Forging Ahead.

2010 Annual Report Wright Medical Group, Inc.

WRIGHT.

"When your choices are taken away, you get grumpy and there is constant, chronic pain."

"Today, at the gym, people come up to me and say it's amazing I am back. Thanks to my hip replacement, I have experienced a phenomenal, profound change. I am so grateful to Wright."

"I have experienced a phenomenal, profound change."

◀ Evelyn, who had her hip reconstructed through Wright's **PATH® Tissue-Preserving Technique**

2
Wright celebrated our 60th year in business in 2010. We invite you to read more and get to know us better.

6
Product specialty pages

29
2010 financials

celebrating
Wright's diamond anniversary

Financial Highlights

dollars are in thousands

	2010[1]	2009[2]	2008[3]	2007[4]	2006[5]
Net sales	$518,973	$487,508	$465,547	$386,850	$338,938
Gross profit, as reported	$360,517	$338,793	$331,170	$276,304	$241,704
as a percentage of net sales	69.5%	69.5%	71.1%	71.4%	71.3%
Gross profit, as adjusted	$361,818	$340,148	$332,527	$280,907	$242,558
as a percentage of sales	69.7%	69.8%	71.4%	72.6%	71.6%
Operating income, as reported	$37,174	$23,951	$22,413	$1,454	$19,431
as a percentage of net sales	7.2%	4.9%	4.8%	0.4%	5.7%
Operating income, as adjusted	$62,172	$54,180	$55,216	$40,546	$33,271
as a percentage of net sales	12.0%	11.1%	11.9%	10.5%	9.8%
Net income, as reported	$17,841	$12,131	$3,197	$961	$14,411
as a percentage of sales	3.4%	2.5%	0.7%	0.2%	4.3%
Net income, as adjusted	$35,787	$33,200	$36,329	$28,922	$22,742
as a percentage of sales	6.9%	6.8%	7.8%	7.5%	6.7%
Diluted earnings per share					
as reported	$0.47	$0.32	$0.09	$0.03	$0.41
as adjusted	$0.90	$0.85	$0.92	$0.79	$0.64
Total assets	$755,239	$714,284	$692,130	$669,985	$409,402
Total long-term obligations	$201,766	$200,326	$200,136	$200,455	$723

Net sales

Operating income, as adjusted

Net income, as adjusted

Total assets

(1) 2010 adjusted results presented above exclude $13.2 million ($8.8 million after tax effect) of non-cash, stock-based compensation expense. The 2010 adjusted results presented above also exclude $10.9 million ($8.6 million after tax effect) of charges related to our U.S. government inquiries and our independent monitor, and $919,000 ($543,000 after tax effect) of restructuring charges associated with the closure of our Toulon, France operations and Creteil, France operations.

(2) 2009 adjusted results presented above exclude $13.2 million ($9.3 million after tax effect) of non-cash, stock-based compensation expense. The 2009 adjusted results presented above also exclude $7.8 million ($5.1 million after tax effect) of charges related to our U.S. government inquiries, $3.5 million ($275,000 after tax effect) of restructuring charges associated with the closure of our Toulon, France operations and Creteil, France operations, $2.6 million write off of the cumulative translation adjustment balances from certain subsidiaries following the substantially complete liquidation of these entities, $5.6 million ($3.8 million after tax effect) provision recorded in 2009 for potential losses related to the trade receivable balance of our stocking distributor in Turkey, and $70,000 ($43,000 after tax effect) of acquisition-related inventory step-up amortization.

(3) 2008 adjusted results presented above exclude $13.5 million ($9.8 million after tax effect) of non-cash, stock-based compensation expense, $11.2 million tax provision associated with the write-off of net operating losses in France, $7.6 million ($4.7 million after tax effect) of charges related to our U.S. government inquiries, $6.7 million ($3.3 million after tax effect) of restructuring charges associated with the closure of our Toulon, France operations, $2.6 million ($1.6 million after tax effect) for charges relating to an unfavorable appellate court decision (including interest), $2.5 million of acquired in-process research and development costs, and $113,000 ($69,000 after tax effect) of acquisition-related inventory step-up amortization.

(4) 2007 adjusted results presented above exclude $16.5 million ($12.9 million after tax effect) of non-cash, stock-based compensation expense, $18.9 million ($12.5 million after tax effect) of restructuring charges associated with the closure of our Toulon, France operations, $3.9 million ($2.4 million after tax effect) of charges related to an unfavorable arbitration ruling (including interest), and $418,000 ($253,000 after tax effect) of acquisition-related inventory step-up amortization.

