OSTEOSET® pellets are cleared for use in infected sites, an advantage over tissue-based material. The human body resorbs the OSTEOSET® material at a rate close to the rate that new bone grows. We offer surgeons the option of custom-molding their own beads in the operating room using the OSTEOSET® resorbable bead kit, which is available in mixable powder form. OSTEOSET® 2 DBM graft is a unique bone graft substitute incorporating demineralized bone matrix (DBM) into OSTEOSET® surgical-grade calcium sulfate pellets. These two bone graft materials, each with a long clinical history, provide an ideal combination of osteoinduction via osteoinductive DBM in OSTEOSET® DBM and osteoconduction for guided bone regeneration. Our surgical grade calcium sulfate is manufactured using proprietary processes that consistently produce a high quality product. Our OSTEOSET® T medicated pellets, which contain tobramycin, are currently one of the few resorbable bone void fillers available in international markets for the prevention and treatment of osteomyelitis, an acute or chronic infection of the bone.

ALLOMATRIX® injectable putty combines a high content of DBM with our proprietary surgical grade calcium sulfate carrier. The combination provides an injectable putty with the osteoinductive properties of DBM, as well as exceptional handling qualities. Another combination we offer is ALLOMATRIX® C bone graft putty, which includes the addition of cancellous bone granules. The addition of the bone granules increases the stiffness of the material and thereby improves handling characteristics, increases osteoconductivity scaffold and provides more structural support. Our ALLOMATRIX® custom bone graft putty allows surgeons to customize the amount of bone granules to add to the putty based on its surgical application. Most recently we introduced ALLOMATRIX® DR graft, which is ALLOMATRIX® putty that has been optimized for application in smaller fractures due to the smaller particle size of

its cancellous bone granules and the application-specific volume in which it is marketed.

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We have signed a supply agreement with RTI Biologics, Inc., to develop advanced implants for use in foot and ankle surgeries. Under this agreement, we offer our CANCELLO-PURE bone wedge line as well as the ALLOPURE™ allograft bone wedges, which offer surgeons off-the-shelf, sterile grafts with appropriate handling characteristics. The ease of use and time savings in the operating room have made this product line an attractive option to foot and ankle surgeons and expand our offering in this key surgical area of need.

Knee Reconstruction

Our knee reconstruction portfolio provides surgeon treatment options for partial, total and revision knee reconstruction as well as limb preservation. We differentiate our products through anatomic features that reproduce natural movement and stability, resulting in implants designed to function more like a healthy knee.

The EVOLUTION Medial-Pivot Knee System is our new primary knee product line. There are several offerings within the EVOLUTION™ knee system, but our flagship is the EVOLUTION Medial-Pivot Cruciate-Substituting knee. Launched in July of 2010, the EVOLUTION Medial-Pivot Knee System is based on our ADVANCE® Medial-Pivot Knee. Our medial-pivot knees are the first mass marketed knee replacements designed to replicate the movement and stability of a healthy knee by incorporating a patented ball-in-socket feature on the medial side. Studies have shown our ADVANCE® medial-pivot knee closely approximates natural knee motion and stability.

To offer better implant fit for our patients, the EVOLUTION knee features an expanded number of implant sizes with a more anatomic shape. The sizes and implant shapes were created through analysis of computerized tomography (CT) scans from a global sampling of patients. In addition, the shapes of the implants were optimized to provide the most anatomic fit. This helps ensure that patients will receive the best implant fit possible. We provide a broad array of surgical knee instrumentation to accommodate surgeon and patient preference. Our EVOLUTION instrumentation is an advancement over traditional total knee instrumentation because it is designed for use in contemporary less-invasive approaches.

Additionally, we offer the PROPHECY pre-operative navigation system. The PROPHECY system enables surgeons to utilize basic CT or magnetic resonance imagery (MRI) scans to plan precise implant placement and alignment before surgery. Therefore, surgeons are able to envision the results of the operation before it actually occurs. In contrast to utilizing traditional instruments to align the knee during surgery, the PROPHECY program utilizes computer imaging to develop patient-specific guides that follow the unique curvature of the patient s bone. Our goal is not only to improve accuracy and decrease patient anesthesia time, but to allow for greater function and long-term survival of the implants by placing them in a position for optimal mechanical function.

Our ADVANCE® BIOFOAM cancellous titanium tibial base is a proprietary, bone-like titanium with a roughened texture that bites into bone for cementless fixation of the implant. With the combination of the PROPHECY system, our BIOFOAM material and medial pivot motion, surgeons have the potential to reduce their surgery time significantly while increasing accuracy and stability.

Our breakthrough REPIPHYSIS® implant is designed for children and can be lengthened non-invasively as they grow. The most common application of this technology is in the field of pediatric oncology, where entire bones are sometimes replaced. Traditionally, children were implanted with devices that required additional surgeries for lengthening. REPIPHYSIS® grows with the child without the need for expansion surgeries.

Hip Reconstruction

We offer a comprehensive line of products for hip joint reconstruction. This product portfolio provides offerings in the areas of hip resurfacing, total hip reconstruction, implant revision and limb preservation. Additionally, we provide a complete line of advanced surface bearing materials, including cross-linked polyethylene, ceramic-on-ceramic, and metal-on-metal articulations, and surface replacement implants enabling us to offer surgeons and their patients a vast expanse of treatment options.

Our DYNASTY® acetabular system offers surgeons the benefit of our BFH® technology both in metal-on-metal and cross-linked polyethylene options, with the added benefit of screw fixation. Screw fixation is sometimes needed in the case of poor bone quality. In 2009, we launched our patented BIOFOAM® technology in conjunction with the

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DYNASTY® system. The BIOFOAM® DYNASTY® acetabular shell allows surgeons to address more complex acetabular cases along with simple revision surgeries.

Our PROFEMUR® hip system offers a variety of options featuring STATURE™ modular necks in addition to traditional necks. The modular necks allow surgeons to tailor implant positioning during surgery. If a patient requires a change in leg length, offset or version, the STATURE™ modular neck conveniently allows the anatomic position to be fine-tuned to give the patient the best possible result. Our principal PROFEMUR® stem offerings, which provide this innovative modularity, include our PROFEMUR® Z, PROFEMUR® Plasma Z, PROFEMUR® LX, PROFEMUR® Tapered, PROFEMUR® RAZ, PROFEMUR® TL, PROFEMUR® Xm, and the PROFEMUR® RENAISSANCE® stems. These stems represent the vast majority of popular stem philosophies in the current marketplace.

The PATH® surgical instruments offer patients more rapid recovery due to a decrease of intraoperative soft tissue trauma. The decreased soft tissue trauma results in less pain and blood loss for the patient, as well as a lower risk of dislocation.

The CONSERVE® family of products incorporates anatomic large diameter bearings, led recently by the A-CLASS® advanced metal technology. This proprietary metal-on-metal articulation has undergone extensive laboratory tests which suggest that this advanced surface technology will result in significantly less wear than traditional metal-on-metal hip implants. This innovation is coupled with our BFH® technology, which is designed to reduce rates of post-operative hip dislocation.

Most recently, we received clearance from the FDA for the CONSERVE® Plus total resurfacing system. This innovative resurfacing design conserves natural patient anatomy and allows for a more kinematically correct joint reconstruction.

Additionally, we offer several different revision hip products including the PROFEMUR® R, PROFEMUR® Z Revision and PROFEMUR® LX Revision stems. Furthermore, we are the North American distributor of the LINK® MP revision stem (Waldemar Link GmbH).

Product Development

Our research and development staff focuses on developing new products in the extremity hardware, knee and hip reconstruction and biologics markets and on expanding our current product offerings and the markets in which they are offered. In addition, we maintain close working relationships with physicians and medical personnel in hospitals and universities who assist in product research and development. Realizing that new product offerings are a key to future success, we are committed to a strong research and development program. In addition, we have clinical and regulatory departments devoted to verifying the safety and efficacy of our products according to regulatory standards enforced by the FDA and other international regulatory bodies. Our research and development expenses totaled $37.3 million, $35.7 million and $33.3 million in 2010, 2009 and 2008, respectively.

In the extremity hardware areas, our research and development activities focus on building upon our already comprehensive portfolios of surgical solutions for extremity focused surgeons, including procedure and anatomy specific products. With the ultimate goal of addressing unmet clinical needs, we often pursue multiple product solutions for a particular application in order to offer surgeons either the ability to use their preferred procedural technique or to provide options and flexibility in the surgical setting with the understanding that one solution does not work for every case.

In the biologics area, we have a variety of research and development projects underway that are designed to provide differentiation of our advanced materials in the marketplace. Such projects include developing new instrumentation, particularly for use with different biomaterials, to facilitate early intervention procedures for a broad array of clinical applications as well as the integration of new biologic products into foot and ankle procedures, soft tissue applications and other demanding orthopaedic uses.

In the hip and knee reconstruction areas, our research and development activities continue to develop technology and procedures aimed at improving patient satisfaction and function. Efforts continue in the areas of advanced bearing

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and fixation surfaces which should improve the clinical performance of joint reconstruction devices. Further, we continue to develop and optimize minimally invasive, tissue sparing procedures and instruments that allow patients to quickly return to work and resume their daily activities as well as decreasing the time and cost requirements of the surgical facility.

The highlight of the product launches in 2010 was the EVOLUTION Medal-Pivot knee system. The EVOLUTION® system builds on over 10 years of excellent clinical history of the ADVANCE® Medial-Pivot system and includes advancements in implant function and fit. In addition to the EVOLUTION medial-pivot implants, which utilize the proven ball-in-socket design of the ADVANCE® system, we introduced a posterior-stabilized version combined with medial-pivot design features. Additional launches in 2010 included the PROFEMUR® Am Modular hip stem and PROFEMUR® Z Classic Fixed Neck hip stems.

In 2010, we launched several extremity and biologic products. These new product offerings include:

BIOFOAM® Cotton Wedge System;

VALOR® Hindfoot Fusion Nail System;

XPANSION® Micrografting system; and

PRO-STIM® Osteoinductive Bone Graft Substitute.

Manufacturing, Facilities and Quality

We operate a state of the art manufacturing facility in Arlington, Tennessee. At this facility, we primarily produce orthopaedic implants and some related surgical instrumentation while utilizing lean manufacturing philosophies. The majority of our biologic products and surgical instrumentation are produced to our specifications by qualified subcontractors who serve medical device companies. Our present manufacturing facility is adequate for our projected needs in the upcoming years.

We maintain a comprehensive quality system that is certified to the European standards ISO 9001 and ISO 13485 and to the Canadian Medical Devices Conformity Assessment System (CMDCAS). We are accredited by the AATB and have registrations with the FDA as a medical device establishment and as a tissue establishment. These certifications and registrations require periodic audits and inspections by various regulatory entities to determine if we have systems in place to ensure our product is safe and effective for its intended use and that we are compliant with applicable regulatory requirements. The quality system exists so that management has the proper oversight, designs are evaluated and tested, production processes are established and maintained and monitoring activities are in place to ensure products are safe, effective and manufactured according to our specifications. Consequently, our quality system provides the way for us to ensure we design and build quality into our products while meeting global requirements. We are committed to meet or exceed customer needs as we improve patient outcomes.

Supply

We rely on a limited number of suppliers for the components used in our products. Our reconstructive joint devices are produced from various surgical grades of titanium, cobalt chrome, stainless steel, various grades of high density polyethylenes and ceramics. We rely on one source to supply us with a certain grade of cobalt chrome alloy and one supplier for the silicone elastomer used in our extremity products. We are aware of only two suppliers of silicone elastomer to the medical device industry for permanent implant usage. Additionally, we rely on one supplier of ceramics for use in certain of our hip products. For certain biologic products, we depend on one supplier of DBM, cancellous bone matrix (CBM) and soft tissue graft for BIOTAPE® XM. We rely on one supplier for our GRAFTJACKET® family of soft tissue repair and graft containment products, and one supplier for our xenograft bone wedge product. We maintain adequate stock from these suppliers to meet market demand.

Sales and Marketing

Our sales and marketing efforts are focused primarily on orthopaedic and podiatric surgeons, who typically are the primary decision-makers in orthopaedic device purchases. We have contractual relationships with surgeons, who we believe are leaders in their chosen orthopaedic specialties. These surgeons help us design products to solve some of the most challenging problems facing orthopaedic surgeons today. In addition, they help us train other surgeons in

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the safe and effective use of our products and help other surgeons perfect new surgical techniques. We also have working relationships with healthcare dealers including group purchasing organizations, healthcare organizations, and integrated distribution networks.

We offer clinical symposia and seminars, publish advertisements and the results of clinical studies in industry publications. We also offer surgeon-to-surgeon education on our products using our surgeon advisors in an instructional capacity. Additionally, approximately 16,000 practicing orthopaedic surgeons in the U.S. receive information on our latest products through our distribution network, our website and brochure mailings.

We sell our products in the U.S. through a sales force of approximately 440 people as of December 31, 2010. This sales force primarily consists of independent, commission-based sales representatives and distributors/sales agents engaged principally in the business of supplying orthopaedic products to hospitals in their geographic areas. However, we also directly employ 25% of our sales force through a group of corporate sales representatives in select locations throughout the U.S. Our U.S. field sales force is supported by our Tennessee-based sales and marketing organization. In 2007, we began an initiative to separate and focus our sales representatives in the U.S. as either large joints and upper extremities specialists or foot and ankle specialists, with biologics being sold by all reps. We now have over 180 focused foot and ankle sales representatives, and we intend to continue to increase this number in the upcoming years. Our independent distributors, independent sales representatives and direct sales representatives are provided opportunities for product training throughout the year.

We believe our success in every market sector is dependent upon having a robust and compelling product offering, and equally as important, a dedicated, highly trained, focused sales organization to service the customer.

Our products are marketed internationally through a combination of direct sales offices (subsidiaries) in certain key international markets and distributors in other markets. We have subsidiaries in Italy, the United Kingdom, Belgium, Germany, Japan, Canada and Australia that employ direct sales employees and in some cases use independent sales representatives to sell our products in their respective markets. Our products are sold in other countries in Europe, Asia, Africa and Latin America using stocking distribution partners. Stocking distributors purchase products directly from us for resale to their local customers, with product ownership generally passing to the distributor upon shipment. As of December 31, 2010, through a combination of our direct sales offices and approximately 80 stocking distribution partners, we have approximately 800 international sales representatives that sell our products in approximately 60 countries.

Seasonal Nature of Business

We traditionally experience lower sales volumes in the third quarter than throughout the rest of the year as many of our reconstructive products are used in elective procedures, which generally decline during the summer months, typically resulting in selling, general and administrative expenses and research and development expenses as a percentage of sales that are higher during this period than throughout the rest of the year. In addition, our first quarter selling, general and administrative expenses include additional expenses that we incur in connection with the annual meeting held by the American Academy of Orthopaedic Surgeons (AAOS) and the American College of Foot and Ankle Surgeons (ACFAS). The AAOS meeting, which is the largest orthopaedic meeting in the world, features the presentation of scientific papers and instructional courses for orthopaedic surgeons. During this three-day event, we display our most recent and innovative products for these surgeons. The ACFAS meeting, similar to AAOS, is another three-day event to display our latest innovations in the foot and ankle market.

Competition

Competition in the orthopaedic device industry is intense and is characterized by extensive research efforts and rapid technological progress. Competitors include major companies in the orthopaedic and biologics industries, as well as academic institutions and other public and private research organizations that continue to conduct research, seek patent protection and establish arrangements for commercializing products that will compete with our products.

The primary competitive factors facing us include price, quality, innovative design and technical capability, breadth

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of product line, scale of operations and distribution capabilities. Our current and future competitors may have greater resources and stronger name recognition than we do within the total joint reconstruction area. Our ability to compete is affected by our ability to

- develop new products and innovative technologies;
- obtain regulatory clearance and reimbursement for our products;
- manufacture and sell our products cost-effectively;
- meet all relevant quality standards for our products and their markets;
- respond to competitive pressures specific to each of our geographic markets, including our ability to enforce non-compete agreements;
- protect the proprietary technology of our products and manufacturing processes;
- market our products;
- attract and retain skilled employees and focused sales representatives; and
- maintain and establish distribution relationships.

Intellectual Property

We currently own or have licenses to use more than 250 patents and pending patent applications throughout the world. We seek to aggressively protect technology, inventions and improvements that we consider important through the use of patents and trade secrets in the U.S. and significant foreign markets. We manufacture and market products both under patents and license agreements with other parties. These patents and the license agreements have a defined life and expire from time to time.

Our knowledge and experience, creative product development, marketing staff and trade secret information, with respect to manufacturing processes, materials and product design, are as important as our patents in maintaining our proprietary product lines. As a condition of employment, we require all employees to execute a confidentiality agreement with us relating to proprietary information and patent rights.

There can be no assurances that our patents will provide competitive advantages for our products, or that competitors will not challenge or circumvent these rights. In addition, there can be no assurances that the United States Patent and Trademark Office (USPTO) will issue any of our pending patent applications. The USPTO may deny or require a significant narrowing of the claims in our pending patent applications and the patents issuing from such applications. Any patents issuing from the pending patent applications may not provide us with significant commercial protection. We could incur substantial costs in proceedings before the USPTO. These proceedings could result in adverse decisions as to the priority of our inventions and the narrowing or invalidation of claims in issued patents. Additionally, the laws of some of the countries in which our products are or may be sold may not protect our intellectual property to the same extent as the laws in the U.S. or at all.

While we do not believe that any of our products infringe any valid claims of patents or other proprietary rights held by others, there can be no assurances that we do not infringe any patents or other proprietary rights held by them. If our products were found to infringe any proprietary right of another party, we could be required to pay significant damages or license fees to such party and/or cease production, marketing and distribution of those products. Litigation may also be necessary to enforce patent rights we hold or to protect trade secrets or techniques we own.

We also rely on trade secrets and other unpatented proprietary technology. There can be no assurances that we can meaningfully protect our rights in our unpatented proprietary technology or that others will not independently develop substantially equivalent proprietary products or processes or otherwise gain access to our proprietary technology. We seek to protect our trade secrets and proprietary know-how, in part, with confidentiality agreements with employees

and consultants. There can be no assurances, however, that the agreements will not be breached, adequate remedies for any breach would be available, or competitors will not discover or independently develop our trade secrets.

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Third-Party Reimbursement

Reimbursement is an important factor in the success of any medical device. Reimbursement in the U.S. depends, in part, upon our ability to obtain FDA clearances and approvals to market our products as well as obtain coverage and payment for our products. The FDA may announce changes to the regulatory review process which in turn may slow the clearance and approval process and thereby delay the ability of medical device companies to bring new devices to market. In the U.S., as well as in foreign countries, government-funded or private insurance programs, commonly known as third-party payors, pay a significant portion of the cost of a patient s medical expenses. Health care reform initiatives which may be implemented over the next several years have the potential to limit the growth of sales in medical devices as third-party payors look to control spending on health care. A uniform policy of coverage does not exist among all of these payors relative to payment of claims for all products. Therefore, reimbursement and coverage can be quite different from payor to payor as well as from one region of the country to another. Coverage also depends on our ability to demonstrate the short-term and long-term clinical evidence and cost-effectiveness of our products. These supportive data are obtained from both our clinical experience and formal clinical trials. We pursue and present these results at major scientific and medical meetings and publish them in respected, peer-reviewed medical journals because coverage and reimbursement are important to the successful commercialization of our products.

All U.S. and foreign third-party payors are developing increasingly sophisticated methods of controlling healthcare costs through yet to be defined healthcare reform measures, government-managed healthcare systems, coverage with evidence development processes, quality initiatives, pay-for-performance, comparative effectiveness research and capitation programs, group purchasing, redesign of benefit offerings, encouragement of healthier lifestyles and exploration of more cost-effective methods of delivering care. All of these types of programs can potentially negatively impact pricing structures and our future revenue.

Employees

As of December 31, 2010, we employed approximately 1,390 people in the following areas: 510 in manufacturing, 540 in sales and marketing, 170 in administration and 170 in research and development. We believe that we have a good relationship with our employees.

Environmental

Our operations and properties are subject to extensive federal, state, local and foreign environmental protection and health and safety laws and regulations. These laws and regulations govern, among other things, the generation, storage, handling, use and transportation of hazardous materials and the handling and disposal of hazardous waste generated at our facilities. Under such laws and regulations, we are required to obtain permits from governmental authorities for some of our operations. If we violate or fail to comply with these laws, regulations or permits, we could be fined or otherwise sanctioned by regulators. Under some environmental laws and regulations, we could also be held responsible for all of the costs relating to any contamination at our past or present facilities and at third-party waste disposal sites.

We believe our costs of complying with current and future environmental laws, regulations and permits and our liabilities arising from past or future releases of, or exposure to, hazardous substances will not materially adversely affect our business, results of operations or financial condition, although there can be no assurances of this.

Available Information

Our website is located at www.wmt.com. We make available free of charge through this website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC.

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Item 1A. Risk Factors.

Our business and its future performance may be affected by various factors, the most significant of which are discussed below.

We are subject to substantial government regulation that could have a material adverse effect on our business.

The production and marketing of our products and our ongoing research and development, pre-clinical testing and clinical trial activities are subject to extensive regulation and review by numerous governmental authorities both in the U.S. and abroad. See Business Government Regulation for further details on this process. U.S. and foreign regulations govern the testing, marketing and registration of new medical devices, in addition to regulating manufacturing practices, reporting, labeling, relationships with healthcare professionals and recordkeeping procedures. The regulatory process requires significant time, effort and expenditures to bring our products to market, and we cannot be assured that any of our products will be approved. Our failure to comply with applicable regulatory requirements could result in these governmental authorities:

imposing fines and penalties on us;

preventing us from manufacturing or selling our products;

bringing civil or criminal charges against us;

delaying the introduction of our new products into the market;

recalling or seizing our products; or

withdrawing or denying approvals or clearances for our products.

Even if regulatory approval or clearance of a product is granted, this could result in limitations on the uses for which the product may be labeled and promoted. Further, for a marketed product, its manufacturer and manufacturing facilities are subject to periodic review and inspection. Subsequent discovery of problems with a product, manufacturer or facility may result in restrictions on the product, manufacturer or facility, including withdrawal of the product from the market or other enforcement actions. Our products can only be marketed in accordance with their FDA approved labeling. If we were to promote the use of our products in an off-label manner, we would be subject to civil and criminal sanctions.

In 2009, the FDA issued an order requiring the manufacturers of approximately 25 Class III devices to submit to the FDA a summary of any information known or otherwise available to them concerning the safety and efficacy of the products. Metal-on-metal hip products, including ours, are included in this product code. Class III devices generally require submission and approval of a premarket approval (PMA) application prior to marketing. The FDA has historically allowed the devices in this product code to be marketed without the requirement of a PMA application, as they were marketed before May 28, 1976, or are substantially equivalent to devices that were marketed before May 28, 1976 or approved under a premarket notification 510(k) since May 28, 1976, when the Medical Device Amendments of 1976 were enacted, and Congress included transition provisions designed to preserve availability of then-marketed Class III devices pending FDA approval of PMA applications. The FDA will determine, for each device in this order, whether the classification of the device should (a) remain as Class III and require submission of a PMA or a notice of completion of a Product Development Protocol, or (b) be reclassified as Class I or II. We cannot predict the outcome of the FDA s review of these products; however, if we are required to submit a PMA application for our metal-on-metal hip products, we may be unable to continue to market these products until the FDA approves the PMA application.