(5) 2006 adjusted results presented above exclude $13.8 million ($10.9 million after tax effect) of non-cash, stock-based compensation expense, a $1.5 million ($1.4 million after tax effect) gain on the sale of an investment, and a $1.1 million income tax benefit.

Sixty Years of Innovation in Orthopaedics

In 2010, Wright marked its 60th year in orthopaedics. The anniversary presented a great opportunity to reflect on our humble beginnings, exciting growth and bright future. Started in 1950 by orthopaedic salesman and innovator Frank O. Wright, our first product was an "all-rubber walking heel" for leg casts – an original conception of the founder. From there, the product offering was quickly expanded to include orthopaedic implants and instrumentation as well as soft goods, like arm slings and splints.

By the time of Frank Wright's death in 1975, orthopaedic implants and instrumentation had been firmly established as the foundation of the business. Within a few short years, our soft goods lines slowly disappeared and we were ready to forge ahead as a dedicated provider of orthopaedic surgical solutions.

Today, Wright Medical is an orthopaedic leader with approximately 1,400 employees worldwide and annual sales surpassing the half billion dollar mark – a far cry from the small machining shop and showroom opened by Frank Wright in downtown Memphis, Tennessee sixty years ago. The same spark of innovation that was ignited our earliest days remains alive and vibrant today. And we are proud to retain the name of its innovative founder, Frank O. Wright, to reflect its commitment to his pioneering spirit.

In 2010, Wright celebrated 60 years of "creating motion".

celebrating

Wright's diamond anniversary

Wright – Through the Years

❶ **1950**
Wright is founded in 1950 by Memphis orthopaedic salesman Frank O. Wright to sell his original "all-rubber walking heel" for leg casts. Although this first product is small and simple, it offers an innovative solution to the common problem of back pain caused by the rigid steel heels used in leg casts at the time. Even in its earliest days as a small medical device company, Wright is powered by innovation.

❷ **1970's**
Innovation continues to mark Wright's product offering as it grows throughout the decades. In the late 70s, it introduces a new line of implants for the small joints of the fingers and toes. The products feature an exciting new silicone technology.

❸ **1996**
Wright assumes a pioneering role in the field of Biologics in 1996 when it introduces its first bone void filler, OSTEOSET® Medical Grade Calcium Sulfate. The product lays the foundation for an expansive line of biologic solutions that will be introduced over the next decade and beyond.

❹ **1998**
Wright develops a new approach to knee implant design that focuses on replicating the kinematics of the natural knee. This "medial-pivot" design is first introduced in 1998 as the ADVANCE® Knee System. After years of clinical success and patient satisfaction, Wright's next generation EVOLUTION™ Medial-Pivot Knee System is introduced in 2010.[1,2]

❺ **2001**
The new millennium ushers in a period of rapid growth for Wright, underscored by its successful initial public offering in 2001. Product lines begin to expand rapidly, and so does Wright's reach into the global market.

❻ **2004**
Focused on providing surgeons with convenient, quality training, Wright launches its state-of-the-art Mobile Medical Education Lab in 2004. Within a few short years, this mobile facility has hosted over 1,000 surgeons for product-specific training sessions in locations across the United States.

❼ **2007**
In 2007, Wright begins to invest heavily in its Foot & Ankle business. Key acquisitions, distribution agreements and product developments support its commitment to serving this orthopaedic specialty.

With expanding product lines across a variety of market segments, Wright also begins to focus on developing "specialties" within its sales force. The new strategy equips sales representatives with an unprecedented level of detailed product knowledge to enhance service to our surgeon customers.

❽ **2008**
In 2008, Wright acquires the ground-breaking technology of the INBONE® Total Ankle System. The device offers a unique surgical solution to a long-standing orthopaedic challenge and is immediately recognized as a significant addition to Wright's growing Foot & Ankle product portfolio.

The Company also introduces an innovative new material designed to promote bone in-growth at the surface of an implant. The proprietary material, called BIOFOAM® Cancellous Titanium™, features a roughened texture and inner structure that mimics bone for enhanced in-growth and fixation of the implant.

The material is initially paired with tibial bases on the ADVANCE® family of medial-pivot knees and is later added to products in Wright's Foot & Ankle and Hip product lines.

❾ **2010**
In 2010, Wright celebrates its 60th year in orthopaedics. It is a recognized leader in the Foot & Ankle market, continues to innovate in the biologics arena, and remains focused on its core hip and knee businesses.