We are currently conducting clinical studies of some of our products under IDEs. Clinical studies must be conducted in compliance with FDA regulations, or the FDA may take enforcement action. The data collected from these clinical studies will ultimately be used to support market clearance for these products. There is no assurance that the FDA will accept the data from these clinical studies or that it will ultimately allow market clearance for these products.

We are subject to various foreign, federal and state laws concerning healthcare fraud and abuse, including false claims laws, anti-kickback laws and physician self-referral laws. Violations of these laws can result in criminal and/or civil punishment, including fines, imprisonment and, in the U.S., exclusion from participation in government healthcare

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programs. Greater scrutiny of marketing practices in our industry has resulted in numerous government investigations by various government authorities and this industry-wide enforcement activity is expected to continue. If a governmental authority were to determine that we do not comply with these laws and regulations, then we and our directors, officers and employees could be subject to criminal and civil penalties, including exclusion from participation in federal healthcare reimbursement programs.

In order to market our devices in the member countries of the European Union, we are required to comply with the European Medical Devices Directive and obtain CE mark certification. CE mark certification is the European symbol of adherence to quality assurance standards and compliance with applicable European Medical Device Directives. Under the European Medical Devices Directive, all medical devices including active implants must qualify for CE marking.

If we fail to comply with the terms of the Deferred Prosecution Agreement and Corporate Integrity Agreement we entered into in September 2010, we may be subject to criminal prosecution and/or exclusion from federal healthcare programs.

As previously reported, on September 29, 2010, our wholly-owned subsidiary, WMT entered into a 12-month Deferred Prosecution Agreement (DPA) with the USAO. WMT also entered into a five year Corporate Integrity Agreement (CIA) with the OIG-HHS. Pursuant to the DPA, an independent monitor will review and evaluate WMT s compliance with its obligations under the DPA. The DPA and CIA impose certain obligations on the Company to maintain compliance with U.S. healthcare regulatory laws. Our failure to do so could expose us to significant liability including, but not limited to, extension of the term of the DPA by up to six months, exclusion from federal healthcare program participation, including Medicaid and Medicare, civil and criminal fines or penalties, and additional litigation cost and expense. Our obligations under the DPA expire as of September 29, 2011 while our obligations under our CIA expire as of September 29, 2015. Any of these consequences would have a material adverse effect on our financial position, results of operations and cash flows.

The CIA acknowledges the existence of our Corporate Compliance Program and provides for certain other compliance-related activities during the five-year term of the agreement. If we breach the CIA, the OIG-HHS may take further action against us, up to and including excluding us from participation in federal healthcare programs, which would have a material adverse effect on our financial condition, results of operations and cash flows.

Our recent settlement with the United States Department of Justice and OIG-HHS could lead to further governmental investigations or actions by other third parties.

As a result of the allegations of wrongdoing made by the USAO and the publicity surrounding our recent settlement with the United States Department of Justice and OIG-HHS other governmental agencies, including state authorities, could conduct investigations or institute proceedings that are not precluded by terms of that settlement. In addition, the settlement with the United States Department of Justice could increase our exposure to lawsuits by potential whistleblowers under the federal false claims acts, based on new theories or allegations arising from the allegations made by the USAO. We cannot assure that the costs of defending or resolving any such investigations or proceedings would not have a material adverse effect on our financial condition, results of operations and cash flows.

Modifications to our marketed devices may require FDA regulatory clearances or approvals or require us to cease marketing or recall the modified devices until such clearances or approvals are obtained.

We obtain premarket clearance under Section 510(k) of the FDC Act for certain products we market in the U.S. We have modified some of our products and product labeling since obtaining 510(k) clearance, but we do not believe these modifications require us to submit new 510(k) notifications. However, if the FDA disagrees with us and requires us to submit a new 510(k) notification for modifications to our existing products, we may be the subject of enforcement actions by the FDA and be required to stop marketing the products while the FDA reviews the 510(k) modification. If the FDA requires us to go through a lengthier, more rigorous examination than we had expected, our product introductions or modifications could be delayed or canceled, which could cause our sales to decline. In addition, the FDA may determine that future products will require clinical data to be submitted for 510(k) clearance more regularly or may require the more costly, lengthy and uncertain PMA application process. Products that are

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approved through a PMA application generally need FDA approval before they can be modified. See Business Government Regulation.

If we lose one of our key suppliers, we may be unable to meet customer orders for our products in a timely manner or within our budget.

We rely on a limited number of suppliers for the components used in our products. Our reconstructive joint devices are produced from various surgical grades of titanium, cobalt chrome and stainless steel, various grades of high-density polyethylenes and ceramics. We rely on one source to supply us with a certain grade of cobalt chrome alloy and one supplier for the silicone elastomer used in some of our extremity products. We are aware of only two suppliers of silicone elastomer to the medical device industry for permanent implant usage. Additionally, we rely on one supplier of ceramics for use in our hip products. Further, we rely on one supplier for our GRAFTJACKET® family of soft tissue repair and graft containment products.

In addition, certain biologic products depend upon a single supplier as our source for DBM and CBM, and any failure to obtain DBM and CBM from this source in a timely manner will deplete levels of on-hand raw materials inventory and could interfere with our ability to process and distribute allograft products. During 2011, we are expecting a single not-for-profit tissue bank to meet all of our DBM and CBM order requirements, a key component in the allograft products we currently produce, market and distribute. In addition, we rely on a single supplier of soft tissue graft for BIOTAPE® XM.

We cannot be sure that our supply of DBM, CBM and soft tissue graft for BIOTAPE® XM will continue to be available at current levels or will be sufficient to meet our needs, or that future suppliers of DBM, CBM and soft tissue graft for BIOTAPE® XM will be free from FDA regulatory action impacting their sale of DBM, CBM and soft tissue graft for BIOTAPE® XM. As there are a small number of suppliers, if we cannot continue to obtain DBM, CBM and soft tissue graft for BIOTAPE® XM from our current sources in volumes sufficient to meet our needs, we may not be able to locate replacement sources of DBM, CBM and soft tissue graft for BIOTAPE® XM on commercially reasonable terms, if at all. This could interrupt our business, which could adversely affect our sales. Suppliers of raw materials and components may decide, or be required, for reasons beyond our control to cease supplying raw materials and components to us. FDA regulations may require additional testing of any raw materials or components from new suppliers prior to our use of these materials or components and in the case of a device with a PMA application, we may be required to obtain prior FDA permission, either of which could delay or prevent our access to or use of such raw materials or components.

If market clearance is not obtained for enhancements to the CONSERVE® Plus implant in the U.S., growth of our hip product line could be impacted.

In November 2009, we received approval from the FDA to market our original CONSERVE® Plus total hip resurfacing system, which enables us to initiate efforts to introduce additional enhancements to the system that are currently available outside the U.S. We intend to incorporate these future product options into the system s femoral and component offerings via a PMA Supplement. There can be no assurance that these enhancements will be approved by the FDA in a timely manner if at all, which could have a significant impact on the future growth of our hip product line.

Our biologics business is subject to emerging governmental regulations that can significantly impact our business.

The FDA has statutory authority to regulate allograft-based products, processing and materials. The FDA, European Union and Health Canada have been working to establish more comprehensive regulatory frameworks for allograft-based, tissue-containing products, which are principally derived from cadaveric tissue. The framework developed by the FDA establishes risk-based criteria for determining whether a particular human tissue-based product will be classified as human tissue, a medical device or biologic drug requiring 510(k) clearance or PMA approval. All tissue-based products are subject to extensive FDA regulation, including establishment registration requirements, product listing requirements, good tissue practice requirements for manufacturing and screening requirements that ensure that diseases are not transmitted to tissue recipients. The FDA has also proposed extensive additional requirements addressing sub-contracted tissue services, traceability to the recipient/patient and donor records review. If a tissue-

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based product is considered human tissue, FDA requirements focus on preventing the introduction, transmission and spread of communicable diseases to recipients. Clinical data or review of safety and efficacy are not required before the tissue can be marketed. However, if tissue is considered a medical device or biologic drug, then FDA clearance or approval is required.

Additionally, our biologics business involves the procurement and transplantation of allograft tissue, which is subject to federal regulation under the National Organ Transplant Act (NOTA). NOTA prohibits the sale of human organs, including bone and other human tissue, for valuable consideration within the meaning of NOTA. NOTA permits the payment of reasonable expenses associated with the transportation, processing, preservation, quality control and storage of human tissue. We currently charge our customers for these expenses. In the future, if NOTA is amended or reinterpreted, we may not be able to charge these expenses to our customers and, as a result, our business could be adversely affected.

Our principal allograft-based biologics offerings include ALLOMATRIX®, GRAFTJACKET® and IGNITE® products.

If we fail to compete successfully in the future against our existing or potential competitors, our sales and operating results may be negatively affected and we may not achieve future growth.

The markets for our products are highly competitive and dominated by a small number of large companies. We may not be able to meet the prices offered by our competitors, or offer products similar to or more desirable than those offered by our competitors. See Business Competition.

We derive a significant portion of our sales from operations in international markets that are subject to political, economic and social instability.

We derive a significant portion of our sales from operations in international markets. Our international distribution system consists of eight direct sales offices and approximately 80 stocking distribution partners, which combined employ approximately 800 sales representatives who sell in approximately 60 countries. Most of these countries are, to some degree, subject to political, social and economic instability. For the year ended December 31, 2010, 40% of our net sales were derived from our international operations and 39% in each of 2009 and 2008. Our international sales operations expose us and our representatives, agents and distributors to risks inherent in operating in foreign jurisdictions. These risks include:

- the imposition of additional foreign governmental controls or regulations on orthopaedic implants and biologic products;
- new export license requirements, particularly related to our biologic products;
- economic instability, including currency risk between the U.S. dollar and foreign currencies, in our target markets;
- a shortage of high-quality international salespeople and distributors;
- loss of any key personnel who possess proprietary knowledge or are otherwise important to our success in international markets;
- changes in third-party reimbursement policy that may require some of the patients who receive our implant products to directly absorb medical costs or that may necessitate our reducing selling prices for our products;
- changes in tariffs and other trade restrictions, particularly related to the exportation of our biologic products;
- work stoppages or strikes in the healthcare industry, such as those that have affected our operations in France, Canada, Korea and Finland in the past;
- a shortage of nurses in some of our target markets; and

exposure to different legal and political standards due to our conducting business in approximately 60 countries. As a U.S.-based company doing business in foreign jurisdictions, not only are we subject to the laws of other jurisdictions, we are also subject to U.S. laws governing our activities in foreign countries, such as the Foreign

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Corrupt Practices Act (FCPA), as well as various import-export laws, regulations, and embargoes. If our business activities were determined to violate these laws, regulations or rules, we could suffer serious consequences.

Any material decrease in our foreign sales may negatively impact our profitability. Our international sales are predominately generated in Europe. In Europe, healthcare regulation and reimbursement for medical devices vary significantly from country to country. This changing environment could adversely affect our ability to sell our products in some European countries.

The collectability of our accounts receivable may be affected by general economic conditions.

Our liquidity is dependent on, among other things, the collection of our accounts receivable. Collections of our receivables may be affected by general economic conditions. Although current economic conditions have not had a material adverse effect on our ability to collect such receivables, we can make no assurances regarding future economic conditions or their effect on our ability to collect our receivables, particularly from our international stocking distributors.

As of December 31, 2010, our accounts receivable balance totaled $105.3 million, and one customer, our stocking distributor in Turkey, accounted for approximately 8% of accounts receivable. As of December 31, 2010 and 2009, the balance due from this customer was $8.9 million and $10.7 million, or 8.4% and 10.5% of our accounts receivable balance, respectively, a significant portion of which was past due. As December 31, 2010, we have a $5.6 million provision recorded for potential losses related to this trade receivable.

Turmoil in the credit markets and the financial services industry may negatively impact our business.

The credit markets and the financial services industry have been experiencing a period of unprecedented turmoil and upheaval characterized by the bankruptcy, failure, collapse or sale of various financial institutions and an unprecedented level of intervention from the U.S. and foreign governments. While the ultimate outcome of these events cannot be predicted, they may have an adverse effect on our customers ability to borrow money from their existing lenders or to obtain credit from other sources to purchase our products. In addition, the economic crisis could also adversely impact our suppliers ability to provide us with materials and components, either of which may negatively impact our business.

Efforts to enhance our Corporate Compliance Program require the cooperation of many individuals and may divert resources from our other business activities and require substantial investment.

We are committed to the continued enhancement of our Corporate Compliance Program. This will require additional financial and human resources. Successful implementation of our enhanced Corporate Compliance Program will require the full and sustained cooperation of our employees, distributors and sales agents as well as the healthcare professionals with whom they interact. These efforts will require increased expenses.

Efforts to acquire and integrate other companies or product lines could adversely affect our operations and financial results.

We may pursue acquisitions of other companies or product lines. Our ability to grow through acquisitions depends upon our ability to identify, negotiate, complete and integrate suitable acquisitions and to obtain any necessary financing. With respect to the acquisitions completed or other future acquisitions, we may also experience:

- difficulties in integrating any acquired companies, personnel and products into our existing business;
- delays in realizing the benefits of the acquired company or products;
- diversion of our management s time and attention from other business concerns;
- limited or no direct prior experience in new markets or countries we may enter;
- higher costs of integration than we anticipated; or
- difficulties in retaining key employees of the acquired business who are necessary to manage these acquisitions.

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In addition, any future acquisitions could materially impair our operating results by causing us to incur debt or requiring us to amortize acquired assets.

If our patents and other intellectual property rights do not adequately protect our products, we may lose market share to our competitors and be unable to operate our business profitably.

We rely on patents, trade secrets, copyrights, know-how, trademarks, license agreements and contractual provisions to establish our intellectual property rights and protect our products. See Business Intellectual Property. These legal means, however, afford only limited protection and may not completely protect our rights. In addition, we cannot be assured that any of our pending patent applications will issue. The USPTO may deny or require a significant narrowing of the claims in our pending patent applications and the patents issuing from such applications. Any patents issuing from the pending patent applications may not provide us with significant commercial protection. We could incur substantial costs in proceedings before the USPTO. These proceedings could result in adverse decisions as to the priority of our inventions and the narrowing or invalidation of claims in issued patents. In addition, the laws of some of the countries in which our products are or may be sold may not protect our intellectual property to the same extent as U.S. laws or at all. We also may be unable to protect our rights in trade secrets and unpatented proprietary technology in these countries.

In addition, we hold licenses from third parties that are necessary to utilize certain technologies used in the design and manufacturing of some of our products. The loss of such licenses would prevent us from manufacturing, marketing and selling these products, which could harm our business.

We seek to protect our trade secrets, know-how and other unpatented proprietary technology, in part, with confidentiality agreements with our employees, independent distributors and consultants. We cannot be assured, however, that the agreements will not be breached, adequate remedies for any breach would be available or our trade secrets, know-how, and other unpatented proprietary technology will not otherwise become known to or independently developed by our competitors.

If we lose any existing or future intellectual property lawsuits, a court could require us to pay significant damages or prevent us from selling our products.

The medical device industry is litigious with respect to patents and other intellectual property rights. Companies in the medical device industry have used intellectual property litigation to gain a competitive advantage.

In the future, we may become a party to other lawsuits involving patents or other intellectual property. A legal proceeding, regardless of the outcome, could drain our financial resources and divert the time and effort of our management. If we lose one of these proceedings, a court, or a similar foreign governing body, could require us to pay significant damages to third parties, require us to seek licenses from third parties, pay ongoing royalties, redesign our products, or prevent us from manufacturing, using or selling our products. In addition to being costly, protracted litigation to defend or prosecute our intellectual property rights could result in our customers or potential customers deferring or limiting their purchase or use of the affected products until resolution of the litigation.

If product liability lawsuits are brought against us, our business may be harmed.

The manufacture and sale of medical devices exposes us to significant risk of product liability claims. In the past, we have had a number of product liability claims relating to our products, none of which either individually, or in the aggregate, have resulted in a material negative impact on our business. In the future, we may be subject to additional product liability claims, some of which may have a negative impact on our business. Additionally, we could experience a material design or manufacturing failure in our products, a quality system failure, other safety issues, or heightened regulatory scrutiny that would warrant a recall of some of our products. Our existing product liability insurance coverage may be inadequate to protect us from any liabilities we might incur. If a product liability claim or series of claims is brought against us for uninsured liabilities or in excess of our insurance coverage, our business could suffer. In addition, a recall of some of our products, whether or not the result of a product liability claim, could result in significant costs and loss of customers.

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If we are unable to continue to develop and market new products and technologies, we may experience a decrease in demand for our products or our products could become obsolete, and our business would suffer.

We are continually engaged in product development and improvement programs, and new products represent a significant component of our growth rate. We may be unable to compete effectively with our competitors unless we can keep up with existing or new products and technologies in the orthopaedic market. If we do not continue to introduce new products and technologies, or if those products and technologies are not accepted, we may not be successful. Additionally, our competitors new products and technologies may beat our products to market, may be more effective or less expensive than our products or may render our products obsolete. See Business Competition.

Our inability to maintain contractual relationships with healthcare professionals could have a negative impact on our research and development and medical education programs.

We maintain contractual relationships with respected physicians and medical personnel in hospitals and universities who assist in product research and development. We continue to place emphasis on the development of proprietary products and product improvements to complement and expand our existing product lines. If we are unable to maintain these relationships, our ability to develop and market new and improved products could decrease, and future operating results could be unfavorably affected.

Several states have enacted or are considering enacting legislation that limit the types of interactions we can have with health care professionals (HCPs). These state laws may inhibit our ability to train HCPs on the safe and effective use of our products as well as make it more difficult to work with HCPs on developing new products. Likewise, the Patient Protection and Affordable Care Act includes new federal requirements designed to encourage greater transparency in the relationships between drug and device companies and physicians. Beginning March 31, 2013, any manufacturer of a covered drug, device, biological or medical supply that makes payments or other transfers of value to physicians must file annual reports detailing such payments. These reports will be available on a public website. While regulations have not yet been adopted to implement the Patient Protection and Affordable Care Act policy, this provision or other new restrictions in this area could have a negative impact on our business.

Our business could suffer if the medical community does not continue to accept allograft technology.

New allograft products, technologies and enhancements may never achieve broad market acceptance due to numerous factors, including:

lack of clinical acceptance of allograft products and related technologies;

the introduction of competitive tissue repair treatment options that render allograft products and technologies too expensive and obsolete;

lack of available third-party reimbursement;

the inability to train surgeons in the use of allograft products and technologies;

the risk of disease transmission; and

ethical concerns about the commercial aspects of harvesting cadaveric tissue.

Market acceptance will also depend on the ability to demonstrate that existing and new allograft products and technologies are attractive alternatives to existing tissue repair treatment options. To demonstrate this, we rely upon surgeon evaluations of the clinical safety, efficacy, ease of use, reliability and cost effectiveness of our tissue repair options and technologies. Recommendations and endorsements by influential surgeons are important to the commercial success of allograft products and technologies. In addition, several countries, notably Japan, prohibit the use of allografts. If allograft products and technologies are not broadly accepted in the marketplace, we may not achieve a competitive position in the market.

If adequate levels of reimbursement from third-party payors for our products are not obtained, surgeons and

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patients may be reluctant to use our products and our sales may decline.

In the U.S., healthcare providers who purchase our products generally rely on third-party payors, principally federally-funded Medicare, state Medicaid and private health insurance plans, to pay for all or a portion of the cost of joint reconstructive procedures and products utilized in those procedures. We may be unable to sell our products on a profitable basis if third-party payors deny coverage or reduce their current levels of reimbursement. Our sales depend largely on governmental healthcare programs and private health insurers reimbursing patients medical expenses. Surgeons, hospitals and other healthcare providers may not purchase our products if they do not receive appropriate reimbursement from third-party payors for procedures using our products. In light of healthcare reform measures and the continued downturn in our economy, payors continue to review their coverage policies for existing and new therapies and may deny coverage for treatments that include the use of our products.

In addition, some healthcare providers in the U.S. have adopted or are considering bundled payment methodologies and/or managed care systems in which the providers contract to provide comprehensive healthcare for a fixed cost per person. Healthcare providers may attempt to control costs by authorizing fewer elective surgical procedures, including joint reconstructive surgeries, or by requiring the use of the least expensive implant available. Changes in reimbursement policies or healthcare cost containment initiatives that limit or restrict reimbursement for our products may cause our revenues to decline.

If adequate levels of reimbursement from third-party payors outside of the U.S. are not obtained, international sales of our products may decline. Outside of the U.S., reimbursement systems vary significantly by country. Many foreign markets have government-managed healthcare systems that govern reimbursement for medical devices and procedures. Canada, and some European and Asian countries, in particular France, Japan, Taiwan and Korea, have tightened reimbursement rates. Additionally, Brazil, China, Russia and the United Kingdom have recently begun landmark reforms that will significantly alter their healthcare systems. Finally, some foreign reimbursement systems provide for limited payments in a given period and therefore result in extended payment periods. See Business Third-Party Reimbursement for more information regarding reimbursement in the U.S. and abroad.

Our business could be significantly and adversely impacted if certain types of healthcare reform programs are adopted and other legislative proposals are enacted into law.

In March 2010, comprehensive health care reform legislation in the form of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively known as the Affordable Care Act) was enacted. Among other provisions, these bills impose a 2.3% excise tax on U.S. sales of medical devices following December 31, 2012. The Affordable Care Act also includes numerous provisions to limit Medicare spending through reductions in various fee schedule payments and by instituting more sweeping payment reforms, such as bundled payments for episodes of care and the establishment of accountable care organizations under which hospitals and physicians will be able to share savings that result from cost control efforts. Many of these provisions will be implemented through the regulatory process, and policy details have not yet been finalized. Various healthcare reform proposals have also emerged at the state level. We cannot predict with certainty the impact that these federal and state health reform will have on us. However, an expansion in government s role in the U.S. healthcare industry may lower reimbursements for our products, reduce medical procedure volumes, and adversely affect our business and results of operations, possibly materially.

There is an increasing trend for more criminal prosecutions and compliance enforcement activities for noncompliance with the Health Insurance Portability and Accountability Act (HIPAA) as well as for data breaches involving protected health information (PHI). In the ordinary course of our business, we may receive PHI. If we are unable to comply with HIPAA or experience a data breach involving PHI, we could be subject to criminal and civil sanctions.

We rely on our independent sales distributors and sales representatives to market and sell our products.

Our success depends largely upon marketing arrangements with independent sales distributors and sales representatives, in particular their sales and service expertise and relationships with the customers in the marketplace. Independent distributors and sales representatives may terminate their relationships with us or devote insufficient sales efforts to our products. We do not control our independent distributors, and they may not be successful in

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implementing our marketing plans. Our failure to maintain our existing relationships with our independent distributors and sales representatives could have an adverse effect on our operations. Similarly, our failure to recruit and retain additional skilled, independent sales distributors and sales representatives could have an adverse effect on our operations. We have experienced turnover with some of our independent sales distributors in the past, which adversely affected short-term financial results while we transitioned to new independent sales distributors. While we believe these transitions have been managed effectively, similar occurrences could happen in the future with different results which could have a greater adverse effect on our operations than we have previously experienced.

Fluctuations in insurance cost and availability could adversely affect our profitability or our risk management profile.

We hold a number of insurance policies, including product liability insurance, directors and officers liability insurance, property insurance and workers compensation insurance. If the costs of maintaining adequate insurance coverage should increase significantly in the future, our operating results could be materially adversely impacted. Likewise, if the availability of any of our current insurance coverage should become unavailable to us or become economically impractical, we would be required to operate our business without indemnity from commercial insurance providers.

If we cannot retain our key personnel, we will not be able to manage and operate successfully and we may not be able to meet our strategic objectives.

Our continued success depends, in part, upon key managerial, scientific, sales and technical personnel, as well as our ability to continue to attract and retain additional highly qualified personnel. We compete for such personnel with other companies, academic institutions, governmental entities and other organizations. There can be no assurance that we will be successful in retaining our current personnel or in hiring or retaining qualified personnel in the future. Loss of key personnel or the inability to hire or retain qualified personnel in the future could have a material adverse effect on our ability to operate successfully. Further, any inability on our part to enforce non-compete arrangements related to key personnel who have left the business could have a material adverse effect on our business.

If a natural or man-made disaster strikes our manufacturing facility, we could be unable to manufacture our products for a substantial amount of time and our sales could be disrupted.

We rely on a single manufacturing facility in Arlington, Tennessee, which is located near the New Madrid fault line. The Arlington facility and the manufacturing equipment we use to produce our products would be difficult to replace and could require substantial lead-time to repair or replace. Our facility may be affected by natural or man-made disasters. In the event our facility is affected by a disaster, we would be forced to rely on third-party manufacturers. Although we believe we have adequate disaster recovery plans in place and we possess adequate insurance for damage to our property and the disruption of our business from casualties, such plans and insurance may not cover such disasters and all of our potential losses and may not continue to be available to us on acceptable terms or at all.

We are dependent on various information technology systems, and failures of, interruptions to, or unauthorized tampering of those systems could harm our business.

Many of our business processes depend upon our information technology systems, the systems and processes of third parties, and on interfaces with the systems of third parties. If those systems fail or are interrupted, or if our ability to connect to or interact with one or more networks is interrupted, our processes may function at a diminished level or not at all. In addition, our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering. These occurrences could harm our ability to ship products, and our financial results would likely be harmed.

Our business plan relies on certain assumptions about the market for our products, which, if incorrect, may adversely affect our profitability.

We believe that the aging of the general population and increasingly active lifestyles will continue and that these trends will increase the need for our orthopaedic implant products. The projected demand for our products could materially differ from actual demand if our assumptions regarding these trends and acceptance of our products by the

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medical community prove to be incorrect or do not materialize, or if non-surgical treatments gain more widespread acceptance as a viable alternative to orthopaedic implants.

Fluctuations in foreign currency exchange rates could result in declines in our reported sales and earnings.

Because a majority of our international sales are denominated in local currencies and not in U.S. dollars, our reported sales and earnings are subject to fluctuations in foreign exchange rates. Approximately 29% of our total net sales were denominated in foreign currencies during the years ended December 31, 2010, and 28% in each 2009 and 2008, and we expect that foreign currencies will continue to represent a similarly significant percentage of our net sales in the future. Our international net sales were favorably impacted by the impact of foreign currency fluctuations of approximately $1.5 million in 2010, compared to the unfavorable impact of $3.0 million in 2009, and the favorable impact of $7.9 million in 2008. Operating costs related to these sales are largely denominated in the same respective currencies, thereby partially limiting our transaction risk exposure. However, cost of sales related to these sales are primarily denominated in U.S. dollars; therefore, as the U.S. dollar strengthens, the gross margin associated with our sales denominated in foreign currencies experience declines.

We currently employ a derivative program using 30-day foreign currency forward contracts to mitigate the risk of currency fluctuations on our intercompany receivable and payable balances that are denominated in foreign currencies. These forward contracts are expected to offset the transactional gains and losses on the related intercompany balances. These forward contracts are not designated as hedging instruments under Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Section 815, *Derivatives and Hedging Activities.* Accordingly, the changes in the fair value and the settlement of the contracts are recognized in the period incurred. We have not historically entered into hedging activities to mitigate the risk of foreign currency fluctuations in our statement of operations.

Our quarterly operating results are subject to substantial fluctuations, and you should not rely on them as an indication of our future results.

Our quarterly operating results may vary significantly due to a combination of factors, many of which are beyond our control. These factors include:

- demand for products, which historically has been lowest in the third quarter;
- our ability to meet the demand for our products;
- increased competition;
- the number, timing and significance of new products and product introductions and enhancements by us and our competitors;
- our ability to develop, introduce and market new and enhanced versions of our products on a timely basis;
- changes in pricing policies by us and our competitors;
- changes in the treatment practices of orthopaedic surgeons;
- changes in distributor relationships and sales force size and composition;
- the timing of material expense- or income-generating events and the related recognition of their associated financial impact;
- prevailing interest rates on our excess cash investments;
- fluctuations in foreign currency rates;

the timing of significant orders and shipments;

ability to obtain reimbursement for our products;

availability of raw materials;

work stoppages or strikes in the healthcare industry;

changes in FDA and foreign governmental regulatory policies, requirements and enforcement practices;

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changes in accounting policies, estimates and treatments;

restructuring charges, costs associated with our U.S. governmental inquiries and other charges;

variations in cost of sales due to the amount and timing of excess and obsolete inventory charges, commodity prices and manufacturing variances;

income tax fluctuations; and

general economic factors.

We believe our quarterly sales and operating results may vary significantly in the future and period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. We cannot assure you that our sales will increase or be sustained in future periods or that we will be profitable in any future period. Any shortfalls in sales or earnings from levels expected by securities or orthopaedic industry analysts could have an immediate and significant adverse effect on the trading price of our common stock in any given period.

Conversion of our Convertible Senior Notes due 2014 into common stock could result in dilution to our stockholders.

Our 2.625% Convertible Senior Notes due 2014 (Notes), with a face amount of $200 million, are convertible at the option of the holder, subject to certain conditions, into shares of our common stock at an initial conversion rate of 30.6279 shares per $1,000 principal amount of the Notes, which represents an initial conversion price of approximately $32.65 per share, subject to adjustment, at any time on or before the close of business on the business day preceding December 1, 2014, the maturity date of the Notes. Beginning December 6, 2011, we may redeem the Notes for cash, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus any accrued and unpaid interest, if the closing sales price of our common stock has exceeded 140% of the conversion price for at least 20 trading days in any 30-day trading period. In addition, if we experience a fundamental change event, as defined in the note agreement, we may be required to purchase for cash all or a portion of the Notes, at a price equal to 100% of the principal amount of the Notes plus any unpaid and accrued interest. Additionally, if upon a fundamental change event a holder elects to convert its Notes, we may, under certain circumstances, increase the conversion rate for the Notes surrendered. All of the above rights are subject to certain limitations imposed by our credit facility. Any issuance of shares as a result of the conversion of the Notes would result in dilution to our stockholders. On February 10, 2011, we announced the commencement of a tender offer to purchase for cash any and all of our outstanding Notes. The tender offer is expected to expire at 8:00A.M. New York City time on March 11, 2011, unless extended by us or earlier terminated. We cannot assure you whether the tender offer will be successful and therefore whether we will continue to have outstanding all or any portion of the Notes following the tender offer.

We may be prohibited from paying the Convertible Senior Notes due 2014 when they are due or be unable to raise the funds necessary to repay the Notes when due or finance a fundamental change purchase.

At maturity, the entire outstanding principal amount, which is currently $200 million, of our 2.625% Convertible Senior Notes due 2014 (Notes) will become due and payable. In addition, upon the occurrence of a fundamental change event, holders of Notes may require us to purchase their Notes. A fundamental change event includes (1) a change in ownership, (2) a consummation of a recapitalization, reclassification, or change of common stock, share exchange or a consolidation or merger, (3) the first day the majority of our board of directors does not consist of continuing directors, (4) stockholder approval of any plan or proposal for liquidation of Wright, or (5) when our common stock ceases to be listed on the national securities exchange in the United States, except as a result of a merger, tender offer or exchange offer for our common stock. Additionally, the principal amount of the Notes will become due upon an uncured or unwaived default in our senior credit facility. However, we may not have sufficient funds to repay the outstanding Notes at maturity or to make the required purchase of the outstanding Notes.

In addition, our ability to pay the outstanding Notes at maturity or to purchase the outstanding Notes upon a fundamental change event may be limited by the terms of other agreements relating to our debt outstanding at the time, including our revolving credit facility, which limits our ability to purchase the Notes for cash in certain circumstances. Our revolving credit facility prohibits us from making any cash payments for the purchase of the

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Notes upon the occurrence of a fundamental change event, and hence we may not be able to purchase the Notes for cash upon the occurrence of a fundamental change event unless the revolving credit facility is amended to eliminate these restrictions or is no longer outstanding at the time of such required payment. Any of our future debt agreements may contain similar restrictions. Our failure to purchase tendered Notes at a time when the purchase is required by the indenture would constitute a default under the indenture, which in turn would constitute an event of default under our revolving credit facility or under the other future agreements governing our indebtedness at such time. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness or purchase the Notes.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters and U.S. operations consist of a manufacturing facility, a warehouse, a distribution center and an administration building with research and development facilities located on more than 50 acres in Arlington, Tennessee. We lease the manufacturing facility from the Industrial Development Board of the Town of Arlington (IDB) under a lease agreement that is automatically renewable through 2049. We may exercise an option to purchase the manufacturing facility from the IDB at a nominal price at any time during the lease term. We also own a small facility in Arlington used for pre-production engineering and general production. We lease the warehouse from the IDB under a lease agreement that has no predetermined expiration date. We may exercise an option to purchase the warehouse from the IDB at a nominal price at any time during the lease term. We lease the distribution center from the IDB under a lease agreement that expires in 2020. We can purchase the property at any time for $1,000. We lease a portion of the administration building from the IDB under a lease agreement that expires on July 8, 2011. We may exercise an option to purchase the leased portion of the administration building from the IDB at a price of $101,000, which we have prepaid, at any time during the lease term. We own another portion of the administrative building that was built in 2004.

Our international operations include warehouse, sales, research and development and administrative facilities located in several countries. Our primary international warehouse is located in a leased facility in the Netherlands. Our primary international research and development facility is located in leased facilities in Italy and Costa Rica. Our sales offices in Italy, the United Kingdom, Belgium, Japan and Canada also include warehouse and administrative space.

Item 3. Legal Proceedings.

In December 2007, our wholly-owned subsidiary, Wright Medical Technology, Inc. (WMT) received a subpoena from the United States Department of Justice (DOJ) through the United States Attorney s Office for the District of New Jersey (USAO) requesting documents for the period January 1998 through the present related to any consulting and professional service agreements with orthopaedic surgeons in connection with hip or knee joint replacement procedures or products. This subpoena was served shortly after several of our knee and hip competitors agreed to resolutions with the DOJ after being subjects of investigations involving the same subject matter.

On September 29, 2010, WMT entered into a 12-month Deferred Prosecution Agreement (DPA) with the USAO and a Civil Settlement Agreement (CSA) with the United States. Under the DPA, the USAO filed a criminal complaint in the United States District Court for the District of New Jersey charging us with conspiracy to commit violations of the Anti-Kickback Statute (42 U.S.C. § 1320a-7b) during the years 2002 through 2007. The USAO has the discretion to extend the term of the DPA by up to six months. The court deferred prosecution of the criminal complaint during the term of the DPA. If we comply with the provisions of the DPA, the USAO will seek dismissal of the criminal complaint.

Pursuant to the CSA, WMT settled civil and administrative claims relating to the matter for a payment of $7.9 million without any admission by WMT. In conjunction with the CSA, WMT also entered into a five year Corporate Integrity Agreement (CIA) with the Office of the Inspector General of the United States Department of Health and Human Services. Pursuant to the DPA, an independent monitor will review and evaluate WMT s compliance with its obligations under the DPA. Together, these agreements resolve the investigation commenced

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by the USAO in December 2007. The USAO specifically acknowledges in the DPA that it does not allege that WMT s conduct adversely affected patient health or patient care.

Item 4. [Removed and reserved].

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock is traded on the Nasdaq Global Select Market under the symbol WMGI. The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported on the Nasdaq Global Select Market.

	High	Low
Fiscal Year 2009		
First Quarter	$ 22.35	$ 11.17
Second Quarter	$ 16.97	$ 12.03
Third Quarter	$ 18.38	$ 13.37
Fourth Quarter	$ 19.40	$ 15.32
Fiscal Year 2010		
First Quarter	$ 19.25	$ 15.72
Second Quarter	$ 19.61	$ 16.00
Third Quarter	$ 17.70	$ 13.03
Fourth Quarter	$ 15.99	$ 12.98

Holders

As of February 4, 2011, there were 631 stockholders of record and estimated 10,935 beneficial owners of our common stock.

Dividend Policy

We have never declared or paid cash dividends on our common stock. We currently intend to retain all future earnings for the operation and expansion of our business. We do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future. Any payment of cash dividends on our common stock will be at the discretion of our board of directors and will depend upon our results of operations, earnings, capital requirements, contractual restrictions and other factors deemed relevant by our board of directors. In addition, our current credit facility prohibits us from paying any cash dividends without the lenders consent.

Equity Compensation Plan Information

The table below sets forth information regarding the number of securities to be issued upon the exercise of the outstanding stock options granted under our equity compensation plans and the shares of common stock remaining available for future issuance under our equity compensation plans as of December 31, 2010 (in thousands):

Plan Category	Number of securities to be issued upon exercise of outstanding options (in thousands)	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (in thousands)
Equity compensation plans approved by security holders	3,741	23.62	1,518
	65	16.43	

Equity compensation plans not approved by security holders[1]				
Total	3,806	$	23.49	1,518

[1] This amount represents options to purchase 65,000 shares of our common stock granted to Raymond C. Kolls on May 31, 2010 to induce Mr. Kolls to commence employment with us as our General Counsel and Secretary. The options will vest and become exercisable in four equal annual installments beginning on the first anniversary of the date of grant.

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Comparison of Total Stockholder Returns

The graph below compares the cumulative total stockholder returns for the period from December 31, 2005 to December 31, 2010, for our common stock, an index composed of U.S. companies whose stock is listed on the Nasdaq Global Select Market (the Nasdaq U.S. Companies Index), and an index consisting of Nasdaq-listed companies in the surgical, medical, and dental instruments and supplies industry (the Nasdaq Medical Equipment Companies Index). The graph assumes that $100.00 was invested on December 31, 2005, in our common stock, the Nasdaq U.S. Companies Index, and the Nasdaq Medical Equipment Companies Index, and that all dividends were reinvested. Total returns for the two Nasdaq indices are weighted based on the market capitalization of the companies included therein. Historic stock price performance is not indicative of future stock price performance. We do not make or endorse any prediction as to future stock price performance.

Cumulative Total Stockholder Returns
Based on Reinvestment of $100.00 Beginning on December 31, 2005

	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010
Wright Medical Group, Inc.	$ 100.00	$ 114.09	$ 142.96	$ 100.13	$ 92.84	$ 76.13
Nasdaq U.S. Companies Index	100.00	109.84	119.14	57.41	82.53	97.95
Nasdaq Medical Equipment Companies Index	100.00	105.40	134.02	72.17	105.24	112.23

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Item 6. Selected Financial Data.

The following tables set forth certain of our selected consolidated financial data as of the dates and for the years indicated. The selected consolidated financial data was derived from our consolidated financial statements audited by KPMG LLP. The audited consolidated financial statements as of December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010 are included elsewhere in this annual report. The audited consolidated financial statements as of December 31, 2008, 2007 and 2006, and for each of the years ended December 31, 2007 and 2006, are not included in this filing. Historical results are not necessarily indicative of the results to be expected for any future period. These tables are presented in thousands, except per share data.

	Year Ended December 31,				
	2010	**2009**	**2008**	**2007**	**2006**
Statement of Operations:					
Net sales	$ 518,973	$ 487,508	$ 465,547	$ 386,850	$ 338,938
Cost of sales [1]	158,456	148,715	134,377	108,407	97,234
Cost of sales restructuring [2]				2,139	
Gross profit	360,517	338,793	331,170	276,304	241,704
Operating expenses:					
Selling, general and administrative [1] [7]	282,413	270,456	261,396	225,929	192,573
Research and development [1]	37,300	35,691	33,292	28,405	25,551
Amortization of intangible assets	2,711	5,151	4,874	3,782	4,149
Restructuring charges [2]	919	3,544	6,705	16,734	
Acquired in-process research and development costs [3]			2,490		
Total operating expenses	323,343	314,842	308,757	274,850	222,273
Operating income	37,174	23,951	22,413	1,454	19,431
Interest expense (income), net	6,123	5,466	2,181	(1,252)	(1,127)
Other expense (income), net [4]	130	2,873	(1,338)	375	(1,643)
Income before income taxes	30,921	15,612	21,570	2,331	22,201
Provision for income taxes [5]	13,080	3,481	18,373	1,370	7,790
Net income	$ 17,841	$ 12,131	$ 3,197	$ 961	$ 14,411
Net income per share:					
Basic	$ 0. 47	$ 0.32	$ 0.09	$ 0. 03	$ 0.42
Diluted	$ 0.47	$ 0.32	$ 0.09	$ 0.03	$ 0.41
Weighted-average number of common shares outstanding basic	37,802	37,366	36,933	35,812	34,434
Weighted-average number of common shares outstanding diluted	37,961	37,443	37,401	36,483	35,439

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	As of December 31,				
	2010	2009	2008	2007	2006
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 153,261	$ 84,409	$ 87,865	$ 229,026	$ 57,939
Marketable securities	36,345	86,819	57,614	15,535	30,325
Working capital	426,286	421,647	401,406	417,817	220,306
Total assets	755,239	714,284	692,130	669,985	409,402
Long-term liabilities	212,963	204,919	205,253	207,820	14,162
Stockholders equity	470,972	440,408	411,628	388,781	335,824

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Other Data:					
Cash flow provided by (used in) operating activities	$ 73,194	$ 71,751	$ (3,610)	$ 24,424	$ 29,975
Cash flow used in investing activities	(4,173)	(74,956)	(148,942)	(63,841)	(28,349)
Cash flow (used in) provided by financing activities	(198)	532	12,406	209,897	4,646
Depreciation	35,559	32,717	26,462	23,522	21,361
Stock-based compensation expense	13,177	13,191	13,501	16,532	13,840
Capital expenditures[6]	49,038	37,190	61,936	35,042	29,643

(1) These line items include the following amounts of non-cash, stock-based compensation expense for the periods indicated:

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Cost of sales	$ 1,301	$ 1,285	$ 1,244	$ 2,046	$ 854
Selling, general and administrative	9,924	10,077	10,644	12,061	10,766
Research and development	1,952	1,829	1,613	2,425	2,220

(2) During the years ended December 31, 2010, 2009, 2008 and 2007, we recorded pre-tax charges associated with the restructuring of our facilities in Toulon and Creteil, France, totaling $919,000, $3.5 million, $6.7 million, and $16.7 million, respectively. See Note 15 to our consolidated financial statements contained in Financial Statements and Supplementary Data for a detailed discussion of these activities and the associated charges.

(3) During the year ended December 31, 2008, we recorded $2.5 million of in-process research and development charges associated with our acquisition of Inbone Technologies, Inc.

(4) During the year ended December 31, 2009, we recorded a $2.6 million write off of the cumulative translation adjustment (CTA) balances from certain subsidiaries following the substantially complete liquidation of these entities. See Note 2 to our consolidated financial statements for additional discussion of this charge.

(5) During the year ended December 31, 2008, we recorded a tax provision of $12.8 million to adjust our valuation allowance, primarily to record a valuation allowance against all of our remaining deferred tax assets associated with net operating losses in France.

(6)

During the years ended December 31, 2010, 2009 and 2008, our capital expenditures included approximately $6.0 million, $5.9 million and $16.9 million, respectively, related to the expansion of our Arlington, Tennessee facilities.

(7) During the years ended December 31, 2010, 2009, and 2008, we recorded approximately $10.9 million, $7.8 million, and $7.6 million of expenses associated with the U.S. government inquiries and, in 2010, the DPA.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following management s discussion and analysis of financial condition and results of operations (MD&A) describes the principal factors affecting the results of our operations, financial condition and changes in financial condition, as well as our critical accounting estimates.

Executive Overview

Company Description. We are a global orthopaedic medical device company specializing in the design, manufacture and marketing of devices and biologic products for extremity, hip, and knee repair and reconstruction. Extremity hardware includes implants and other devices to replace or reconstruct injured or diseased joints and bones of the foot, ankle, hand, wrist, elbow and shoulder, which we generally refer to as either foot and ankle or upper extremity products. We are a leading provider of surgical solutions for the foot and ankle market. Reconstructive devices are used to replace or repair knee, hip and other joints and bones that have deteriorated or been damaged through disease or injury. Biologics are used to repair or replace damaged or diseased bone, to stimulate bone growth and to provide other biological solutions for surgeons and their patients. Within these markets, we focus on the higher-growth sectors of the orthopaedic industry, such as the foot and ankle market, as well as on the integration of our biologic products into reconstructive procedures and other orthopaedic applications. Our extensive foot and ankle product portfolio, our over 180 specialized foot and ankle sales representatives, and our increasing level of training of foot and ankle surgeons has resulted in our being a recognized leader in the foot and ankle market. We have been in business for over 60 years and have built a well-known and respected brand name.

Our corporate headquarters and U.S. operations are located in Arlington, Tennessee, where we conduct research and development, sales and marketing administration, manufacturing, warehousing and administrative activities. Our U.S. sales accounted for 60% of total revenue in 2010. Outside the U.S., we have research, distribution and administrative facilities in Milan, Italy; distribution and administrative facilities in Amsterdam, the Netherlands; and sales and distribution offices in Canada, Japan and throughout Europe. We market our products in approximately 60 countries through a global distribution system that consists of a sales force of approximately 1,200 individuals who promote our products to orthopaedic surgeons and hospitals and other healthcare facilities. At the end of 2010, we had approximately 400 sales associates and independent sales distributors in the U.S., and approximately 800 sales representatives internationally, who were employed through a combination of our stocking distribution partners and direct sales offices.