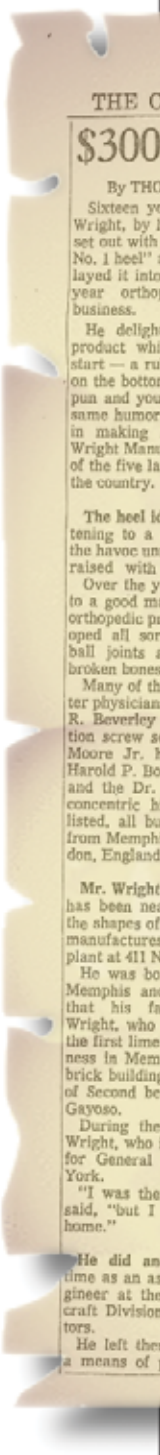
With approximately 1,400 employees worldwide, the global orthopaedic leader bears little resemblance to the medical device start-up founded by Frank Wright 60 years earlier – except, of course, for the spirit of innovation that started it all.

Wright — Then

Wright — Now US Headquarters

[1] Theofilos Karachalios, Nikolaos Roidis, Dimitrios Giotikas, Konstantinos Bargiotas, Socrates Varitimidis, Konstantinos N. Malizos, "A Mid-term Clinical Outcome Study of the Advance Medial Pivot Knee Arthroplasty," The Knee, (2009).

[2] James W. Pritchett, "Patients Prefer a Bicruciate-Retaining or the Medial Pivot Total Knee Prosthesis," The Journal of Arthroplasty, Vol. 00 No. 2010.