Principal Products. We primarily sell devices and biologic products for extremity, hip, and knee repair and reconstruction. We specialize in extremity and biologic products used by extremity focused surgeon specialists for the reconstruction, trauma and arthroscopy markets. Our biologics sales encompass a broad portfolio of products designed to stimulate and augment the natural regenerative capabilities of the human body. We also sell orthopaedic products not considered to be part of our knee, hip, extremity or biologic product lines.

Our extremities product line includes products for both the foot and ankle and the upper extremity markets. Our principal foot and ankle portfolio includes the CHARLOTTE foot and ankle system, the DARCO® MFS, DARCO® MRS and DARCO® FRS locked plating systems, the INBONE total ankle system, the VALOR ankle fusion nail system, the SIDEKICK external fixation systems, and the Swanson line of toe joint replacement products. Our upper extremity portfolio includes the EVOLVE® radial head prosthesis for elbow fractures, the MICRONAIL® intramedullary wrist fracture repair system, the RAYHACK® osteotomy system, and the SWANSON line of finger joint replacement products.

Our biologic products focus on biological musculoskeletal repair and include synthetic and human tissue-based materials. Our principal biologic products include the GRAFTJACKET® line of soft tissue repair and containment membranes, the ALLOMATRIX® line of injectable tissue-based bone graft substitutes, the PRO-

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DENSE® injectable regenerative graft, the OSTEOSET® synthetic bone graft substitute, the CANCELLO-PURE wedge products, and the PRO-STIM injectable inductive graft.

Our knee reconstruction products position us well in the areas of total knee reconstruction, revision replacement implants and limb preservation products. Our principal knee products are the ADVANCE® knee system, the EVOLUTION Medial-Pivot Knee System launched in July 2010, and the PROPHECY pre-operative navigation guides for knee replacement.

Our hip joint reconstruction product portfolio provides offerings in the areas of bone-conserving implants, total hip reconstruction, revision replacement implants and limb preservation. Our hip reconstruction products include the CONSERVE® family of products, the PROFEMUR® family of hip stems, the DYNASTY acetabular cup system, the ANCA-FIT hip system, the PERFECTA® hip system, the PROCOTYL® Acetabular Revision System and the LINEAGE® acetabular system.

Significant Business Developments. Net sales grew 6% in 2010, totaling $519.0 million, compared to $487.5 million in 2009. Our extremity product line contributed significantly to our performance in 2010, achieving a 16% growth rate. Additionally, our knee and hip product lines both grew by 5%.

Our U.S. extremity business experienced year-over-year growth from 2009 to 2010 totaling 14%, primarily due to the continued success of our INBONE total ankle system, increased sales of our ORTHOLOC polyaxial trauma plating system, launched in late 2009, and increased sales of our VALOR ankle fusion nail system, which had a full commercial launch in June of 2010.

Our international sales increased by 11% during 2010 as compared to 2009. This increase was driven by continued growth in our Asian markets and the substantial majority of our European markets, as well as our increased presence in Australia, partially offset by lower sales to our stocking distributor in Turkey. Additionally, our 2010 sales included a $1.5 million favorable currency impact as compared to 2009.

Our net income increased to $17.8 million in 2010, from $12.1 million in 2009. The substantial majority of this increase is driven by changes in certain expenses that are not part of our on-going operations, including the $5.6 million provision for potential losses associated with a trade receivable recorded in 2009 and the $2.6 million write-off of cumulative translation adjustment (CTA) balances for certain subsidiaries that were substantially liquidated in 2009, as well as lower levels of restructuring expenses. Additionally, during 2010 our net income increased due to profits associated with higher levels of sales, as well as lower levels of amortization expense.

In January 2011, we announced the extension of our supply agreement with LifeCell Corporation, a business unit of Kinetic Concepts, Inc. (KCI) for the supply of GRAFTJACKET® Regenerative Tissue Matrix through December 2018 for orthopaedic markets. In addition, we entered into an agreement with KCI to license our GRAFTJACKET® brand to KCI for exclusive use in wound markets. Consideration to be paid by KCI consists primarily of $8.5 million payable over the next twelve months, as well as payments based on future sales of licensed products. The license agreement is expected to have a negative impact on our global sales growth rate of approximately 1% to 2% in 2011 and our U.S. biologics sales growth rate of 8% to 15%. However, we do not expect it to have an impact on our earnings results.

In February 2011, we entered into an amended and restated credit agreement. At the same time, we announced that we had commenced a tender offer for any and all of our outstanding 2.625% Convertible Senior Notes due 2014 (Notes). We expect to fund the purchase of notes tendered in the tender offer and pay the related fees and expenses from 1) borrowings under the amended and restated credit agreement and 2) our existing cash and cash equivalents and marketable securities balances. Until the expiration of the tender offer, we are unable to estimate the amount we will draw on the credit agreement, nor the amount of the Notes that will remain outstanding upon completion of the tender offer. In the event that all of the Notes are validly tendered in the tender offer and not validly withdrawn, we expect to draw approximately $150 million on the credit agreement to fund the purchase of the Notes.

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Opportunities and Challenges. Our results of operations can be substantially affected not only by global economic conditions, but also by local operating and economic conditions, which can vary substantially by market. Unfavorable conditions can depress sales in a given market and may result in actions that adversely affect our margins, constrain our operating flexibility, or result in charges which are unusual or non-recurring. The current state of the global economy has negatively impacted industry growth rates in both U.S. and international markets, and we are unable to predict when these markets will return to historical rates of growth.

In our U.S. markets, we expect that an expansion of our sales force and product offerings will favorably impact our extremities and biologics businesses in 2011. However, we continue to expect that our U.S. hip and knee business will continue to be unfavorably impacted by the economic downturn.

Significant Industry Factors. Our industry is affected by numerous competitive, regulatory, and other significant factors. The growth of our business relies on our ability to continue to develop new products and innovative technologies, obtain regulatory clearance and compliance for our products, protect the proprietary technology of our products and our manufacturing processes, manufacture our products cost-effectively, respond to competitive pressures specific to each of our geographic markets, including our ability to enforce non-compete agreements, and successfully market and distribute our products in a profitable manner. We, and the entire industry, are subject to extensive governmental regulation, primarily by the United States Food and Drug Administration (FDA). Failure to comply with regulatory requirements could have a material adverse effect on our business. Additionally, our industry is highly competitive and has recently experienced increased pricing pressures, specifically in the areas of reconstructive joint devices.

In December 2007, we received a subpoena from the United States Department of Justice (DOJ) through the United States Attorney s Office for the District of New Jersey (USAO) requesting documents for the period January 1998 through the present related to any consulting and professional service agreements with orthopaedic surgeons in connection with hip or knee joint replacement procedures or products. This subpoena was served shortly after several of our knee and hip competitors agreed to resolutions with the DOJ after being subjects of investigations involving the same subject matter.

On September 29, 2010, our wholly-owned subsidiary, Wright Medical Technology, Inc. (WMT) entered into a 12-month Deferred Prosecution Agreement (DPA) with the USAO and a Civil Settlement Agreement (CSA) with the United States. Under the DPA, the USAO agrees not to prosecute WMT in connection with the matter if WMT satisfies its obligations during the 12 month term of the DPA. Pursuant to the CSA, WMT settled civil and administrative claims relating to the matter for a payment of $7.9 million without any admission by WMT. In conjunction with the CSA, WMT also entered into a five year Corporate Integrity Agreement (CIA) with the Office of the Inspector General of the United States Department of Health and Human Services. Pursuant to the DPA, an independent monitor will review and evaluate WMT s compliance with its obligations under the DPA. Together, these agreements resolve the investigation commenced by the USAO in December 2007. The USAO specifically acknowledges in the DPA that it does not allege that WMT s conduct adversely affected patient health or patient care. The DPA and CIA impose certain obligations on WMT to maintain compliance with U.S. healthcare regulatory laws. Our failure to do so could expose us to significant liability including, but not limited to, extension of the term of the DPA by up to six months, exclusion from federal healthcare program participation, including Medicaid and Medicare, civil and criminal fines or penalties, and additional litigation cost and expense.

In March 2010, comprehensive health care reform legislation in the form of the Patient Protection and Affordable Health Care Act and the Health Care and Education Reconciliation Act was enacted. Among other initiatives, these bills impose a 2.3% excise tax on U.S. sales of medical devices after December 31, 2012.

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A detailed discussion of these and other factors is provided in Risk Factors.

Results of Operations

Comparison of the year ended December 31, 2010 to the year ended December 31, 2009

The following table sets forth, for the periods indicated, our results of operations expressed as dollar amounts (in thousands) and as percentages of net sales:

	Year Ended December 31,			
	2010		2009	
	Amount	% of Sales	Amount	% of Sales
Net sales	$ 518,973	100.0%	$ 487,508	100.0%
Cost of sales	158,456	30.5%	148,715	30.5%
Gross profit	360,517	69.5%	338,793	69.5%
Operating expenses:				
Selling, general and administrative	282,413	54.4%	270,456	55.5%
Research and development	37,300	7.2%	35,691	7.3%
Amortization of intangible assets	2,711	0.5%	5,151	1.1%
Restructuring charges	919	0.2%	3,544	0.7%
Total operating expenses	323,343	62.3%	314,842	64.6%
Operating income	37,174	7.2%	23,951	4.9%
Interest expense, net	6,123	1.2%	5,466	1.1%
Other income, net	130	0.0%	2,873	0.6%
Income before income taxes	30,921	6.0%	15,612	3.2%
Provision for income taxes	13,080	2.5%	3,481	0.7%
Net income	$ 17,841	3.4%	$ 12,131	2.5%

The following table sets forth our net sales by product line for the periods indicated (in thousands) and the percentage of year-over-year change:

	Year Ended December 31,		%
	2010	2009	Change
Hip products	$ 176,687	$ 167,869	5.3%
Knee products	128,854	122,178	5.5%
Extremity products	124,490	107,375	15.9%
Biologics products	79,231	79,120	0.1%
Other	9,711	10,966	(11.4%)
Total net sales	$ 518,973	$ 487,508	6.5%

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The following graphs illustrate our product line sales as a percentage of total net sales for the years ended December 31, 2010 and 2009:

Net sales. Our U.S. net sales totaled $310.0 million in 2010 and $299.6 million in 2009, representing approximately 60% of total net sales in 2010, 61% of total net sales in 2009 and a 3% increase in 2010 over 2009. Our international net sales totaled $209.0 million in 2010, an 11% increase as compared to net sales of $187.9 million in 2009. Our 2010 international net sales included a favorable foreign currency impact of approximately $1.5 million when compared to 2009 net sales, due to the 2010 favorable performance of the Japanese yen and the Canadian dollar against the U.S. dollar, which was partially offset by the unfavorable performance of the euro against the U.S. dollar. The favorable currency impact, the growth of our sales in Australia, and an increase in international sales due to continued growth in our Asian markets, were partially offset by a reduction in sales to our stocking distributor in Turkey.

Our net sales growth in 2010 was led by our extremities product line, which increased 16% over 2009, while our knee and hip businesses increased 5% and 5%, respectively, and our biologic business was relatively flat.

Our hip product net sales totaled $176.7 million in 2010, representing a 5% increase over 2009. This increase was driven by increased international sales of our PROFEMUR® hip system, primarily within Japan and Europe, as well as a $1.1 million favorable currency impact compared to 2009. In 2010, U.S. hip sales declined 3% compared to 2009, due to declines in both unit sales and pricing.

Net sales of our knee products totaled $128.9 million in 2010, representing growth of 5% over 2009. In the U.S., knee sales increased 2% over 2009 due to increased unit sales, which were partially offset by declines in pricing. Internationally, knee sales increased 10% in 2010 over 2009.

Our extremity product net sales increased to $124.5 million in 2010, representing growth of 16% over 2009. This increase was primarily driven by our U.S. extremity business, which increased 14%, primarily resulting from the continued success of our INBONE total ankle system, increased sales of our ORTHOLOC polyaxial trauma plating system, launched in late 2009, and increased sales of our VALOR ankle fusion nail system, which had a limited launch in 2009 and a full commercial launch in June of 2010. International extremity sales growth of 27% was primarily driven by our Australian subsidiary.

Net sales of our biologic products totaled $79.2 million in 2010, which was relatively flat as compared to 2009. Our U.S. biologics sales were flat compared to 2009, as increased sales of our PRO-STIM osteoinductive bone graft substitute, which had a limited launch in late 2009 and a full commercial launch in

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October 2010, were offset by continued declines of our GRAFTJACKET® tissue repair and containment membranes and our ALLOMATRIX® line of injectable tissue-based bone graft substitutes. Our international net sales of biologics grew 3% over prior year, due to increased sales by our Australian subsidiary, which were offset by decreased sales to our stocking distributor in Turkey.

Cost of sales. Our cost of sales as a percentage of net sales was 30.5% in both 2009 and 2010. Unfavorable geographic mix shifts, as our more profitable U.S. sales decreased as a percentage of total sales, along with unfavorable pricing in our U.S. hip and knee business were offset by lower levels of excess and obsolete inventory provisions and favorable manufacturing variances. Our cost of sales and corresponding gross profit percentages can be expected to fluctuate in future periods depending upon changes in our product sales mix and prices, distribution channels and geographies, manufacturing yields, period expenses, levels of production volume and currency exchange rates.

Selling, general and administrative. Our selling, general and administrative expenses as a percentage of net sales totaled 54.4% and 55.5% in 2010 and 2009, respectively. Selling, general and administrative expense for 2010 included $9.9 million of non-cash, stock-based compensation expense (1.9% of net sales) and $10.9 million of costs associated with our U.S. government inquiries and our DPA (2.1% of net sales). During 2009, selling, general and administrative expense included $10.1 million of non-cash, stock-based compensation expense (2.1% of net sales), $7.8 million of costs, primarily legal fees, associated with U.S. government inquiries (1.6% of net sales), and a $5.6 million provision for potential losses associated with a trade receivable (1.1% of net sales). The remaining expenses declined by 0.3 points as a percentage of net sales primarily as a result of leveraging of expenses in Europe, which were partially offset by investments in our foot and ankle sales force and higher levels of cash incentive compensation.

We anticipate that our selling, general and administrative expenses will increase in absolute dollars to the extent that additional growth in net sales results in increases in sales commissions and royalty expense associated with those sales and requires us to expand our infrastructure. Further, in the near term, we anticipate that these expenses may increase as a percentage of net sales as we make strategic investments to grow our business, as we incur expenses associated with our compliance with the DPA, and as our spending related to the global compliance requirements of our industry increases.

Research and development. Our investment in research and development activities represented 7.2% and 7.3% of net sales in 2010 and 2009, respectively. Our research and development expense included non-cash, stock-based compensation expense of $1.9 million (0.4% of net sales) in 2010, compared to $1.8 million (0.4% of net sales) in 2009. The remaining expenses were relatively flat as a percentage of net sales as spending grew at the same rates as sales.

We anticipate that our research and development expenditures will remain relatively flat as a percentage of net sales, but will increase in absolute dollars as we continue to increase our investment in product development initiatives and clinical studies to support regulatory approvals and provide expanded proof of the efficacy of our products.

Amortization of intangible assets. Charges associated with amortization of intangible assets totaled $2.7 million in 2010, as compared to $5.2 million in 2009. The decrease is due to a significant portion of our intangible assets that became fully amortized at the end of 2009. Based on the intangible assets held at December 31, 2010, we expect to amortize approximately $2.5 million in 2011, $2.3 million in 2012, $2.0 million in 2013, $1.8 million in 2014, and $1.7 million in 2015.

Interest expense (income), net. Interest expense (income), net, consists of interest expense of $6.6 million and $6.5 million in 2010 and 2009, respectively, primarily from our $200 million of Convertible Senior Notes due 2014 issued in November 2007. This was partially offset by interest income of $500,000 and $1.0 million during 2010 and 2009, respectively, generated by our invested cash balances and investments in marketable securities. The decline in interest income is due to the overall decline in interest rates on our invested cash balances and investments in marketable securities during 2010.

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The amounts of interest income we realize in 2011 and beyond are subject to variability, dependent upon both the rate of invested returns we realize and the amount of excess cash balances on hand.

Other expense (income), net. Other expense (income), net, totaled $130,000 of expense during 2010 compared to $2.9 million of expense during 2009. During 2009, we recognized $2.6 million of expense related to the write-off of the CTA balances for certain subsidiaries that have been substantially liquidated.

Provision for income taxes. We recorded tax provisions of $13.1 million and $3.5 million in 2010 and 2009, respectively. Our effective tax rate for 2010 and 2009 was 42.3% and 22.3% respectively. The increase in our effective tax rate is primarily due to changes in our valuation allowance in both years, higher levels of non-deductible expenses in 2010, primarily due to a portion of the civil settlement payment that is considered not deductible, and the greater impact of certain deductions on our lower income in 2009.

Comparison of the year ended December 31, 2009 to the year ended December 31, 2008

The following table sets forth, for the periods indicated, our results of operations expressed as dollar amounts (in thousands) and as percentages of net sales:

	Year Ended December 31,			
	2009		2008	
	Amount	% of Sales	Amount	% of Sales
Net sales	$ 487,508	100.0%	$ 465,547	100.0%
Cost of sales	148,715	30.5%	134,377	28.9%
Gross profit	338,793	69.5%	331,170	71.1%
Operating expenses:				
Selling, general and administrative	270,456	55.5%	261,396	56.1%
Research and development	35,691	7.3%	33,292	7.2%
Amortization of intangible assets	5,151	1.1%	4,874	1.0%
Restructuring charges	3,544	0.7%	6,705	1.4%
Acquired in-process research and development		0.0%	2,490	0.5%
Total operating expenses	314,842	64.6%	308,757	66.3%
Operating income	23,951	4.9%	22,413	4.8%
Interest expense (income), net	5,466	1.1%	2,181	0.5%
Other (income) expense, net	2,873	0.6%	(1,338)	(0.3%)
Income before income taxes	15,612	3.2%	21,570	4.6%
Provision for income taxes	3,481	0.7%	18,373	3.9%
Net income	$ 12,131	2.5%	$ 3,197	0.7%

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The following table sets forth our net sales by product line for the periods indicated (in thousands) and the percentage of year-over-year change:

	Year Ended December 31,		
	2009	2008	% Change
Hip products	$ 167,869	$ 160,788	4.4%
Knee products	122,178	119,895	1.9%
Extremity products	107,375	88,890	20.8%
Biologics products	79,120	82,399	(4.0%)
Other	10,966	13,575	(19.2%)
Total net sales	$ 487,508	$ 465,547	4.7%

The following graphs illustrate our product line sales as a percentage of total net sales for the years ended December 31, 2009 and 2008:

Net sales. Our U.S. net sales totaled $299.6 million in 2009 and $282.1 million in 2008, representing approximately 61% of total net sales in each year and a 6% increase over 2008. Our international net sales totaled $187.9 million in 2009, a 2% increase as compared to net sales of $183.5 million in 2008. Our 2009 international net sales included an unfavorable foreign currency impact of approximately $3.0 million when compared to 2008 net sales, principally resulting from the 2009 performance of the Japanese yen and the euro against the U.S. dollar. The unfavorable currency impact, declines in France, and a reduction in sales to our stocking distributor in Turkey were offset by an increase in international sales due to continued growth in our Asian markets, primarily within our hip product lines, as well as certain of our European markets.

From a product line perspective, our net sales growth for 2009 was attributable to increases in our extremity, hip and knee product lines while we experienced declines in our biologics product line. For 2009, we experienced growth of 21%, 4% and 2%, in our extremity, hip, and knee product lines, respectively, while our biologics, product line declined 4%. During 2009, our extremity sales growth was attributable primarily to the continued success of our CHARLOTTE foot and ankle system and our DARCO® plating systems, as well as sales related to our INBONE and Rayhack® products, which were acquired in April 2008 and September 2008, respectively. The increase in our hip product sales was driven by increased sales of our PROFEMUR® hip system, and our DYNASTY® acetabular cup system, which was launched during the second quarter 2008. Sales of our knee products increased in 2009 compared to the prior year as a result of growth in our ADVANCE® knee systems, which was partially offset by declines across our other, more mature knee product

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offerings. The decline in our biologics business in 2009 was primarily attributable to lower levels of sales of our ALLOMATRIX® product line, which was partially offset by increased sales of our PRO-DENSE® injectable regenerative graft and our GRAFTJACKET® tissue repair products.

Cost of sales. In 2009, our cost of sales as a percentage of net sales increased from 28.9% in 2008 to 30.5% in 2009. This increase was primarily attributable to higher levels of excess and obsolete inventory provisions, increased raw material and other manufacturing costs, and unfavorable currency exchange rates.

Operating expenses. Our total operating expenses decreased, as a percentage of net sales, by 1.7 percentage points to 64.6% in 2009 from 2008. Operating expenses include selling, general and administrative expenses, research and development expenses, amortization of intangibles and restructuring charges. The decrease in operating expenses was attributed primarily to decreased restructuring expenses, as well as lower levels of expenses due to cost saving initiatives primarily in our European subsidiaries, lower levels of cash incentive compensation and the 2008 charge for in-process research and development, all of which were partially offset by costs associated with increased expenses associated with global compliance efforts.

Interest expense (income), net. Interest expense (income), net, consisted of interest expense of $6.5 million and $7.0 million in 2009 and 2008, respectively, primarily from our $200 million of Convertible Senior Notes due 2014 issued in November 2007, our capital lease agreements, and, in 2008, certain of our factoring agreements. This was partially offset by interest income of $1.0 million and $4.8 million during 2009 and 2008, respectively, generated by our invested cash balances and investments in marketable securities. The decline in interest income is due to the overall decline in interest rates on our invested cash balances and investments in marketable securities during 2009.

Other expense (income), net. Other expense (income), net, totaled $2.9 million of expense during 2009 compared to $1.3 million of income during 2008. During 2009, we recognized $2.6 million of expense related to the write-off of the CTA balances for certain subsidiaries that had been substantially liquidated. During 2008, we recognized $900,000 of deferred gain associated with the 2007 disposition of our ADCON®-Gel assets.

Provision for income taxes. Our effective tax rate for 2009 and 2008 was 22.3% and 85.2%, respectively. In 2009, we reduced our valuation allowance as a result of a change in estimate regarding the jurisdiction where certain deductions would be recognized for tax purposes, which decreased our effective tax rate by 6 percentage points. Our 2008 effective tax rate includes a tax provision of $12.8 million to adjust our valuation allowance, primarily to record a valuation allowance against all of our remaining deferred tax assets associated with net operating losses in France, which increased our effective tax rate by 59 percentage points.