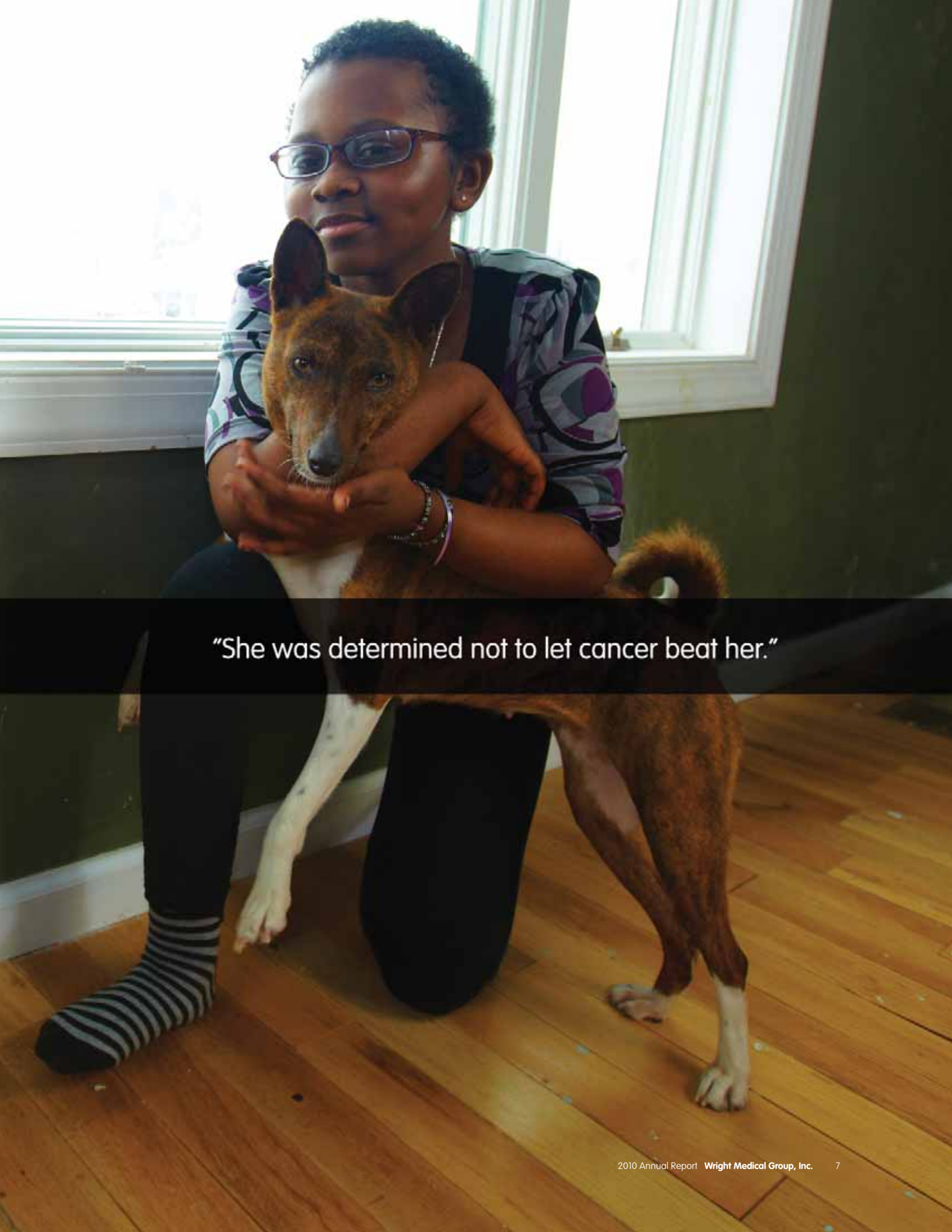

OMMERCIAL APPEAL, MEMPHIS, SUNDAY MORNING, SEPTEMBER 25, 1966
And Soft Step Led To Success In Business
MAS BeVIER
1
2
3
4
5
WRIGHT
NASDAQ
6
7
Most comprehensive foot & ankle product portfolio in the industry
7
8
9
WRIGHT
60
WRIGHT

"I could not believe how strong she was."

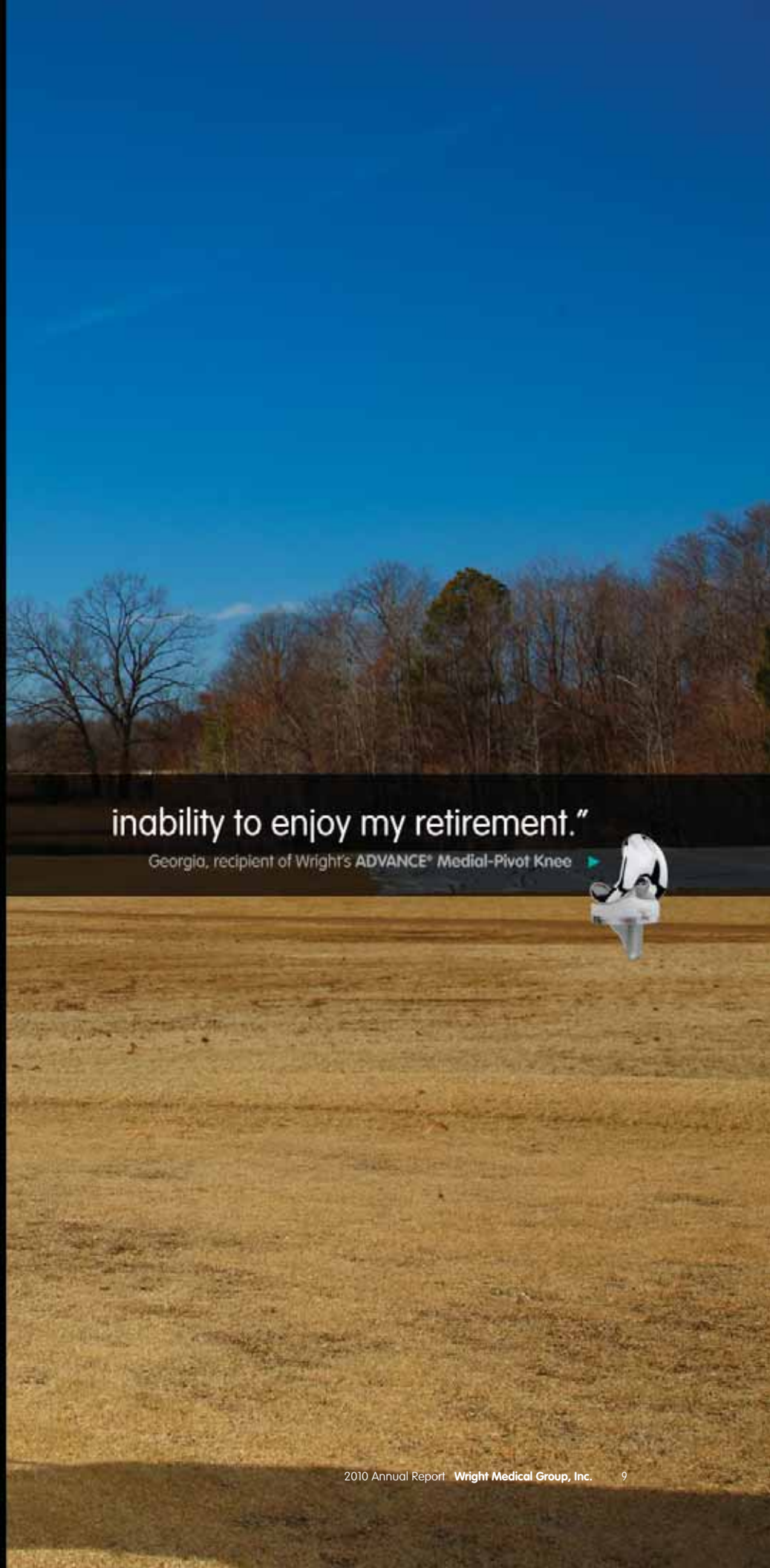
Molly, mother of Destiny, recipient of Wright's **REPIPHYSIS® Expandable Implant** ►