Seasonal Nature of Business

We traditionally experience lower sales volumes in the third quarter than throughout the rest of the year as many of our reconstructive products are used in elective procedures, which generally decline during the summer months, typically resulting in selling, general and administrative expenses and research and development expenses as a percentage of sales that are higher during this period than throughout the rest of the year. In addition, our first quarter selling, general and administrative expenses include additional expenses that we incur in connection with the annual meeting held by the American Academy of Orthopaedic Surgeons (AAOS) and the American College of Foot and Ankle Surgeons (ACFAS). The AAOS meeting, which is the largest orthopaedic meeting in the world, features the presentation of scientific papers and instructional courses for orthopaedic surgeons. During this three-day event, we display our most recent and innovative products for these surgeons. The ACFAS meeting, similar to AAOS, is another three-day event to display our latest innovations in the foot and ankle market.

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Restructuring

Toulon, France

In 2007, we announced our plans to close our facilities in Toulon, France. This announcement came after a thorough evaluation in which we determined that we had excess manufacturing capacity and redundant distribution and administrative resources that would be best eliminated through the closure of this facility. The majority of our restructuring activities were complete by the end of 2007, with production now conducted solely in our existing manufacturing facility in Arlington, Tennessee and the distribution activities being carried out from our European headquarters in Amsterdam, the Netherlands. We estimated that total pre-tax restructuring charges would be approximately $28 million to $30 million. We have recognized $27.3 million through December 31, 2010, and have completed our restructuring activities in Toulon, France. We began realizing the benefits from this restructuring within selling, general and administrative expenses in 2008. While we began realizing the benefits from this restructuring within cost of sales in 2009, unfavorable currency exchange rates and increased raw material and other manufacturing costs have offset some of those benefits. See Note 15 to our consolidated financial statements in Financial Statements and Supplementary Data for further discussion of our restructuring charges.

Creteil, France

In October 2009, we announced plans to close our distribution and finance support office in Creteil, France, to migrate all relevant French distribution and support functions into our European organization based out of our European headquarters in Amsterdam, the Netherlands. Direct sales in France will continue and will be serviced by independent sales agents. We estimated that total pre-tax restructuring charges would be approximately $3 million to $4 million. We recognized a total of $2.8 million through June 30, 2010, when we completed our restructuring activities in Creteil, France. We began realizing the benefits of this restructuring within selling, general and administrative expenses in the second quarter of 2010 and have realized an improvement in working capital. See Note 15 to our consolidated financial statements in Financial Statements and Supplementary Data for further discussion of our restructuring charges.

Liquidity and Capital Resources

The following table sets forth, for the periods indicated, certain liquidity measures (in thousands):

	As of December 31,	
	2010	**2009**
Cash and cash equivalents	$ 153,261	$ 84,409
Short-term marketable securities	19,152	86,819
Long-term marketable securities	17,193	
Working capital	426,286	421,647
Line of credit availability	100,000	100,000

During 2010, we began investing in long-term marketable securities with maturity dates ranging from 17 to 36 months, consisting of investments in government, agency, and corporate bonds. As of December 31, 2010, the weighted average maturity for these investments was 21 months.

Operating Activities. Cash provided by operating activities totaled $73.2 and $71.8 million in 2010 and 2009, respectively, as compared to cash used by operating activities of $3.6 million in 2008. The increase in cash provided by operating activities in 2010 as compared to 2009 was primarily due to a decrease in our provision for deferred taxes, which was mostly offset by changes in working capital, primarily due to the decrease in our inventory balance in 2009.

In 2009 compared to 2008, the increase in cash from operating activities was primarily attributable to changes in working capital, as inventory balances decreased significantly due to a focus on inventory management during 2009, and accounts receivable decreased as the result of diligent collection efforts, which were partially

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offset by the 2008 liquidation of our investments in auction rate securities that were classified as trading securities.

Investing Activities. Our capital expenditures totaled $49.0 million in 2010, $37.2 million in 2009, and $61.9 million in 2008. The increase in 2010 compared to 2009 is attributable to increased spending on manufacturing equipment and surgical instrumentation primarily associated with our recent launch of our EVOLUTION medial-pivot knee system, as well as increased spending related to the expansion of our facilities in Arlington, Tennessee. The decrease in 2009 compared to 2008 is attributable to lower levels of expenditures related to the expansion of our Arlington, Tennessee facilities, as well as lower levels of investments in surgical instrumentation related to acquired and new products. Our industry is capital intensive, particularly as it relates to surgical instrumentation. Historically, our capital expenditures have consisted principally of purchased manufacturing equipment, research and testing equipment, computer systems, office furniture and equipment and surgical instruments. We expect to incur capital expenditures in 2011 of approximately $50 million for routine capital expenditures.

Financing Activities. During 2010, cash used in financing activities totaled $200,000 compared to cash provided by financing activities in 2009 of $500,000. This decrease is primarily the result of the payment of financing charges associated with the renewal of our revolving credit facility in June 2010.

In early 2009, we terminated certain accounts receivable factoring agreements. While these factoring agreements were active, the cash proceeds, net of the amount of factored receivables collected, were reflected as cash flows from financing activities in our consolidated statements of cash flows. The proceeds received under these agreements during 2008 totaled $6.6 million. These proceeds were offset by payments for factored receivables collected of $7.0 million in 2008.

In 2011, we will make continued payments under our long-term capital leases, including interest, of $1.2 million.

On June 30, 2010, we renewed our revolving credit facility. The revolving credit facility has availability of $100 million, which can be increased by up to an additional $50 million at our request and subject to the agreement of the lenders. We currently have no borrowings outstanding under the credit facility. Borrowings under the credit facility will bear interest at the sum of a base rate or a Eurodollar rate plus an applicable margin that ranges from 0.25% to 2.50% depending on the type of loan and our consolidated leverage ratio, with a current annual base rate of 3.25% and a Eurodollar rate of 0.46% (6 month rate).

The payment of our indebtedness under the credit facility is secured by pledges of 100% of the capital stock of our U.S. subsidiaries and 65% of the capital stock of our foreign subsidiaries, and is guaranteed by our U.S. subsidiaries. The credit agreement contains customary financial and non-financial covenants. Upon the occurrence of an event of default, the lenders may declare that all principal, interest and other amounts owed are immediately due and payable and may exercise any other available right or remedy. The events of default include, but are not limited to, non-payment of amounts owed, failure to perform covenants, breach of representations and warranties, institution of insolvency proceedings, entry of certain judgments, and occurrence of a change in control.

The credit facility was amended and restated as described below.

On February 10, 2011, we entered into an amended and restated revolving credit agreement. This credit facility has revolver availability of $200 million, and availability in a delayed draw term loan of up to $150 million. The total availability can be increased by up to an additional $100 million at our request and subject to the agreement of the lenders. As of the date of this filing, there are no amounts outstanding under this agreement. Borrowings under the restated credit agreement will bear interest at the sum of a base rate or a Eurodollar rate plus an applicable margin that ranges from 0.0% to 2.75%, depending on the type of loan and our consolidated leverage ratio. The term of the restated revolving credit agreement extends through June 1,

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2014; however, if at least $100 million of our Convertible Senior Notes due 2014 are tendered (as discussed below), the term will be extended through February 10, 2016.

During 2007, we issued $200 million of 2.625% Convertible Senior Notes due 2014 (Notes), which generated net proceeds of $193.5 million. The Notes require us to pay interest semiannually at an annual rate of 2.625%. The Notes are convertible into shares of our common stock at an initial conversion rate of 30.6279 shares per $1,000 principal amount of the Notes (subject to adjustment upon the occurrence of specified events), which represents an initial conversion price of $32.65 per share. On February 10, 2011, we announced the commencement of a tender offer to purchase for cash any and all of our outstanding 2.625% Convertible Senior Notes due 2014. The tender offer is expected to expire at 8:00 A.M. New York City time on March 11, 2011, unless extended by us or earlier terminated. At this time, we cannot estimate the amount, if any, of the Notes that will be tendered, nor the amount of Notes or aggregate indebtedness that will remain outstanding upon the completion of the tender offer. We will make scheduled interest payments in 2011 related to the Notes of up to $5.3 million, depending upon the amount of Notes tendered in the tender offer. We expect to fund the purchase of the Notes tendered from borrowings under the restated credit facility and existing cash and marketable securities balances.

Contractual Cash Obligations. At December 31, 2010, we had contractual cash obligations and commercial commitments as follows (in thousands):

		Payments Due by Periods			
	Total	**2011**	**2012-2013**	**2014-2015**	**After 2015**
Amounts reflected in consolidated balance sheet:					
Lease obligations[1]	$ 3,064	$ 1,161	$ 1,887	$ 16	$
Convertible Senior Notes[2]	200,000			200,000	
Amounts not reflected in consolidated balance sheet:					
Operating leases	20,672	9,920	8,498	1,327	927
Interest on Convertible Senior Notes[3]	20,563	5,250	10,500	4,813	
Purchase obligations	2,300	2,300			
Royalty and consulting agreements	992	202	349	294	147
Total contractual cash obligations	$ 247,591	$ 18,833	$ 21,234	$ 206,450	$ 1,074

(1) Payments include amounts representing interest.

(2) Represents long-term debt payment provided holders of the Convertible Senior Notes due 2014 do not exercise the option to convert each $1,000 note into 30.6279 shares of our common stock. Our Convertible Senior Notes are discussed further in Note 8 to our consolidated financial statements contained in Financial Statements and Supplementary Data. On February 10, 2011, we announced the commencement of a tender offer to purchase for cash any and all of our outstanding 2.625% Convertible Senior Notes due 2014.

(3) Represents interest on Convertible Senior Notes due 2014 payable semiannually with an annual interest rate of 2.625%.

The amounts reflected in the table above for capital lease obligations represent future minimum lease payments under our capital lease agreements, which are primarily for certain property and equipment. The present value of the minimum lease payments are recorded in our balance sheet at December 31, 2010. The minimum lease payments

related to these leases are discussed further in Note 8 to our consolidated financial statements contained in Financial Statements and Supplementary Data.

The amounts reflected in the table above for operating leases represent future minimum lease payments under non-cancelable operating leases primarily for certain equipment and office space. Portions of these payments are denominated in foreign currencies and were translated in the table above based on their

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respective U.S. dollar exchange rates at December 31, 2010. These future payments are subject to foreign currency exchange rate risk. In accordance with U.S. generally accepted accounting principles, our operating leases are not recognized in our consolidated balance sheet; however, the minimum lease payments related to these agreements are disclosed in Note 16 to our consolidated financial statements contained in Financial Statements and Supplementary Data.

Our purchase obligations reflected in the table above consist of minimum purchase obligations related to certain supply agreements. The royalty and consulting agreements in the above table represent minimum payments under non-cancelable contracts with consultants that are contingent upon future services. Portions of these payments are denominated in foreign currencies and were translated in the table above based on their respective U.S. dollar exchange rates at December 31, 2010. These future payments are subject to foreign currency exchange rate risk. Our purchase obligations and royalty and consulting agreements are disclosed in Note 16 to our consolidated financial statements contained in Financial Statements and Supplementary Data.

Contingent consideration of up to $400,000 may be paid related to the acquisition of certain assets associated with the EZ Concept Surgical Device Corporation (EZ Frame). The potential additional cash payments are based on the future financial performance of the acquired assets.

In addition to the contractual cash obligations discussed above, all of our U.S. sales and a portion of our international sales are subject to commissions based on net sales. A substantial portion of our global sales are subject to royalties earned based on product sales.

Additionally, as of December 31, 2010, we had $3.2 million of unrecognized tax benefits recorded within Other liabilities in our consolidated balance sheet. This represents the tax benefits associated with various tax positions taken, or expected to be taken, on U.S. and international tax returns that have not been recognized in our financial statements due to uncertainty regarding their resolution. We are unable to make a reliable estimate of the eventual cash flows by period that may be required to settle these matters. Certain of these matters may not require cash settlement due to the existence of net operating loss carryforwards. Therefore, our unrecognized tax benefits are not included in the table above. See Note 10 to our consolidated financial statements contained in Financial Statements and Supplementary Data.

Other Liquidity Information. We have funded our cash needs since 2000 through various equity and debt issuances and through cash flow from operations. In 2001, we completed our initial public offering of 7,500,000 shares of common stock, which generated $84.8 million in net proceeds. In 2002, we completed a secondary offering of 3,450,000 shares of common stock, which generated $49.5 million in net proceeds. In 2007, we issued $200 million of 2.625% Convertible Senior Notes due 2014, which generated net proceeds totaling $193.5 million.

Although it is difficult for us to predict our future liquidity requirements, we believe that our current cash balance of approximately $153.3 million, our marketable securities balances totaling $36.3 million and available borrowings under the new credit agreement will be sufficient for the foreseeable future to fund our working capital requirements and operations, permit anticipated capital expenditures in 2011 of approximately $50 million, meet our contractual cash obligations in 2011, and purchase any of our 2.625% Convertible Senior Notes tendered in the tender offer.

Critical Accounting Estimates

All of our significant accounting policies and estimates are described in Note 2 to our consolidated financial statements contained in Financial Statements and Supplementary Data. Certain of our more critical accounting estimates require the application of significant judgment by management in selecting the appropriate assumptions in determining the estimate. By their nature, these judgments are subject to an inherent degree of uncertainty. We develop these judgments based on our historical experience, terms of

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existing contracts, our observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. Different, reasonable estimates could have been used in the current period. Additionally, changes in accounting estimates are reasonably likely to occur from period to period. Both of these factors could have a material impact on the presentation of our financial condition, changes in financial condition or results of operations.

We believe that the following financial estimates are both important to the portrayal of our financial condition and results of operations and require subjective or complex judgments. Further, we believe that the items discussed below are properly recorded in the financial statements for all periods presented. Our management has discussed the development, selection and disclosure of our most critical financial estimates with the audit committee of our board of directors and with our independent auditors. The judgments about those financial estimates are based on information available as of the date of the financial statements. Those financial estimates include:

Revenue recognition. Our revenues are primarily generated through two types of customers, hospitals and surgery centers and stocking distributors, with the majority of our revenue derived from sales to hospitals. Our products are sold through a network of employee and independent sales representatives in the U.S. and by a combination of employee sales representatives, independent sales representatives and stocking distributors outside the U.S. We record revenues from sales to hospitals and surgery centers when they take title to the product, which is generally when the product is surgically implanted in a patient.

We record revenues from sales to our stocking distributors at the time the product is shipped to the distributor. Our stocking distributors, who sell the products to their customers, take title to the products and assume all risks of ownership. Our distributors are obligated to pay us within specified terms regardless of when, if ever, they sell the products. In general, our distributors do not have any rights of return or exchange; however, in limited situations we have repurchase agreements with certain stocking distributors. Those certain agreements require us to repurchase a specified percentage of the inventory purchased by the distributor within a specified period of time prior to the expiration of the contract. During those specified periods, we defer the applicable percentage of the sales. Approximately $250,000 and $186,000 of sales related to these types of agreements were deferred and not yet recognized as revenue as of December 31, 2010 and 2009, respectively.

We must make estimates of potential future product returns related to current period product revenue. To do so, we analyze our historical experience related to product returns when evaluating the adequacy of the allowance for sales returns. Judgment must be used and estimates made in connection with establishing the allowance for product returns in any accounting period. Our allowances for product returns of approximately $563,000 and $551,000 are included as a reduction of accounts receivable at December 31, 2010 and 2009, respectively. Should actual future returns vary significantly from our historical averages, our operating results could be affected.

Allowances for doubtful accounts. We experience credit losses on our accounts receivable and accordingly, we must make estimates related to the ultimate collection of our accounts receivable. Specifically, we analyze our accounts receivable, historical bad debt experience, customer concentrations, customer creditworthiness and current economic trends when evaluating the adequacy of our allowance for doubtful accounts.

The majority of our accounts receivable are from hospitals, many of which are government funded. Accordingly, our collection history with this class of customer has been favorable. Historically, we have experienced minimal bad debts from our hospital customers and more significant bad debts from certain international stocking distributors, typically as a result of specific financial difficulty or geo-political factors. We write off accounts receivable when we determine that the accounts receivable are uncollectible, typically upon customer bankruptcy or the customer s non-response to continued collection efforts.

We believe that the amount included in our allowance for doubtful accounts has been a historically appropriate estimate of the amount of accounts receivable that are ultimately not collected. While we believe that our

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allowance for doubtful accounts is adequate, the financial condition of our customers and the geo-political factors that impact reimbursement under individual countries healthcare systems can change rapidly, which would necessitate additional allowances in future periods. Our allowances for doubtful accounts were $9.5 million and $8.6 million, at December 31, 2010 and 2009, respectively, which includes a $1.1 million provision recorded in 2010 and a $5.6 million provision recorded in 2009 for potential losses related to the trade receivable balances of certain of our non-U.S. stocking distributors.

Excess and obsolete inventories. We value our inventory at the lower of the actual cost to purchase and/or manufacture the inventory on a first-in, first-out (FIFO) basis or its net realizable value. We regularly review inventory quantities on hand for excess and obsolete inventory and, when circumstances indicate, we incur charges to write down inventories to their net realizable value. Our review of inventory for excess and obsolete quantities is based primarily on our forecast of product demand and production requirements for the next 24 months. A significant decrease in demand could result in an increase in the amount of excess inventory quantities on hand. Additionally, our industry is characterized by regular new product development that could result in an increase in the amount of obsolete inventory quantities on hand due to cannibalization of existing products. Also, our estimates of future product demand may prove to be inaccurate in which case we may be required to incur charges for excess and obsolete inventory. In the future, if additional inventory write-downs are required, we would recognize additional cost of goods sold at the time of such determination. Regardless of changes in our estimates of future product demand, we do not increase the value of our inventory above its adjusted cost basis. Therefore, although we make every effort to ensure the accuracy of our forecasts of future product demand, significant unanticipated decreases in demand or technological developments could have a significant impact on the value of our inventory and our reported operating results. Charges incurred for excess and obsolete inventory were $9.3 million, $12.5 million and $8.7 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Goodwill and long-lived assets. We have approximately $54.2 million of goodwill recorded as a result of the acquisition of businesses. Goodwill is tested for impairment annually, or more frequently if changes in circumstances or the occurrence of events suggest that impairment exists. Based on our single business approach to decision-making, planning and resource allocation, we have determined that we have only one reporting unit for purposes of evaluating goodwill for impairment. The annual evaluation of goodwill impairment may require the use of estimates and assumptions to determine the fair value of our reporting unit using projections of future cash flows. We performed our annual impairment test during the fourth quarter of 2010 and determined that the fair value of our reporting unit exceeded its carrying value and, therefore, no impairment charge was necessary.

Our business is capital intensive, particularly as it relates to surgical instrumentation. We depreciate our property, plant and equipment and amortize our intangible assets based upon our estimate of the respective asset s useful life. Our estimate of the useful life of an asset requires us to make judgments about future events, such as product life cycles, new product development, product cannibalization and technological obsolescence, as well as other competitive factors beyond our control. We account for the impairment of long-lived assets in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Section 360, *Property, Plant and Equipment* (FASB ASC 360). Accordingly, we evaluate impairments of our property, plant and equipment based upon an analysis of estimated undiscounted future cash flows. If we determine that a change is required in the useful life of an asset, future depreciation and amortization is adjusted accordingly. Alternatively, if we determine that an asset has been impaired, an adjustment would be charged to income based on the asset s fair market value, or discounted cash flows if the fair market value is not readily determinable, reducing income in that period.

Product liability claims and other litigation. Periodically, claims arise involving the use of our products. We make provisions for claims specifically identified for which we believe the likelihood of an unfavorable outcome is probable and an estimate of the amount of loss has been developed. We have recorded at least the minimum estimated liability related to those claims where a range of loss has been established. As additional

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information becomes available, we reassess the estimated liability related to our pending claims and make revisions as necessary. Future revisions in our estimates of the liability could materially impact our results of operation and financial position. We maintain insurance coverage that limits the severity of any single claim as well as total amounts incurred per policy year, and we believe our insurance coverage is adequate. We use the best information available to us in determining the level of accrued product liabilities, and we believe our accruals are adequate. Our accrual for product liability claims was approximately $1.8 million and $1.1 million at December 31, 2010 and 2009, respectively.

We are also involved in legal proceedings involving contract, patent protection and other matters. We make provisions for claims specifically identified for which we believe the likelihood of an unfavorable outcome is probable and an estimate of the amount of loss can be developed.

Accounting for income taxes. Our effective tax rate is based on income by tax jurisdiction, statutory rates and tax saving initiatives available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our effective tax rate and evaluating our tax positions. This process includes assessing temporary differences resulting from differing recognition of items for income tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. Realization of deferred tax assets in each taxable jurisdiction is dependent on our ability to generate future taxable income sufficient to realize the benefits. Management evaluates deferred tax assets on an ongoing basis and provides valuation allowances to reduce net deferred tax assets to the amount that is more likely than not to be realized.

Our valuation allowance balances totaled $14.9 million and $17.2 million as of December 31, 2010 and 2009, respectively, due to uncertainties related to our ability to realize, before expiration, some of our deferred tax assets for both U.S. and foreign income tax purposes. These deferred tax assets primarily consist of the carryforward of certain tax basis net operating losses and general business tax credits.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), effective January 1, 2007, which requires the tax effects of an income tax position to be recognized only if they are more-likely-than-not to be sustained based solely on the technical merits as of the reporting date. Effective July 1, 2009, this standard was incorporated into FASB ASC Section 740, *Income Taxes*. As a multinational corporation, we are subject to taxation in many jurisdictions and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. If we ultimately determine that the payment of these liabilities will be unnecessary, we will reverse the liability and recognize a tax benefit in the period in which we determine the liability no longer applies. Conversely, we record additional tax charges in a period in which we determine that a recorded tax liability is less than we expect the ultimate assessment to be. Our liability for unrecognized tax benefits totaled $3.2 million and $2.8 million as of December 31, 2010 and 2009, respectively. See Note 10 to our consolidated financial statements contained in Financial Statements and Supplementary Data for further discussion of our unrecognized tax benefits.

We operate within numerous taxing jurisdictions. We are subject to regulatory review or audit in virtually all of those jurisdictions, and those reviews and audits may require extended periods of time to resolve. Management makes use of all available information and makes reasoned judgments regarding matters requiring interpretation in establishing tax expense, liabilities and reserves. We believe adequate provisions exist for income taxes for all periods and jurisdictions subject to review or audit.

Stock-based compensation. We calculate the grant date fair value of non-vested shares as the closing sales price on the trading day immediately prior to the grant date. We use the Black-Scholes option pricing model to determine the fair value of stock options and employee stock purchase plan shares. The determination of the fair value of these stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables, which include the expected life of the award, the expected stock price volatility over the expected life of the awards, expected dividend yield and risk-free interest rate.