Diagnosed with osteosarcoma, Destiny was treated with the REPIPHYSIS® Expandable Implant from Wright, the first bone replacement that does not require additional surgeries to lengthen the implant as the child's healthy limb grows. Instead, when the healthy limb grows, a noninvasive expansion procedure is performed to lengthen the prosthesis. The doctor places a magnetic field around the patient's limb to initiate the lengthening process and soften the plastic inside the REPIPHYSIS® implant, allowing the spring inside the device to expand.

Destiny was treated by Dr. Felasfa Wodajo. And, as 2010 drew to a close, Destiny was inching closer to resuming the normal life of a nine year old. She is due to have another leg lengthening procedure soon and can expect to have them every few months. Meanwhile, there are no traces of cancer in her body and she can move around freely with virtually no restrictions.


"She was determined not to let cancer beat her."


"I was growing increasingly frustrated by my



"Although at first I was hesitant to undergo surgery, I was growing increasingly frustrated by my inability to enjoy my retirement."

"I knew in order to return to the golf course I had to have my knee replaced."

After surgery, Georgia committed herself to performing the physical therapy required to rebuild the strength in her knee. Each day she felt her knee getting stronger and the pain subsiding. Just four months later, she returned to the golf course. And, for the first time in recent memory, she teed off and completed 18 holes without a throbbing sharp pain in her knee.

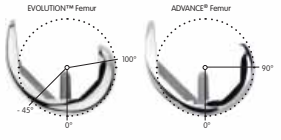
"Thanks to the doctor's skill and Wright's technology,