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We estimate the expected life of options evaluating the historical activity as required by FASB ASC Topic *718, Compensation Stock Compensation*. We estimate the expected stock price volatility based upon historical volatility of our common stock. The risk-free interest rate is determined using U.S. Treasury rates where the term is consistent with the expected life of the stock options. Expected dividend yield is not considered as we have never paid dividends and have no plans of doing so in the future.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable, characteristics not present in our option grants and employee stock purchase plan shares. Existing valuation models, including the Black-Scholes and lattice binomial models, may not provide reliable measures of the fair values of our stock-based compensation. Consequently, there is a risk that our estimates of the fair values of our stock-based compensation awards on the grant dates may bear little resemblance to the actual values realized upon the exercise, expiration, early termination or forfeiture of those stock-based payments in the future. Certain stock-based payments, such as employee stock options, may expire worthless or otherwise result in zero intrinsic value as compared to the fair values originally estimated on the grant date and reported in our financial statements. Alternatively, value may be realized from these instruments that is significantly higher than the fair values originally estimated on the grant date and reported in our financial statements. There is not currently a market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models.

We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting forfeitures and record stock-based compensation expense only for those awards that are expected to vest. All stock-based awards are amortized on a straight-line basis over their respective requisite service periods, which are generally the vesting periods.

If factors change and we employ different assumptions for estimating stock-based compensation expense in future periods, such stock-based compensation expense in future periods may differ significantly from what we have recorded in the current period and could materially affect our operating income, net income and net income per share. A change in assumptions may also result in a lack of comparability with other companies that use different models, methods and assumptions.

See Note 13 to our consolidated financial statements contained in Financial Statements and Supplementary Data for further information regarding our stock-based compensation disclosures.

Acquisition method accounting. Prior to January 1, 2009, we accounted for acquired businesses using the purchase method of accounting, which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Our consolidated financial statements and results of operations reflect an acquired business after the completion of the acquisition. The cost to acquire a business, including transaction costs, is allocated to the underlying net assets of the acquired business in proportion to their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

The amount of the purchase price allocated to intangible assets is determined by estimating the future cash flows associated with the asset and discounting the net cash flows back to their present values. The discount rate used is determined at the time of the acquisition in accordance with standard valuation methods. The estimates of future cash flows include forecasted revenues, which are inherently difficult to predict. Significant judgments and assumptions are required in the forecast of future operating results used in the preparation of the estimated future cash flows, including profit margins, long-term forecasts of the amounts and timing of overall market growth and our percentage of that market, discount rates and terminal growth rates.

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Effective January 1, 2009, we adopted the provisions of Statement of Financial Accounting Standards No. 141R, *Business Combinations*, which significantly changes the accounting for acquired businesses. Effective July 1, 2009, this standard was incorporated into FASB ASC Section 805, *Business Combinations* (FASB ASC 805). Under this standard, an acquiring entity is required to recognize all assets acquired and liabilities assumed at the acquisition date fair value. Legal fees and other transaction-related costs are expensed as incurred and are no longer included in goodwill as a cost of acquiring the business. FASB ASC 805 also requires, among other things, acquirers to estimate the acquisition-date fair value of any contingent consideration and to recognize any subsequent changes in the fair value of contingent consideration in earnings. In addition, restructuring costs the acquirer expected, but was not obligated to incur, will be recognized separately from the business acquisition.

Restructuring charges. We evaluate impairment issues for long-lived assets under the provisions of FASB ASC 360. We record severance-related expenses once they are both probable and estimable in accordance with the provisions of FASB ASC Section 712, *Compensation-Nonretirement Postemployment Benefits*, for severance provided under an ongoing benefit arrangement. One-time termination benefit arrangements and other costs associated with exit activities are accounted for under the provisions of FASB ASC Section 420, *Exit or Disposal Cost Obligations*. We estimated the expense for our restructuring initiatives by accumulating detailed estimates of costs, including the estimated costs of employee severance and related termination benefits, impairment of property, plant and equipment, contract termination payments for leases and any other qualifying exit costs. Such costs represented management s best estimates, which were evaluated periodically to determine if an adjustment was required.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

Our exposure to interest rate risk arises principally from the interest rates associated with our invested cash balances. On December 31, 2010, we have invested short term cash and cash equivalents and marketable securities of approximately $114 million. Based on this level of investment, a decrease of 0.25% in interest rates would have a negative annual impact of $284,000 to our interest income. We currently do not hedge our exposure to interest rate fluctuations, but may do so in the future.

Foreign Currency Exchange Rate Fluctuations

Fluctuations in the rate of exchange between the U.S. dollar and foreign currencies could adversely affect our financial results. Approximately 29% and 28% of our total net sales were denominated in foreign currencies during the years ended December 31, 2010 and 2009, and we expect that foreign currencies will continue to represent a similarly significant percentage of our net sales in the future. Cost of sales related to these sales are primarily denominated in U.S. dollars; however, operating costs related to these sales are largely denominated in the same respective currencies, thereby partially limiting our transaction risk exposure. For sales not denominated in U.S. dollars, an increase in the rate at which a foreign currency is exchanged for U.S. dollars will require more of the foreign currency to equal a specified amount of U.S. dollars than before the rate increase. In such cases, if we price our products in the foreign currency, we will receive less in U.S. dollars than we did before the rate increase went into effect. If we price our products in U.S. dollars and our competitors price their products in local currency, an increase in the relative strength of the U.S. dollar could result in our prices not being competitive in a market where business is transacted in the local currency.

A substantial majority of our sales denominated in foreign currencies are derived from European Union countries, which are denominated in the euro; from Japan, which are denominated in the Japanese yen; from the United Kingdom, which are denominated in the British pound; and from Canada, which are denominated in the Canadian dollar. Additionally, we have significant intercompany receivables from our foreign subsidiaries which are denominated in foreign currencies, principally the euro, the yen, the British pound, and the Canadian dollar. Our principal exchange rate risk, therefore, exists between the U.S. dollar and the euro, the U.S. dollar and the yen, the U.S. dollar and the British pound, and the U.S. dollar and the Canadian dollar. Fluctuations from the beginning to the end of any given reporting period result in the revaluation of our foreign currency-denominated intercompany receivables and payables, generating currency translation gains or losses that impact our non-operating income and expense levels in the respective period.

As discussed in Note 2 to our consolidated financial statements in Financial Statements and Supplementary Data, we enter into certain short-term derivative financial instruments in the form of foreign currency forward contracts. These forward contracts are designed to mitigate our exposure to currency fluctuations in our intercompany balances denominated in euros, Japanese yen, British pounds and Canadian dollars. Any change in the fair value of these forward contracts as a result of a fluctuation in a currency exchange rate is expected to be offset by a change in the value of the intercompany balance. These contracts are effectively closed at the end of each reporting period.

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Item 8. Financial Statements and Supplementary Data.

Wright Medical Group, Inc.
Consolidated Financial Statements
for the Years Ended December 31, 2010, 2009 and 2008
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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Wright Medical Group, Inc.:

We have audited the accompanying consolidated balance sheets of Wright Medical Group, Inc. and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in stockholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 10, 2011 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

(signed) KPMG LLP

Memphis, Tennessee
February 10, 2011

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Wright Medical Group, Inc.:

We have audited the effectiveness of internal control over financial reporting of Wright Medical Group, Inc. and subsidiaries (the Company) as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2010 and 2009, and the

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related consolidated statements of operations, changes in stockholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated February 10, 2011 expressed an unqualified opinion on those consolidated financial statements.

(signed) KPMG LLP

Memphis, Tennessee
February 10, 2011

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Wright Medical Group, Inc.
Consolidated Balance Sheets
(In thousands, except share data)

	December 31, 2010	December 31, 2009
Assets:		
Current assets:		
Cash and cash equivalents	$ 153,261	$ 84,409
Marketable securities	19,152	86,819
Accounts receivable, net	105,336	101,720
Inventories	166,339	163,535
Prepaid expenses	5,333	6,413
Deferred income taxes	32,026	34,824
Other current assets	16,143	12,884
Total current assets	497,590	490,604
Property, plant and equipment, net	158,247	139,708
Goodwill	54,172	53,860
Intangible assets, net	16,501	17,727
Marketable securities	17,193	
Deferred income taxes	4,125	5,248
Other assets	7,411	7,137
Total assets	$ 755,239	$ 714,284
Liabilities and Stockholders Equity:		
Current liabilities:		
Accounts payable	$ 15,862	$ 13,978
Accrued expenses and other current liabilities	54,409	54,643
Current portion of long-term obligations	1,033	336
Total current liabilities	71,304	68,957
Long-term debt and capital lease obligations	201,766	200,326
Deferred income taxes	5,705	157
Other liabilities	5,492	4,436
Total liabilities	284,267	273,876
Commitments and contingencies (Note 16)		
Stockholders equity:		
Common stock, $.01 par value, authorized: 100,000,000 shares; issued and outstanding: 39,171,501 shares at December 31, 2010 and 38,668,882 shares at December 31, 2009	379	374

Additional paid-in capital	390,098	376,647
Accumulated other comprehensive income	22,173	22,906
Retained earnings	58,322	40,481
Total stockholders equity	470,972	440,408
Total liabilities and stockholders equity	$ 755,239	$ 714,284

The accompanying notes are an integral part of these consolidated financial statements.

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Wright Medical Group, Inc.
Consolidated Statements of Operations
(In thousands, except per share data)

	Year ended December 31,		
	2010	**2009**	**2008**
Net sales	$ 518,973	487,508	$ 465,547
Cost of sales [1]	158,456	148,715	134,377
Gross profit	360,517	338,793	331,170
Operating expenses:			
Selling, general and administrative [1]	282,413	270,456	261,396
Research and development [1]	37,300	35,691	33,292
Amortization of intangible assets	2,711	5,151	4,874
Restructuring charges (Note 15)	919	3,544	6,705
Acquired in-process research and development			2,490
Total operating expenses	323,343	314,842	308,757
Operating income	37,174	23,951	22,413
Interest expense, net	6,123	5,466	2,181
Other expense (income), net	130	2,873	(1,338)
Income before income taxes	30,921	15,612	21,570
Provision for income taxes	13,080	3,481	18,373
Net income	$ 17,841	$ 12,131	$ 3,197
Net income per share (Note 11):			
Basic	$ 0.47	0.32	$ 0.09
Diluted	$ 0.47	0.32	$ 0.09
Weighted-average number of shares outstanding-basic	37,802	37,366	36,933
Weighted-average number of shares outstanding-diluted	37,961	37,443	37,401

[1] These line items include the following amounts of non-cash, stock-based compensation expense for the periods indicated:

	Year Ended December 31,		
	2010	**2009**	**2008**
Cost of sales	$ 1,301	$ 1,285	$ 1,244
Selling, general and administrative	9,924	10,077	10,644
Research and development	1,952	1,829	1,613

The accompanying notes are an integral part of these consolidated financial statements.

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Wright Medical Group, Inc.
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2010	**2009**	**2008**
Operating activities:			
Net income	$ 17,841	$ 12,131	$ 3,197
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	35,559	32,717	26,462
Stock-based compensation expense	13,177	13,191	13,501
Acquired in-process research and development costs			2,490
Amortization of intangible assets	2,711	5,151	4,874
Deferred income taxes	9,244	(9,247)	18,325
Non-cash write-off of cumulative translation adjustment (CTA) balances (See Note 2)		2,643	
Excess tax benefits from stock-based compensation arrangements	(289)	(63)	(1,278)
Provision for losses on accounts receivable	1,073	5,339	939
Non-cash restructuring charges	246		(63)
Other	1,684	1,815	294
Changes in assets and liabilities (net of acquisitions):			
Accounts receivable	(4,666)	(4,003)	(18,729)
Inventories	(1,754)	13,049	(57,797)
Marketable securities			15,535
Prepaid expenses and other current assets	(5,094)	5,953	(6,666)
Accounts payable	1,970	(1,950)	(5,009)
Accrued expenses and other liabilities	1,492	(4,975)	315
Net cash provided by (used in) operating activities	73,194	71,751	(3,610)
Investing activities:			
Capital expenditures	(49,038)	(37,190)	(61,936)
Acquisition of businesses	(2,923)	(6,785)	(28,914)
Purchase of intangible assets	(1,690)	(1,037)	(3,418)
Investments in held-to-maturity marketable securities	(4,671)		
Sales and maturities of available-for-sale marketable securities	135,219	71,499	
Investment in available-for-sale marketable securities	(81,070)	(101,443)	(57,037)
Other			2,363
Net cash used in investing activities	(4,173)	(74,956)	(148,942)
Financing activities:			
Issuance of common stock	663	680	12,018
Financing under factoring agreements, net		(58)	(605)

Principal payments of bank and other financing	(1,150)	(153)	(285)
Excess tax benefits from stock-based compensation arrangements	289	63	1,278
Net cash (used in) provided by financing activities	(198)	532	12,406
Effect of exchange rates on cash and cash equivalents	29	(783)	(1,015)
Net increase (decrease) in cash and cash equivalents	68,852	(3,456)	(141,161)
Cash and cash equivalents, beginning of year	84,409	87,865	229,026
Cash and cash equivalents, end of year	$ 153,261	$ 84,409	$ 87,865

The accompanying notes are an integral part of these consolidated financial statements.

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Wright Medical Group, Inc.
Consolidated Statements of Changes in Stockholders Equity and Comprehensive Income
For the Years Ended December 31, 2008, 2009 and 20010
(In thousands, except share data)

	Common Stock, Voting		Additional		Accumulated Other	Total
	Number of Shares	Amount	Paid-in Capital	Retained Earnings	Comprehensive Income	Stockholders Equity
Balance at December 31, 2007	36,493,183	$ 365	$ 338,640	$ 25,153	$ 24,623	$ 388,781
2008 Activity:						
Net income				3,197		3,197
Foreign currency translation					(6,781)	(6,781)
Unrealized gain on marketable securities					399	399
Minimum pension liability adjustment					71	71
Total comprehensive loss						(3,114)
Issuances of common stock	616,836	7	12,011			12,018
Issuance of previously granted restricted stock	434,005					
Grant of non-vested shares of common stock	558,184					
Cancellation of non-vested shares of common stock	(80,247)					
Tax effect of stock based compensation activity			720			720
Stock-based compensation			13,223			13,223
Balance at December 31, 2008	38,021,961	$ 372	$ 364,594	$ 28,350	$ 18,312	$ 411,628
2009 Activity:						
Net income				12,131		12,131
Foreign currency translation					2,398	2,398
Unrealized loss on marketable securities					(438)	(438)
Minimum pension liability adjustment					(9)	(9)

Total comprehensive income						14,082
Write-off of cumulative translation adjustment (CTA) balances (See Note 2)					2,643	2,643
Issuances of common stock	64,446		680			680
Grant of non-vested shares of common stock	718,010					
Cancellation of non-vested shares of common stock	(147,971)					
Vesting of stock-settled phantom stock units and non-vested shares of common stock	12,436	2	(2)			
Tax effect of stock based compensation activity			(1,892)			(1,892)
Stock-based compensation			13,267			13,267
Balance at December 31, 2009	38,668,882	$ 374	$ 376,647	$ 40,481	$ 22,906	$ 440,408

The accompanying notes are an integral part of these consolidated financial statements.

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Wright Medical Group, Inc.
Consolidated Statements of Changes in Stockholders Equity and Comprehensive Income (Continued)
For the Years Ended December 31, 2008, 2009 and 2010
(In thousands, except share data)

	Common Stock, Voting		Additional		Accumulated Other	Total
	Number of Shares	Amount	Paid-in Capital	Retained Earnings	Comprehensive Income	Stockholders' Equity
2010 Activity:						
Net income				17,841		17,841
Foreign currency translation					(826)	(826)
Unrealized gain on marketable securities					75	75
Minimum pension liability adjustment					18	18
Total comprehensive income						17,108
Issuances of common stock	79,976	1	662			663
Grant of non-vested shares of common stock	504,999					
Cancellation of non-vested shares of common stock	(110,540)					
Vesting of stock-settled phantom stock units and non-vested shares of common stock	28,184	4	(4)			
Tax effect of stock based compensation activity			(424)			(424)
Stock-based compensation			13,217			13,217
Balance at December 31, 2010	39,171,501	$ 379	$ 390,098	$ 58,322	$ 22,173	$ 470,972

The accompanying notes are an integral part of these consolidated financial statements.

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WRIGHT MEDICAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Description of Business

Wright Medical Group, Inc., through Wright Medical Technology, Inc. and other operating subsidiaries (Wright), is a global orthopaedic medical device company specializing in the design, manufacture and marketing of devices and biologic products for extremity, hip and knee repair and reconstruction. We are a leading provider of surgical solutions for the foot and ankle market. Our products are sold primarily through a network of employee sales representatives and independent sales representatives in the United States (U.S.) and by a combination of employee sales representatives, independent sales representatives and stocking distributors outside the U.S. We promote our products in approximately 60 countries with principal markets in the U.S., Europe, Canada, Australia and Japan. We are headquartered in Arlington, Tennessee.

2. Summary of Significant Accounting Policies

Principles of Consolidation. The accompanying consolidated financial statements include our accounts and those of our wholly owned U.S. and international subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The most significant areas requiring the use of management estimates relate to revenue recognition, the determination of allowances for doubtful accounts and excess and obsolete inventories, the evaluation of goodwill and long-lived assets, product liability claims and other litigation, income taxes, stock-based compensation, purchase accounting for business combinations, and accounting for restructuring charges.

Cash and Cash Equivalents. Cash and cash equivalents include all cash balances and short-term investments with original maturities of three months or less.

Inventories. Our inventories are valued at the lower of cost or market on a first-in, first-out (FIFO) basis. Inventory costs include material, labor costs and manufacturing overhead. We regularly review inventory quantities on hand for excess and obsolete inventory and, when circumstances indicate, we incur charges to write down inventories to their net realizable value. Our review of inventory for excess and obsolete quantities is based primarily on our estimated forecast of product demand and production requirements for the next twenty-four months. Charges incurred for excess and obsolete inventory included in Cost of sales were $9.3 million, $12.5 million, and $8.7 million for the years ended December 31, 2010, 2009, and 2008, respectively.

Product Liability Claims and Other Litigation. We make provisions for claims specifically identified for which we believe the likelihood of an unfavorable outcome is probable and an estimate of the amount of loss has been developed. We have recorded at least the minimum estimated liability related to those claims where a range of loss has been established. Our accrual for product liability claims was $1.8 million and $1.1 million at December 31, 2010 and 2009, respectively.

Property, Plant and Equipment. Our property, plant and equipment is stated at cost. Depreciation, which includes amortization of assets under capital lease, is generally provided on a straight-line basis over the estimated useful lives generally based on the following categories:

Land improvements	15 to 25 years
Buildings	10 to 45 years
Machinery and equipment	3 to 12 years
Furniture, fixtures and office equipment	1 to 14 years
Surgical instruments	6 years

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WRIGHT MEDICAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

Expenditures for major renewals and betterments, including leasehold improvements, that extend the useful life of the assets are capitalized and depreciated over the remaining life of the asset or lease term, if shorter. Maintenance and repair costs are charged to expense as incurred. Upon sale or retirement, the asset cost and related accumulated depreciation are eliminated from the respective accounts and any resulting gain or loss is included in income.

Intangible Assets and Goodwill. Goodwill is recognized for the excess of the purchase price over the fair value of net assets of businesses acquired. Goodwill is required to be tested for impairment at least annually. Unless circumstances otherwise dictate, the annual impairment test is performed in the fourth quarter. Accordingly, during the fourth quarter of 2010, we evaluated goodwill for impairment and determined that the fair value of our reporting unit exceeded its carrying value, indicating that goodwill was not impaired. Based on our single business approach to decision-making, planning and resource allocation, management has determined that we have only one reporting unit for purposes of evaluating goodwill for impairment.

Our intangible assets with estimable useful lives are amortized on a straight line basis over their respective estimated useful lives to their estimated residual values, and are reviewed for impairment in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Section 360, *Property, Plant and Equipment* (FASB ASC 360). The weighted average amortization periods for completed technology, distribution channels, trademarks, licenses, customer relationships and other intangible assets are 9 years, 10 years, 8 years, 8 years, 10 years and 6 years, respectively. The weighted average amortization period of our intangible assets on a combined basis is 9 years. Additionally, we have two trademarks and one in-process research and development (IPRD) intangible asset, each of which has an indefinite life.

Valuation of Long-Lived Assets. Management periodically evaluates carrying values of long-lived assets, including property, plant and equipment and intangible assets, when events and circumstances indicate that these assets may have been impaired. We account for the impairment of long-lived assets in accordance with FASB ASC 360. Accordingly, we evaluate impairment of our property, plant and equipment based upon an analysis of estimated undiscounted future cash flows. If it is determined that a change is required in the useful life of an asset, future depreciation and amortization is adjusted accordingly. Alternatively, should we determine that an asset is impaired, an adjustment would be charged to income based on the asset s fair market value or discounted cash flows if the fair market value is not readily determinable, reducing income in that period.

Allowances for Doubtful Accounts. We experience credit losses on our accounts receivable and, accordingly, we must make estimates related to the ultimate collection of our accounts receivable. Specifically, management analyzes our accounts receivable, historical bad debt experience, customer concentrations, customer credit-worthiness and current economic trends when evaluating the adequacy of our allowance for doubtful accounts.

The majority of our accounts receivable are from hospitals, many of which are government funded. Accordingly, our collection history with this class of customer has been favorable. Historically, we have experienced minimal bad debts from our hospital customers and more significant bad debts from certain international stocking distributors, typically as a result of specific financial difficulty or geo-political factors. We write off accounts receivable when we determine that the accounts receivable are uncollectible, typically upon customer bankruptcy or the customer s non-response to continued collection efforts. Our allowance for doubtful accounts totaled $9.5 million and $8.6 million at December 31, 2010 and 2009, respectively, which includes a $5.6 million provision recorded in 2009 for potential losses related to the trade receivable balance of our stocking distributor in Turkey.

Concentration of Credit Risk. Financial instruments which potentially subject us to concentrations of credit risk consist principally of accounts receivable. Management attempts to minimize credit risk by reviewing customers credit history before extending credit and by monitoring credit exposure on a regular basis. An allowance for possible losses on accounts receivable is established based upon factors surrounding the credit risk of specific customers, historical trends and other information. Collateral or other security is generally not required for accounts

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WRIGHT MEDICAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

receivable. As of December 31, 2010, one customer, our stocking distributor in Turkey, accounted for more than 8% of our accounts receivable balance. As of December 31, 2010 and 2009, the balance due from this customer was $8.9 million and $10.7 million, respectively. As of December 31, 2010, we have recorded a $5.6 million provision for potential losses related to the trade receivable balance of our stocking distributor in Turkey.

Concentrations of Supply of Raw Material. We rely on a limited number of suppliers for the components used in our products. Our reconstructive joint devices are produced from various surgical grades of titanium, cobalt chrome, stainless steel, various grades of high density polyethylenes, and ceramics. We rely on one source to supply us with a certain grade of cobalt chrome alloy and one supplier for the silicone elastomer used in some of our extremity products. We are aware of only two suppliers of silicone elastomer to the medical device industry for permanent implant usage. Additionally, we rely on one supplier of ceramics for use in our hip products. For certain biologic products, we depend on one supplier of demineralized bone matrix (DBM), cancellous bone matrix (CBM) and soft tissue graft for BIOTAPE® XM. We rely on one supplier for our GRAFTJACKET® family of soft tissue repair and graft containment products, and one supplier for our xenograph bone wedge product. We maintain adequate stock from these suppliers in order to meet market demand.