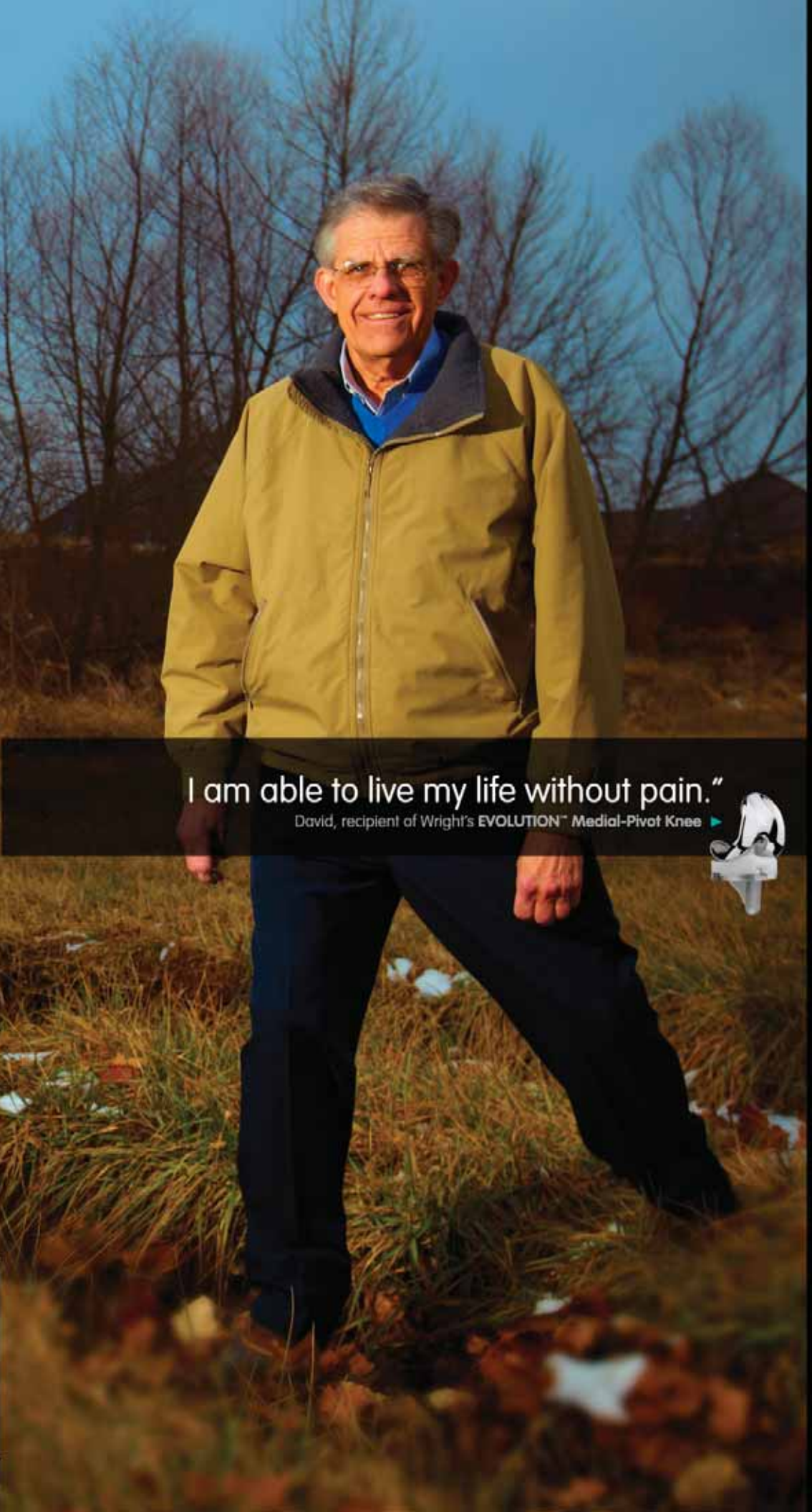
Medial-Pivot Technology: Ever-Evolving

The EVOLUTION™ Tibial Base now has an 8° medially oriented lock detail and a shortened dovetail for easier poly insertion. The keel has been shortened for easier and less invasive insertion.

EVOLUTION™ sizing options have been expanded to 8 sizes. Nearly 300 scans from the United States, Japan, and Korea were used to assess various aspects of femoral sizing. There are 3 to 4mm between EVOLUTION™ sizes and the femoral pegs maintain a common distance across sizes, allowing for easy downsizing.

The constant radius on ADVANCE® (0° to 90°) has been extended from -45° to 100° degrees, allowing for higher contact area throughout range of motion.





Medial-Pivot Technology: Lessons from the Natural Knee

For over a decade, Wright has pioneered knee designs that replicate the movement of the natural knee.

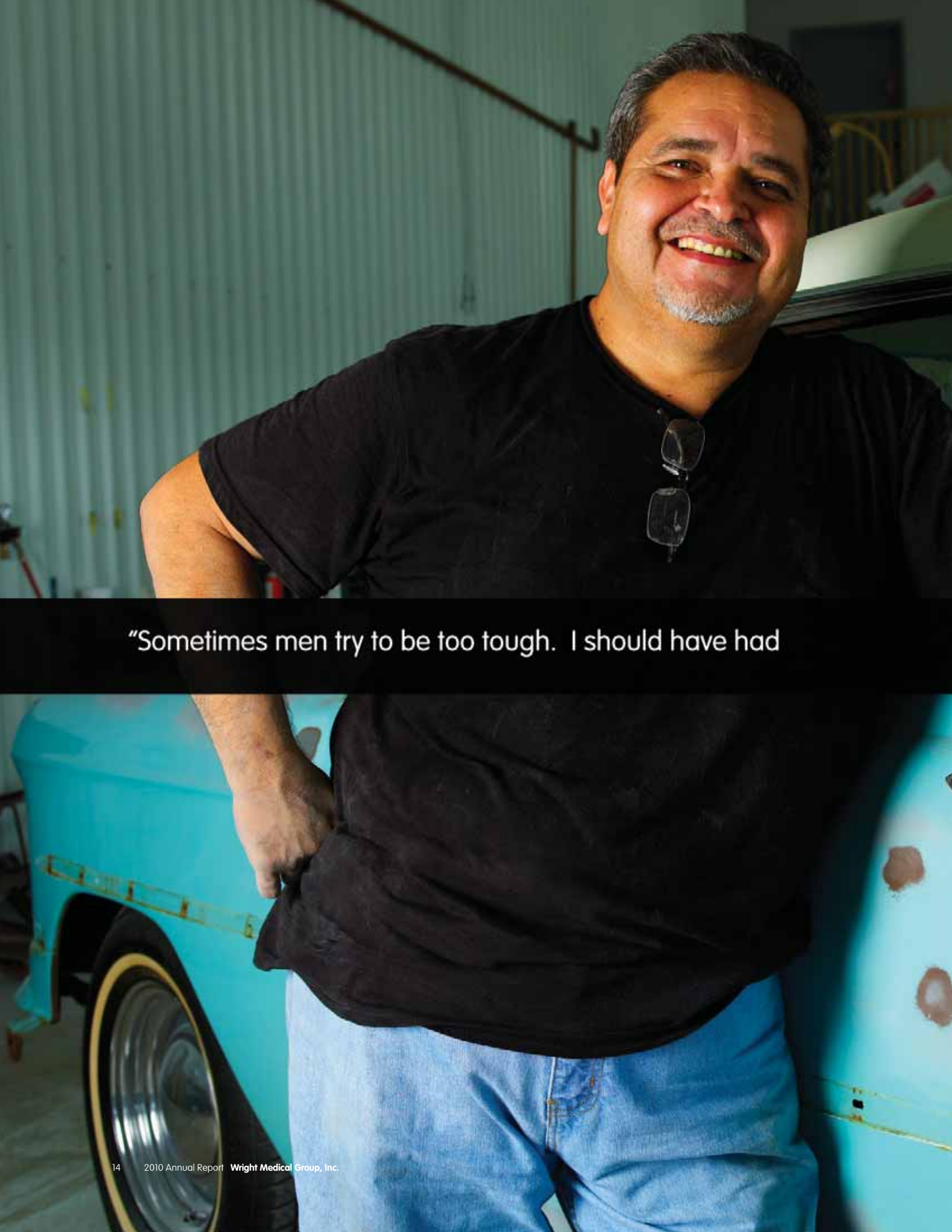
The greatest breakthrough in this endeavor has been the incorporation of a mechanism that capitalizes on the knee joint's most stabilizing features, which are found on the medial (inner) side. Compared to the outer, or lateral, side of the knee joint, medial structures provide more stability within the knee's natural anatomy. Features such as a robust ligament structure and concave tibial surface mean that the medial side of the knee naturally moves less than the lateral side. For years, traditional implant designs ignored this crucial detail provided by the blue-print of the natural knee, focusing on replicating "hinge-like" movement with equal stability on both sides of the joint. As a result, a common phenomenon among recipients of traditionally-designed total knees is a slight sliding forward within the joint, known as "paradoxical motion." For many patients, this decreased stability creates an unsettling sensation and can even result in a "clunking" noise.

At Wright, we knew there had to be a better way to provide mobility for total knee patients. So we looked more closely at the movement of the natural knee, focusing on the medial compartment's tendency to be more stable and provide a "pivot point" for slightly more movement in the lateral compartment. The result was our "medial-pivot" technology which is centered on a "ball-in-socket" mechanism, rather than the hinge-like movement favored by most traditional knee designs. The ball-in-socket feature retains the medial compartment's natural pivot point to provide more stability, reducing the sensation of "sliding forward" in the joint.

It is a design concept that has been lauded by surgeons and their patients for over a decade — and the foundation for Wright's family of innovative knee systems.


"I'm only 5'2."


"I don't need the same sized knee as a bigger person."
Patty, recipient of Wright's ADVANCE STATURE® Medial-Pivot Knee


"Sometimes men try to be too tough. I should have had

my rotator cuff tear treated right away."

Charles, treated with Wright's **GRAFTJACKET® Regenerative Tissue Matrix** ►

Using the Natural Healing Process to Enhance Soft Tissue Repair

Charles's doctor determined that he had a major rotator cuff tear–an injury of the tendons that support the shoulder. His shoulder had only 50 percent normal range of motion and he could not return to work without reconstruction of the rotator cuff.

Charles was treated with GRAFTJACKET® Matrix and then received physical therapy for several months to regain strength. He has regained much of his strength and is again able to play with his kids and maintain his six acres of land. Charles's only regret is that he wasn't treated sooner. "Sometimes men try to be too tough–we're going to just keep going until the arm falls off! I should have had my rotator cuff tear treated right away."

[3] FA Barber, et al, "A Prospective, Randomized Evaluation of Acellular Human Dermal Matrix Augmentation for Arthroscopic Cuff Repair," Arthroscopy Association of North America, Hollywood, FL, May 2010.

Rotator Cuff Repair Backed by the Confidence of Clinical Data

Scientific evidence of superior performance is a significant distinction for any healthcare product. The use of Wright's GRAFTJACKET® Matrix for augmentation of challenging rotator cuff repairs was supported by that distinction in 2010. The results of a prospective, randomized, controlled clinical study showed GRAFTJACKET® Matrix is a superior treatment choice for rotator cuff tears measuring 3 to 5 cm in width.

As many as 75,000 patients in the United States are affected by "large to massive" rotator cuff tears each year. 90% of those patients experience re-tearing at the treated site, making long-term repair of this injury a significant clinical challenge. But the study showed Wright's GRAFTJACKET® Matrix offers exceptional long-term performance when used to aid repair of this type of rotator cuff tear. The study included 36 patients with follow-up periods ranging from 12 to 33 months after surgery.[3] Of the 20 patients with rotator cuff repair using Wright's GRAFTJACKET® Matrix, magnetic resonance imaging (MRI) revealed that 84% had intact repairs. For the 16 patients in the control group, only 46% showed intact repairs at follow-up. Functionality scores were also significantly higher for patients treated with GRAFTJACKET® Matrix.