Income Taxes. Income taxes are accounted for pursuant to the provisions of FASB ASC Section 740, *Income Taxes* (FASB ASC 740). Our effective tax rate is based on income by tax jurisdiction, statutory rates and tax saving initiatives available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our effective tax rate and evaluating our tax positions. This process includes assessing temporary differences resulting from differing recognition of items for income tax and financial accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. The measurement of deferred tax assets is reduced by a valuation allowance if, based upon available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

We provide for unrecognized tax benefits based upon our assessment of whether a tax position is more-likely-than-not to be sustained upon examination by the tax authorities. If a tax position meets the more-likely-than-not standard, then the related tax benefit is measured based on a cumulative probability analysis of the amount that is more-likely-than-not to be realized upon ultimate settlement or disposition of the underlying tax position.

Other Taxes. Taxes assessed by a governmental authority that are imposed concurrent with our revenue transactions with customers are presented on a net basis in our consolidated statement of operations.

Revenue Recognition. Our revenues are primarily generated through two types of customers, hospitals and surgery centers, and stocking distributors, with the majority of our revenue derived from sales to hospitals. Our products are primarily sold through a network of employee sales representatives and independent sales representatives in the U.S. and by a combination of employee sales representatives, independent sales representatives, and stocking distributors outside the U.S. Revenues from sales to hospitals are recorded when the hospital takes title to the product, which is generally when the product is surgically implanted in a patient.

We record revenues from sales to our stocking distributors outside the U.S. at the time the product is shipped to the distributor. Stocking distributors, who sell the products to their customers, take title to the products and assume all risks of ownership. Our distributors are obligated to pay within specified terms regardless of when, if ever, they sell the products. In general, the distributors do not have any rights of return or exchange; however, in limited situations we have repurchase agreements with certain stocking distributors. Those certain agreements require us to repurchase a specified percentage of the inventory purchased by the distributor within a specified period of time prior to the expiration of the contract. During those specified periods, we defer the applicable percentage of the sales. Approximately $250,000 and $186,000 of deferred revenue related to these types of agreements was recorded at December 31, 2010 and 2009, respectively.

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WRIGHT MEDICAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

We must make estimates of potential future product returns related to current period product revenue. We develop these estimates by analyzing historical experience related to product returns. Judgment must be used and estimates made in connection with establishing the allowance for sales returns in any accounting period. An allowance for sales returns of $563,000 and $551,000 is included as a reduction of accounts receivable at December 31, 2010 and 2009, respectively.

Shipping and Handling Costs. We incur shipping and handling costs associated with the shipment of goods to customers, independent distributors and our subsidiaries. Amounts billed to customers for shipping and handling of products are included in net sales. Costs incurred related to shipping and handling of products are included in cost of sales. All other shipping and handling costs are included in selling, general and administrative expenses.

Research and Development Costs. Research and development costs are charged to expense as incurred.

Foreign Currency Translation. The financial statements of our international subsidiaries whose functional currency is the local currency are translated into U.S. dollars using the exchange rate at the balance sheet date for assets and liabilities and the weighted average exchange rate for the applicable period for revenues, expenses, gains and losses. Translation adjustments are recorded as a separate component of comprehensive income in stockholders equity. Gains and losses resulting from transactions denominated in a currency other than the local functional currency are included in Other expense (income), net in our consolidated statement of operations.

In accordance with FASB ASC Section 830, *Foreign Currency Matters*, we are required to recognize the cumulative translation adjustment (CTA) balance from stockholders equity upon the complete or substantially complete liquidation of a foreign subsidiary. During 2009, we wrote-off approximately $2.6 million from the CTA balance for the substantially complete liquidation of two of our French subsidiaries and our subsidiary in Spain. This net cumulative foreign currency loss is included in Other expense (income), net in our consolidated statements of operations.

Pension Benefits. Our subsidiary in Japan provides benefits to employees under a plan that we account for as a defined benefit plan in accordance with FASB ASC Section 715, *Compensation Retirement Benefits.* This plan is unfunded and determining the minimum pension liability requires the use of assumptions and estimates, including discount rates and mortality rates, and actuarial methods. Our minimum pension liability totaled $2.2 million and $1.6 million as of December 31, 2010 and 2009, respectively.

Comprehensive Income. Comprehensive income is defined as the change in equity during a period related to transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The difference between our net income and our comprehensive income is attributable to foreign currency translation, adjustments to our minimum pension liability, and unrealized gains and losses on our available-for-sale marketable securities.

Stock-Based Compensation. We account for stock-based compensation in accordance with FASB ASC Section 718, *Compensation Stock Compensation* (FASB ASC 718). Under the fair value recognition provisions of FASB ASC 718, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. The determination of the fair value of stock-based payment awards, such as options, on the date of grant using an option-pricing model is affected by our stock price, as well as assumptions regarding a number of complex and subjective variables, which include the expected life of the award, the expected stock price volatility over the expected life of the awards, expected dividend yield and risk-free interest rate.

We recorded $13.2 million, $13.2 million, and $13.5 million of stock-based compensation expense during the years ended December 31, 2010, 2009, and 2008, respectively. See Note 13 for further information regarding our stock-based compensation assumptions and expenses.

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Fair Value of Financial Instruments. The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximates the fair value of these financial instruments at December 31, 2010 and 2009 due to their short maturities or variable rates.

The fair value of our Convertible Senior Notes due 2014 was approximately $188 million and $176 million as of December 31, 2010 and 2009, respectively, based on a quoted price in an active market (Level 1).

Effective January 1, 2008, we adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157), for financial assets and liabilities measured at fair value on a recurring basis. SFAS 157 applies to all financial assets and liabilities that are being measured and reported on a fair value basis, and establishes a framework for measuring the fair value of assets and liabilities and expands disclosures about fair value measurements. The adoption of SFAS 157 had no impact to our consolidated financial statements. Effective July 1, 2009, this standard was incorporated into the FASB ASC Section 820, *Fair Value Measurements and Disclosures* (FASB ASC 820). FASB ASC 820 requires fair value measurements be classified and disclosed in one of the following three categories:

Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges.

Level 2: Financial instruments determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3: Financial instruments that are not actively traded on a market exchange. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques.

As of December 31, 2010 and 2009, we had current marketable securities totaling $19.2 million and $86.8 million, respectively, consisting of investments in treasury bills, government and agency bonds, corporate bonds, and certificates of deposits, all of which are valued at fair value using a market approach. In addition, we had noncurrent marketable securities totaling $17.2 million as of December 31, 2010, consisting of investments in government, agency, and corporate bonds, all of which are valued at fair value using a market approach.

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The following table summarizes the valuation of our financial instruments (in thousands):

	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)
At December 31, 2010				
Assets				
Cash and cash equivalents	$ 153,261	$ 153,261	$	$
Available-for-sale marketable securities				
Municipal debt securities	$ 897	$ 897	$	$
U.S. agency debt securities	14,511	14,511		
Certificates of deposits	38		38	
Corporate debt securities	3,183	3,183		
U.S. government debt securities	13,045	13,045		
Total available-for-sale marketable securities	31,674	31,636	38	
Held-to-maturity time deposits	4,671		4,671	
	$ 189,606	$ 184,897	$ 4,709	$
Liabilities				
Contingent consideration	356			356
Convertible Senior Notes	188,000	188,000		
	$ 188,356	$ 188,000	$	$ 356

	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)
At December 31, 2009				
Assets				

Cash and cash equivalents	$ 84,409	$ 84,409	$	$
Available-for-sale marketable securities				
U.S. agency debt securities	$ 69,780	$ 69,780	$	$
Certificates of deposits	1,430		1,430	
U.S. government debt securities	15,609	15,609		
	86,819	85,389	1,430	
	$ 171,228	$ 169,798	$ 1,430	$
Liabilities				
Convertible Senior Notes	176,000	176,000		
	$ 176,000	$ 176,000	$	$

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As part of the acquisition of EZ Concepts Surgical Device Corporation, d/b/a EZ Frame, completed in 2010, we may be obligated to pay contingent consideration of up to $400,000 upon the achievement of certain revenue milestones. The $356,000 fair value of the contingent consideration as of the acquisition date was determined using a discounted cash flow model and probability adjusted estimates of the future earnings and is classified in Level 3. This obligation is included in current liabilities in our 2010 consolidated balance sheet. Changes in the fair value of contingent consideration will be recorded in our consolidated statements of operations.

Derivative Instruments. We account for derivative instruments and hedging activities under FASB ASC Section 815, *Derivatives and Hedging* (FASB ASC 815). Accordingly, all of our derivative instruments are recorded in the accompanying consolidated balance sheets as either an asset or liability and measured at fair value. The changes in the derivative s fair value are recognized currently in earnings unless specific hedge accounting criteria are met.

We employ a derivative program using 30-day foreign currency forward contracts to mitigate the risk of currency fluctuations on our intercompany receivable and payable balances that are denominated in foreign currencies. These forward contracts are expected to offset the transactional gains and losses on the related intercompany balances. These forward contracts are not designated as hedging instruments under FASB ASC 815. Accordingly, the changes in the fair value and the settlement of the contracts are recognized in the period incurred in the accompanying consolidated statements of operations.

We recorded a net loss of $2.6 million, net gain of $655,000 and a net loss of $4.5 million for the years ended December 31, 2010, 2009 and 2008, respectively, on foreign currency contracts, which are included in Other expense (income), net in our consolidated statements of operations. These losses substantially offset translation gains recorded on our intercompany receivable and payable balances, also included in Other expense (income), net. At December 31, 2010 and 2009, we had no foreign currency contracts outstanding.

Supplemental Cash Flow Information. Cash paid for interest and income taxes was as follows (in thousands):

	Year Ended December 31,		
	2010	**2009**	**2008**
Interest	$ 5,524	$ 5,492	$ 5,963
Income taxes	$ 6,670	$ 10,419	$ 4,960

During 2008, we sold certain assets of our Toulon, France facility. As part of that sale, the buyer assumed our capital lease obligations of approximately $700,000 for certain machinery and equipment located in that facility. In 2010, we entered into capital leases of approximately $2.5 million. We entered into insignificant amounts of capital leases during 2008 and 2009.

3. Inventories

Inventories consist of the following (in thousands):

	December 31,	
	2010	**2009**
Raw materials	$ 8,962	$ 8,606
Work-in-process	24,723	23,766
Finished goods	132,654	131,163
	$ 166,339	$ 163,535

4. Marketable Securities

We have historically invested in treasury bills, government and agency bonds, and certificates of deposit with

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maturity dates of less than 12 months. Beginning in the second quarter of 2010, we also invested in marketable securities with maturity dates greater than 12 months. Our investments in these marketable securities are classified as available-for-sale securities in accordance with FASB ASC Topic 320, *Investments Debt and Equity Securities*. These securities are carried at their fair value, and all unrealized gains and losses are recorded within other comprehensive income. In the third quarter of 2010, we invested in a bank deposit with a maturity date of 12 months. This investment, which is classified as held-to-maturity, is carried at its amortized cost. Marketable securities are classified as short-term for those expected to mature or be sold within 12 months and the remaining portion is classified as long-term. The cost of investment securities sold is determined by the specific identification method. The following tables present a summary of our marketable securities (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
At December 31, 2010				
Available-for-sale marketable securities				
Municipal debt securities	$ 897	$	$	$ 897
U.S. agency debt securities	14,501	11	(1)	14,511
Certificates of deposits	38			38
Corporate debt securities	3,176	7		3,183
U.S. government debt securities	13,027	18		13,045
Total available-for-sale marketable securities	$ 31,639	$ 36	$ (1)	$ 31,674
Held-to-maturity time deposits	$ 4,671	$	$	$ 4,671
Total marketable securities	$ 36,310	$ 36	$ (1)	$ 36,345

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
At December 31, 2009				
Available-for-sale marketable securities				
U.S. agency debt securities	$ 69,819	$ 11	$ (50)	$ 69,780
Certificates of deposits	1,435		(5)	1,430
U.S. government debt securities	15,604	10	(5)	15,609
Total available-for-sale marketable securities	$ 86,858	$ 21	$ (60)	$ 86,819

The maturities of available-for-sale and held-to-maturity debt securities at December 31, 2010 are as follows:

	Available-for-Sale	Held-to-maturity Cost Basis

	Cost Basis	Fair Value		Fair Value
Due in one year or less	$ 11,953	$ 11,965	$ 4,671	$ 4,671
Due after one year through two years	16,686	16,709		
Due after two years	3,000	3,000		
	$ 31,639	$ 31,674	$ 4,671	$ 4,671

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5. Property, Plant and Equipment

Property, plant and equipment consists of the following (in thousands):

	December 31,	
	2010	**2009**
Land and land improvements	$ 5,469	$ 4,229
Buildings	30,024	26,489
Machinery and equipment	68,401	53,357
Furniture, fixtures and office equipment	42,584	36,346
Construction in progress	13,887	9,433
Surgical instruments	162,781	156,232
	323,146	286,086
Less: Accumulated depreciation	(164,899)	(146,378)
	$ 158,247	$ 139,708

The components of property, plant and equipment recorded under capital leases consist of the following (in thousands):

	December 31,	
	2010	**2009**
Machinery and equipment	$ 2,853	$ 469
Furniture, fixtures and office equipment	405	466
	3,258	935
Less: Accumulated depreciation	(350)	(647)
	$ 2,908	$ 288

Depreciation expense approximated $35.6 million, $32.7 million, and $26.5 million for the years ended December 31, 2010, 2009, and 2008, respectively, and included depreciation of assets under capital leases.

6. Goodwill and Intangibles

Changes in the carrying amount of goodwill occurring during the year ended December 31, 2010, are as follows (in thousands):

Goodwill at December 31, 2009	$ 53,860
Goodwill from contingent consideration associated with acquisitions prior to 2010	711
Goodwill associated with acquisition in 2010	167
Foreign currency translation	(566)
Goodwill at December 31, 2010	$ 54,172

During 2010, we recognized contingent consideration of $160,000 associated with our acquisition of Inbone Technologies, Inc., completed in 2008, and $551,000 associated with the acquisition of assets of Creative Medical Designs and Rayhack LLC, completed in 2008. During 2010, we acquired certain assets of EZ Concepts Surgical

Device Corporation, d/b/a EZ Frame. The purchase price consisted of an initial cash payment of $300,000 and

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potential additional contingent consideration, with an acquisition date fair value of $356,000 based on the probability of the achievement of the revenue target. As a result of the immaterial acquisition, we recorded a customer relationship intangible of $138,000 (5 year useful life), a trademark intangible of $73,000 (indefinite life), in process research and development (indefinite life) of $278,000 and goodwill of $167,000.

During 2010, we made payments for contingent consideration totaling $2.6 million, of which $1.9 million was accrued as of December 31, 2009.

The components of our identifiable intangible assets are as follows (in thousands):

	December 31, 2010		December 31, 2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Distribution channels	$ 20,719	$ 20,563	$ 22,207	$ 22,025
Completed technology	12,627	6,162	12,537	5,213
Licenses	5,613	2,040	7,245	3,777
Customer relationships	3,888	1,087	3,750	720
Trademarks	2,706	633	2,733	570
Other	2,859	1,426	2,620	1,060
	48,412	$ 31,911	51,092	$ 33,365
Less: Accumulated amortization	(31,911)		(33,365)	
Intangible assets, net	$ 16,501		$ 17,727	

As of December 31, 2010, we have trademarks with indefinite lives totaling $1.5 million and our in process research and development indefinite lived intangible totaling $278,000.

Based on the intangible assets held at December 31, 2010, we expect to amortize approximately $2.5 million in 2011, $2.3 million in 2012, $2.0 million in 2013, $1.8 million in 2014, and $1.7 million in 2015.

7. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following (in thousands):

	December 31	
	2010	2009
Employee benefits	$ 11,469	$ 11,327
Royalties	5,755	5,900
Taxes other than income	4,785	5,084
Commissions	6,892	5,738
Professional and legal fees	7,992	5,124
Contingent consideration	356	1,912
Restructuring liability (see Note 15)	152	6,781
Other	17,008	12,777
	$ 54,409	$ 54,643

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8. Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations consist of the following (in thousands):

	December 31, 2010	December 31, 2009
Capital lease obligations	$ 2,799	$ 662
Convertible Senior Notes	200,000	200,000
	202,799	200,662
Less: current portion	(1,033)	(336)
	$ 201,766	$ 200,326

In November 2007, we issued $200 million of 2.625% Convertible Senior Notes due 2014 (Notes). The Notes will mature on December 1, 2014. The Notes pay interest semiannually at an annual rate of 2.625% and are convertible into shares of our common stock at an initial conversion rate of 30.6279 shares per $1,000 principal amount of the Notes subject to adjustment upon the occurrence of specified events, which represents an initial conversion price of $32.65 per share. The holder of the Notes may convert at any time on or prior to the close of business on the business day immediately preceding the maturity date of Notes. Beginning on December 6, 2011, we may redeem the notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest, if the closing price of our common stock has exceeded 140% of the conversion price for at least 20 days during any consecutive 30-day trading period. Additionally, if we experience a fundamental change event, as defined in the indenture governing the Notes, the holders may require us to purchase for cash all or a portion of the notes, for 100% of the principal amount of the notes, plus accrued and unpaid interest. If upon a fundamental change event, a holder elects to convert its Notes, we may, under certain circumstances, increase the conversion rate for the Notes surrendered. The Notes are unsecured obligations and are effectively subordinated to (i) all of our existing and future secured debt, including our obligations under our credit agreement, to the extent of the value of the assets securing such debt, and (ii) because the Notes are not guaranteed by any of our subsidiaries, to all liabilities of our subsidiaries.

On February 10, 2011, we announced the commencement of a tender offer to purchase for cash any and all of our outstanding Notes. The tender offer is expected to expire at 8:00 A.M. New York City time on March 11, 2011, unless extended by us or earlier terminated. At this time, we cannot estimate the amount, if any, of the Notes that will be tendered, nor the amount of Notes or aggregate indebtedness that will remain outstanding upon the completion of the tender offer.

On June 30, 2010, we renewed our revolving credit facility. On December 31, 2010, our revolving credit facility had availability of $100 million, which can be increased by up to an additional $50 million at our request and subject to the agreement of the lenders. We currently have no borrowings outstanding under the credit facility. Borrowings under the credit facility will bear interest at the sum of a base rate or Eurodollar rate plus an applicable margin that ranges from 0.25% to 2.50% depending on the type of loan and our consolidated leverage ratio, with a current annual base rate of 3.25% and a Eurodollar rate of 0.46% (6 month rate).

The credit facility was amended and restated as described below.

On February 10, 2011, we entered into an amended and restated revolving credit agreement. This credit facility has revolver availability of $200 million, and availability in a delayed draw term loan of up to $150 million. The total availability can be increased by up to an additional $100 million at our request and subject to the agreement of the lenders. As of the date of this filing, there are no amounts outstanding under this agreement. Borrowings under the restated credit agreement will bear interest at the sum of a base rate or a Eurodollar rate plus an applicable margin that

ranges from 0.0% to 2.75%, depending on the type of loan and our consolidated leverage ratio. The term of the

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restated revolving credit agreement extends through June 1, 2014; however, if at least $100 million of the Notes are tendered, the term will be extended through February 10, 2016.

As discussed in Note 5, we have acquired certain property and equipment pursuant to capital leases. At December 31, 2010, future minimum lease payments under capital lease obligations, together with the present value of the net minimum lease payments, are as follows (in thousands):

2011	$ 1,161
2012	1,049
2013	838
2014	14
2015	2
Total minimum payments	3,064
Less amount representing interest	(265)
Present value of minimum lease payments	2,799
Current portion	(1,033)
Long-term portion	$ 1,766

9. Other Long-Term Liabilities

Other long-term liabilities consist of the following (in thousands):

	December 31	
	2010	**2009**
Unrecognized tax benefits (See Note 10)	$ 3,221	$ 2,786
Other	2,271	1,650
	$ 5,492	$ 4,436

10. Income Taxes

The components of our income before income taxes are as follows (in thousands):

	Year Ended December 31,		
	2010	**2009**	**2008**
U.S.	$ 24,507	$ 9,062	$ 3,036
Foreign	6,414	6,550	18,534
Income before income taxes	$ 30,921	$ 15,612	$ 21,570

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The components of our provision for income taxes are as follows (in thousands):

	Year Ended December 31,		
	2010	**2009**	**2008**
Current provision (benefit):			
U.S.:			
Federal	$ (11)	$ 10,229	$ 3,192
State	1,160	1,003	(720)
Foreign	2,593	1,453	(2,880)
Deferred (benefit) provision:			
U.S.:			
Federal	9, 166	(8,203)	(2,812)
State	375	(1,162)	(105)
Foreign	(203)	161	21,698
Total provision for income taxes	$ 13,080	$ 3,481	$ 18,373

A reconciliation of the statutory U.S. federal income tax rate to our effective income tax rate is as follows:

	Year Ended December 31,		
	2010	**2009**	**2008**
Income tax provision at statutory rate	35.0%	35.0%	35.0%
State income taxes	4.0	2.9	(4.4)
Change in valuation allowance	1.8	(6.0)	59.1
Research and development credit	(2.7)	(4.2)	(8.5)
Foreign income tax rate differences	(3.5)	(9.8)	(5.6)
Stock-based compensation expense	2.0	6.0	6.6
Other non-deductible expenses	5.3	1.4	1.1
Other, net	0.4	(3.0)	1.9
Total	42.3%	22.3%	85.2%

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The significant components of our deferred income taxes as of December 31, 2010 and 2009 are as follows (in thousands):

	December 31, 2010	2009
Deferred tax assets:		
Net operating loss carryforwards	$ 18,675	$ 20,623
General business credit carryforward	2,386	1,581
Reserves and allowances	26,726	26,170
Stock-based compensation expense	9,388	8,097
Amortization		611
Other	6,540	12,548
Valuation allowance	(14,897)	(17,216)
Total deferred tax assets	48,818	52,414
Deferred tax liabilities:		
Depreciation	15,037	7,357
Intangible assets	2,481	3,186
Other	866	1,973
Total deferred tax liabilities	18,384	12,516
Net deferred tax assets	$ 30,434	$ 39,898

In September 2010, we reached a settlement to resolve a United States Department of Justice investigation into our consulting and professional service agreements with orthopaedic surgeons in connection with hip or knee joint replacement procedures or products. Under the terms of the settlement, we paid a civil settlement amount of $7.9 million, and we recorded an expense in that amount. We have recorded a tax benefit for the amount of the settlement that we believe will be deductible for income tax purposes.

Outside basis differences that have not been tax-effected in accordance with FASB ASC 740 are primarily related to undistributed earnings of certain of our foreign subsidiaries. Deferred tax liabilities for U.S. federal income taxes are not provided on the undistributed earnings of our foreign subsidiaries that are considered permanently reinvested. The determination of the amount of unrecognized deferred tax liabilities is not practicable.

At December 31, 2010, we had net operating loss carryforwards for U.S. federal income tax purposes of approximately $12.0 million, which begin to expire in 2018. Additionally, we had general business credit carryforwards of approximately $2.4 million, which begin to expire in 2011 and extend through 2030. At December 31, 2010, we had foreign net operating loss carryforwards of approximately $43.3 million, all of which do not expire.

Certain of our U.S. and foreign net operating losses and general business credit carryforwards are subject to various limitations. We maintain valuation allowances for those net operating losses and tax credit carryforwards that we do not expect to utilize due to these limitations and it is more likely than not that such tax benefits will not be realized.

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A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at January 1, 2010	$ 2,786
Additions for tax positions related to current year	653
Additions for tax positions of prior years	
Reductions for tax positions of prior years	(110)
Settlements	
Foreign currency translation	(108)
Balance at December 31, 2010	$ 3,221

As of December 31, 2010, our liability for unrecognized tax benefits totaled $3.2 million and is recorded in our consolidated balance sheet within Other liabilities, all of which, if recognized, would affect our effective tax rate. Our U.S. federal income taxes represent the substantial majority of our income taxes, and our 2008 U.S. federal income tax return is currently under examination by the Internal Revenue Service. It is possible that our unrecognized tax benefits will change within the next twelve months as the examination proceeds.

We accrue interest required to be paid by the tax law for the underpayment of taxes on the difference between the amount claimed or expected to be claimed on the tax return and the tax benefit recognized in the financial statements. Management has made the policy election to record this interest as interest expense. As of December 31, 2010, accrued interest related to our unrecognized tax benefits totaled approximately $112,000 which is recorded in our consolidated balance sheet within Other liabilities.

We file numerous consolidated and separate company income tax returns in the U.S. and in many foreign jurisdictions. We are no longer subject to foreign income tax examinations by tax authorities in significant jurisdictions for years before 2005. With few exceptions, we are subject to U.S. federal, state and local income tax examinations for years 2007 through 2009. However, tax authorities have the ability to review years prior to these to the extent that we utilize tax attributes carried forward from those prior years.

11. Earnings Per Share

FASB ASC Section 260, *Earnings Per Share*, requires the presentation of basic and diluted earnings per share. Basic earnings per share is calculated based on the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is calculated to include any dilutive effect of our common stock equivalents. Our common stock equivalents consist of stock options, non-vested shares of common stock, stock-settled phantom stock units, restricted stock units, and convertible debt. The dilutive effect of the stock options, non-vested shares of common stock, stock-settled phantom stock units, and restricted stock units is calculated using the treasury-stock method. The dilutive effect of convertible debt is calculated by applying the if-converted method. This assumes an add-back of interest, net of income taxes, to net income as if the securities were converted at the beginning of the period. We determined that for the years ended December 31, 2008, 2009, and 2010, the convertible debt had an anti-dilutive effect on earnings per share and we therefore excluded it from the dilutive shares calculation.

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The weighted-average number of common shares outstanding for basic and diluted earnings per share purposes is as follows (in thousands):

		Year Ended December 31,		
		2010	2009	2008
Weighted-average number of common shares outstanding	basic	37,802	37,366	36,933
Common stock equivalents		159	77	468
Weighted-average number of common shares outstanding	diluted	37,961	37,443	37,401

The following potential common shares were excluded from the computation of diluted earnings per share as their effect would have been anti-dilutive (in thousands):

	Year Ended December 31,		
	2010	2009	2008
Stock options	3,766	3,872	2,604
Non-vested shares, restricted stock units, and stock-settled phantom stock units	621	1,151	502
Convertible debt	6,126	6,126	6,126

12. Capital Stock

We are authorized to issue up to 100,000,000 shares of voting common stock. We have 60,828,499 shares of voting common stock available for future issuance at December 31, 2010.

13. Stock-Based Compensation Plans

We have three stock-based compensation plans which are described below. Amounts recognized in the consolidated financial statements with respect to these plans are as follows:

	Year Ended December 31,		
	2010	2009	2008
Total cost of share-based payment plans	$ 13,217	$ 13,267	$ 13,223
Amounts capitalized as inventory and intangible assets	(1,353)	(1,361)	(1,492)
Amortization of capitalized amounts	1,313	1,285	1,770
Charged against income before income taxes	13,177	13,191	13,501
Amount of related income tax benefit recognized in income	(4,410)	(3,901)	(3,674)
Impact to net income	$ 8,767	$ 9,290	$ 9,827
Impact to basic earnings per share	$ 0.23	$ 0.25	$ 0. 27
Impact to diluted earnings per share	$ 0.23	$ 0.25	$ 0. 26

As of December 31, 2010, we had $20.3 million of total unrecognized compensation cost related to unvested stock-based compensation arrangements granted to employees. That cost is expected to be recognized over a weighted-average period of 2.4 years.

Equity Incentive Plans.

On December 7, 1999, we adopted the 1999 Equity Incentive Plan, which was subsequently amended and restated on July 6, 2001, May 13, 2003, May 13, 2004, May 12, 2005 and May 14, 2008 and amended on October 23, 2008. The 1999 Equity Incentive Plan expired December 7, 2009. The 2009 Equity Incentive Plan (the Plan) was adopted on

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May 13, 2009, which was subsequently amended and restated on May 13, 2010. The Plan authorizes us to grant stock options and other stock-based awards, such as non-vested shares of common stock, with respect to up to 11,917,051 shares of common stock, of which full value awards (such as non-vested shares) are limited to 2,729,555 shares. Under the plan, stock based compensation awards generally are exercisable in increments of 25% annually on each of the first through fourth anniversaries of the date of grant. All of the options issued under the plan expire after ten years. These awards are recognized on a straight-line basis over the requisite service period, which is generally four years. As of December 31, 2010, there were 1,448,759 shares available for future issuance under the Plan, of which full value awards are limited to 665,697 shares.

Stock options

We estimate the fair value of stock options using the Black-Scholes valuation model. The Black-Scholes option-pricing model requires the input of estimates, including the expected life of stock options, expected stock price volatility, the risk-free interest rate and the expected dividend yield. The expected life of options is estimated based on historical option exercise and employee termination data. The expected stock price volatility assumption was estimated based upon historical volatility of our common stock. The risk-free interest rate was determined using U.S. Treasury rates where the term is consistent with the expected life of the stock options. Expected dividend yield is not considered as we have never paid dividends and have no plans of doing so in the future. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting forfeitures and record stock-based compensation expense only for those awards that are expected to vest. The fair value of stock options is amortized on a straight-line basis over the respective requisite service period, which is generally the vesting period.

The weighted-average grant date fair value of stock options granted to employees in 2010, 2009, and 2008 was $7.11 per share, $6.23 per share, and $11.17 per share, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option valuation model using the following assumptions:

	Year Ended December 31,		
	2010	**2009**	**2008**
Risk-free interest rate	2.1% - 2.2%	2.1% - 2.6%	2.0% - 3.4%
Expected option life	6 years	6 years	6 years
Expected price volatility	40%	39%	36%

A summary of our stock option activity during 2010 is as follows:

	Shares (000 s)	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Life**	**Aggregate Intrinsic Value* ($000 s)**
Outstanding at December 31, 2009	3,965	$ 23.79		
Granted	231	18.37		
Exercised	(52)	5.37		
Forfeited or expired	(403)	24.73		
Outstanding at December 31, 2010	3,741	$ 23.62	5.3 years	$ 134
Exercisable at December 31, 2010	3,022	$ 24.20	4.6 years	$ 124

* The aggregate intrinsic value is calculated as the difference between the market value of our common stock as of December 31, 2010, and the exercise price of the shares. The market value as of December 31, 2010 is $15.53 per share, which is the closing sale price of our common stock reported for transactions effected on the Nasdaq Global Select Market on December 31, 2010.

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The total intrinsic value of options exercised during 2010, 2009, and 2008 was $582,000, $371,000, and $5.9 million, respectively.

A summary of our stock options outstanding and exercisable at December 31, 2010, is as follows (shares in thousands):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$0.00 $8.50	14	0.4	$ 7.60	14	$ 7.60
$8.51 $16.00	256	7.7	15.43	83	15.35
$16.01 $24.00	1,627	5.5	20.44	1,327	20.82
$24.01 $35.87	1,844	4.7	27.67	1,598	27.60
	3,741	5.3	$ 23.62	3,022	$ 24.20

Non-vested shares

We calculate the grant date fair value of non-vested shares of common stock using the closing sale prices on the trading day immediately prior to the grant date. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting forfeitures and record stock-based compensation expense only for those awards that are expected to vest.

We granted 500,000, 700,000, and 526,000 non-vested shares of common stock to employees with weighted-average grant-date fair values of $18.35 per share, $15.56 per share, and $28.15 per share during 2010, 2009, and 2008, respectively. The fair value of these shares will be recognized on a straight-line basis over the respective requisite service period, which is generally the vesting period.

During 2010, 2009 and 2008, we granted certain independent distributors and other non-employees non-vested shares of common stock of 5,000, 18,000 and 27,000 shares at a weighted-average grant date fair values of $18.20 per share, $16.76 per share and $26.49 per share, respectively.

A summary of our non-vested shares of common stock activity during 2010 is as follows:

	Shares (000 s)	Weighted-Average Grant-Date Fair Value	Aggregate Intrinsic Value* ($000 s)
Non-vested at December 31, 2009	1,161	$ 20.07	
Granted	505	18.35	
Vested	(378)	20.78	
Forfeited	(108)	20.80	
Non-vested at December 31, 2010	1,180	$ 19.03	$ 18,332

* The aggregate intrinsic value is calculated as the market value of our common stock as of December 31, 2010. The market value as of December 31, 2010 is $15.53 per share, which is the closing sale price of our common

stock reported for transactions effected on the Nasdaq Global Select Market on December 31, 2010.

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The total fair value of shares vested during 2010, 2009 and 2008 was $5.9 million, $4.1 million and $2.6 million, respectively.

Stock settled phantom stock units and restricted stock units

We calculate the grant date fair value of stock settled phantom stock units and restricted stock units using the closing sale prices on the trading day immediately prior to the grant date. We are required to estimate forfeitures at the time of the grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting forfeitures and record stock-based compensation expense only for those awards that are expected to vest.

During 2010 and 2009, we granted 88,000 and 86,000 stock settled phantom stock units and restricted stock units, respectively to employees with a weighted-average fair value of $18.31 and $15.44 per share. The fair value of these shares will be recognized on a straight-line basis over the respective requisite service period, which is generally the vesting period.

A summary of our non-vested shares of common stock and restricted stock units activity during 2010 is as follows:

	Shares (000 s)	Weighted-Average Grant-Date Fair Value	Aggregate Intrinsic Value* ($000 s)
Stock settled phantom stock and restricted stock units at December 31, 2009	110	$ 19.75	
Granted	88	18.31	
Vested	(28)	20.22	
Forfeited	(34)	20.33	
Stock settled phantom stock and restricted stock units at December 31, 2010	136	$ 18.57	$ 2,106

* The aggregate intrinsic value is calculated as the market value of our common stock as of December 31, 2010. The market value as of December 31, 2010 is $15.53 per share, which is the closing sale price of our common stock reported for transactions effected on the Nasdaq Global Select Market on December 31, 2010.

The total fair value of shares vested during 2010 was $453,000.

Inducement Stock Options. During 2010, we granted 65,000 stock options under an Inducement Stock Option agreement with an exercise price of $16.43. These options were granted to induce Raymond C. Kolls to commence employment with us as our General Counsel and Secretary and have substantially the same terms as grants made under the 1999 and 2009 Equity Incentive Plans. The grant date fair value of these options was $6.52, which was calculated using the Black-Scholes option valuation model using the same assumptions as the stock options granted under the 2009 Equity Incentive Plan. As of December 31, 2010, all of the options were outstanding, none of which were exercisable, with a remaining contractual life of 9.4 years.

Employee Stock Purchase Plan. On May 30, 2002, our shareholders approved and adopted the 2002 Employee Stock Purchase Plan (the ESPP). The ESPP authorizes us to issue up to 200,000 shares of common stock to our employees who work at least 20 hours per week. Under the ESPP, there are two six-month plan periods during each calendar year, one beginning January 1 and ending on June 30, and the other beginning July 1 and ending on December 31. Under the terms of the ESPP, employees can choose each plan period to have up to 5% of their annual base earnings, limited to $5,000, withheld to purchase our common stock. The purchase price of the stock is 85 percent of the lower of its beginning-of-period or end-of-period market price. Under the ESPP, we sold to employees approximately

28,000, 27,000, and 15,000 shares in 2010, 2009, and 2008, respectively, with weighted-average fair values of $5.41,

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$5.76, and $9.09 per share, respectively. As of December 31, 2010, there were 68,958 shares available for future issuance under the ESPP. During 2010, 2009, and 2008, we recorded nominal amounts of non-cash, stock-based compensation expense related to the ESPP.

In applying the Black-Scholes methodology to the purchase rights granted under the ESPP, we used the following assumptions:

	Year Ended December 31,		
	2010	**2009**	**2008**
Risk-free interest rate	0.6% 0.9%	0.9% 1.1%	2.9% 3.3%
Expected option life	6 months	6 months	6 months
Expected price volatility	40%	39%	36%

14. Employee Benefit Plans

We sponsor a defined contribution plan under Section 401(k) of the Internal Revenue Code, which covers U.S. employees who are 21 years of age and over. Under this plan, we match voluntary employee contributions at a rate of 100% for the first 2% of an employee s annual compensation and at a rate of 50% for the next 2% of an employee s annual compensation. Employees vest in our contributions after three years of service. Our expense related to the plan was $1.8 million, $1.6 million, and $1.4 million in 2010, 2009, and 2008, respectively.

15. Restructuring

Toulon, France

In June 2007, we announced plans to close our manufacturing, distribution and administrative facility located in Toulon, France. The facility s closure affected approximately 130 Toulon-based employees. The majority of our restructuring activities were complete by the end of 2007, with production now conducted solely in our existing manufacturing facility in Arlington, Tennessee and European distribution activities being carried out from our European headquarters in Amsterdam, the Netherlands.

As of December 31, 2010, we have concluded our restructuring efforts in Toulon, incurring a total of $27.3 million of charges, however certain liabilities remain to be paid.

Charges associated with the restructuring are presented in the following table. All of the following amounts were recognized within Restructuring charges in our consolidated statement of operations, with the exception of the inventory write-offs and manufacturing period costs, which were recognized within Cost of sales restructuring.

(in thousands)	Year Ended December 31, 2010	Cumulative Charges as of December 31, 2010
Severance and other termination benefits	$ 12	$ 13,562
Employee litigation accrual	(230)	4,818
Asset impairment charges		3,093
Inventory write-offs and manufacturing period costs		2,139
Legal/professional fees	466	3,483
Other		194
Total restructuring charges	$ 248	$ 27,289

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Activity in the restructuring liability for the year ended December 31, 2010 is presented in the following table (in thousands):

Beginning balance as of December 31, 2009	$ 4,964
Charges (reversals):	
Severance and other termination benefits	12
Employee litigation accrual	(230)
Legal/professional fees	466
Total accruals	248
Payments:	
Severance and other termination benefits	(84)
Employee litigation	(4,103)
Legal/professional fees	(601)
Total payments	(4,788)
Changes in foreign currency translation	(314)
Restructuring liability at December 31, 2010	$ 110

In connection with the closure of our Toulon, France facility, 103 of our former employees filed claims to challenge the economic justification for their dismissal. On November 11, 2010, we entered into settlement agreements with each of the former employees who had filed claims. Under the settlement agreements, we paid the former employees an aggregate amount of approximately $4.3 million. Management previously recorded a provision related to this litigation. Therefore, the settlement of this litigation did not have a material impact to our results of operations. These settlements close all outstanding litigation related to the closure of our facility in Toulon, France, and reflect the completion of activity associated with our Toulon restructuring efforts.

Creteil, France

In October 2009, we announced plans to close our distribution and finance support office in Creteil, France, in order to migrate all relevant French distribution and support functions into our European organization based out of our European headquarters in Amsterdam, the Netherlands.

As of December 31, 2010, we have concluded our restructuring efforts in Creteil, incurring a total of $2.8 million of charges, however certain liabilities remain to be paid.

Charges associated with the restructuring are presented in the following table. All of the following amounts were recognized within Restructuring charges in our consolidated statement of operations.

(in thousands)	Year Ended December 31, 2010	Cumulative Charges as of December 31, 2010
Severance and other termination benefits	$ 52	$ 876
Asset disposals	121	121

Legal/professional fees		66		328
Contract termination costs		133		1,128
Other		299		299
Total restructuring charges	$	671	$	2,752

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Activity in the restructuring liability for the year ended December 31, 2010 is presented in the following table (in thousands):

Beginning balance as of December 31, 2009	$ 1,817
Charges:	
Severance and other termination benefits	52
Contract termination costs	6
Legal/professional fees	66
Other	299
Total accruals	423
Payments:	
Severance and other termination benefits	(671)
Contract termination costs	(936)
Legal/professional fees	(199)
Other	(311)
Total payments	(2,117)
Changes in foreign currency translation	(81)
Restructuring liability at December 31, 2010	$ 42

16. Commitments and Contingencies

Operating Leases. We lease certain equipment and office space under non-cancelable operating leases. Rental expense under operating leases approximated $11.3 million, $11.0 million, and $10.1 million for the years ended December 31, 2010, 2009, and 2008, respectively. Future minimum payments, by year and in the aggregate, under non-cancelable operating leases with initial or remaining lease terms of one year or more, are as follows at December 31, 2010 (in thousands):

2011	$ 9,920
2012	5,582
2013	2,916
2014	796
2015	531
Thereafter	927
	$ 20,672

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Royalty and Consulting Agreements. We have entered into various royalty and other consulting agreements with third party consultants. We incurred royalty and consulting expenses of $216,000, $238,000, and $475,000 during the years ended December 31, 2010, 2009, and 2008, respectively, under non-cancelable contracts with minimum obligations that were contingent upon performance of services. The amounts in the table below represent minimum payments to consultants that are contingent upon future performance services. These fees are accrued when it is deemed probable that the performance thresholds are met. Future minimum payments under these agreements for which we have not recorded a liability are as follows at December 31, 2010 (in thousands):

2011	$ 202
2012	202
2013	147
2014	147
2015	147
Thereafter	147
	$ 992

Purchase Obligations. We have entered into certain supply agreements for our products, which include minimum purchase obligations. During the years ended December 31, 2010, 2009, and 2008, we paid approximately $6.1 million, $3.1 million, and $4.5 million, respectively, under those supply agreements. At December 31, 2010, we are obligated for $2.3 million of minimum purchases in 2011 under those supply agreements.

Portions of our payments for operating leases, royalty and consulting agreements are denominated in foreign currencies and were translated in the tables above based on their respective U.S. dollar exchange rates at December 31, 2010. These future payments are subject to foreign currency exchange rate risk.

Legal Proceedings. In December 2007, our wholly-owned subsidiary, Wright Medical Technology, Inc. (WMT) received a subpoena from the United States Department of Justice (DOJ) through the United States Attorney s Office for the District of New Jersey (USAO) requesting documents for the period January 1998 through the present related to any consulting and professional service agreements with orthopaedic surgeons in connection with hip or knee joint replacement procedures or products. This subpoena was served shortly after several of our knee and hip competitors agreed to resolutions with the DOJ after being subjects of investigations involving the same subject matter.

On September 29, 2010, WMT entered into a 12-month Deferred Prosecution Agreement (DPA) with the USAO and a Civil Settlement Agreement (CSA) with the United States. Under the DPA, the USAO filed a criminal complaint in the United States District Court for the District of New Jersey charging us with conspiracy to commit violations of the Anti-Kickback Statute (42 U.S.C. § 1320a-7b) during the years 2002 through 2007. The USAO has the discretion to extend the term of the DPA by up to six months. The court deferred prosecution of the criminal complaint during the term of the DPA. If we comply with the provisions of the DPA, the USAO will seek dismissal of the criminal complaint.

Pursuant to the CSA, WMT settled civil and administrative claims relating to the matter for a payment of $7.9 million without any admission by WMT. In conjunction with the CSA, WMT also entered into a five year Corporate Integrity Agreement (CIA) with the Office of the Inspector General of the United States Department of Health and Human Services. Pursuant to the DPA, an independent monitor will review and evaluate WMT s compliance with its obligations under the DPA. Together, these agreements resolve the investigation commenced by the USAO in December 2007. The USAO specifically acknowledges in the DPA that it does not allege that WMT s conduct adversely affected patient health or patient care.

We have a dispute with a former distributor in Belgium claiming damages of approximately $12.6 million. The

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case was pleaded during the first quarter of 2010, and the former distributor was awarded approximately $80,000, for which we have included a provision in our consolidated balance sheet as of December 31, 2010. The former distributor has appealed this decision. Management believes we have strong defenses against these claims and is vigorously contesting the allegations; thus, we do not believe the results of the appeal will have a material impact on the Company s consolidated financial position or results of operations.

Other. As of December 31, 2010, the trade receivable balance due from our stocking distributor in Turkey was $8.9 million, of which a significant portion is past due. We have recorded a reserve of $5.6 million against this balance as of December 31, 2010. It is possible that the future realization of this accounts receivable balance could be less than the remaining unreserved balance of $3.3 million.

In addition to the stocking distributor in Turkey, our next ten largest international stocking distributors have net trade receivable balances totaling approximately $18 million as of December 31, 2010. We have recorded a reserve of $1.1 million for the portion of these balances that management believes collection is not probable. It is at least reasonably possible that changes in global economic conditions and/or local operating and economic conditions in the regions these distributors operate, or other factors, could affect the future realization of the remaining unreserved balances.

In addition to those noted above, we are subject to various other legal proceedings, product liability claims and other matters which arise in the ordinary course of business. In the opinion of management, the amount of liability, if any, with respect to these matters, will not materially affect our consolidated results of operations or financial position.

17. Segment Data

We have one reportable segment, orthopaedic products, which includes the design, manufacture and marketing of devices and biologic products for extremity, hip, and knee repair and reconstruction. Our geographic regions consist of the United States, Europe (which includes the Middle East and Africa) and Other (which principally represents Latin America, Asia and Canada). Long-lived assets are those assets located in each region. Revenues attributed to each region are based on the location in which the products were sold.

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Net sales of orthopaedic products by product line and information by geographic region are as follows (in thousands):

	Year Ended December 31,		
	2010	**2009**	**2008**
Net sales by product line:			
Hip products	$ 176,687	$ 167,869	$ 160,788
Knee products	128,854	122,178	119,895
Extremity products	124,490	107,375	88,890
Biologics products	79,231	79,120	82,399
Other	9,711		