Wright's GRAFTJACKET® Matrix enhances soft tissue repair by working with the body's natural repair process to gradually convert the graft into the patient's own living tissue. Now supported by results of a multi-center, prospective, randomized, controlled clinical study, Wright's GRAFTJACKET® Matrix may offer substantially improved outcomes for patients who undergo surgical repair of extensive rotator cuff tears.

"It was depressing, because I felt older than I really am."

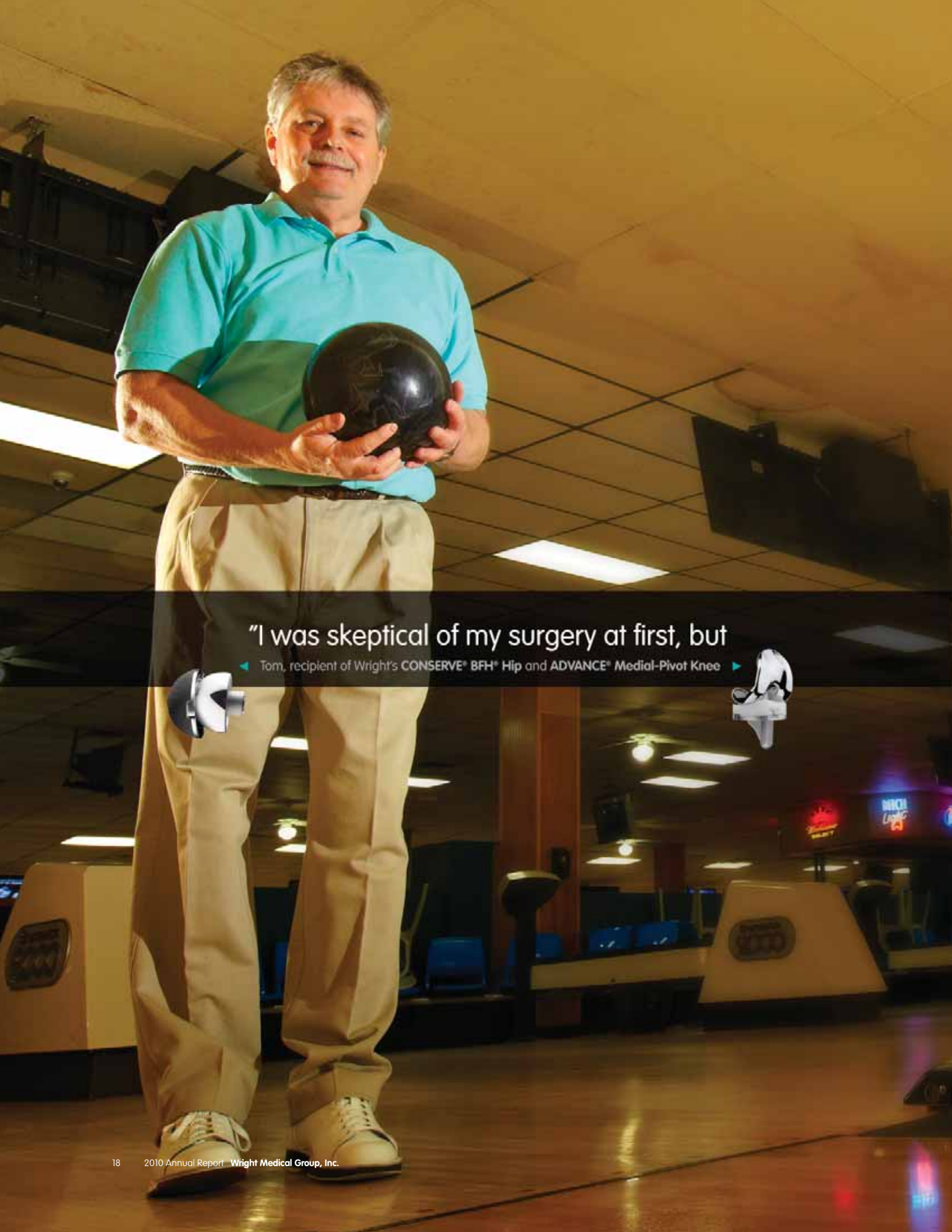
Pam, 47, who has worked in childcare for years, found that she could no longer keep up with the kids when they went on walks or bicycle rides; her favorite part of each day. Her doctor treated her with shots for the pain, but Pam felt she was losing ground to arthritis and also felt she was too young to be missing out on things she had always enjoyed doing.

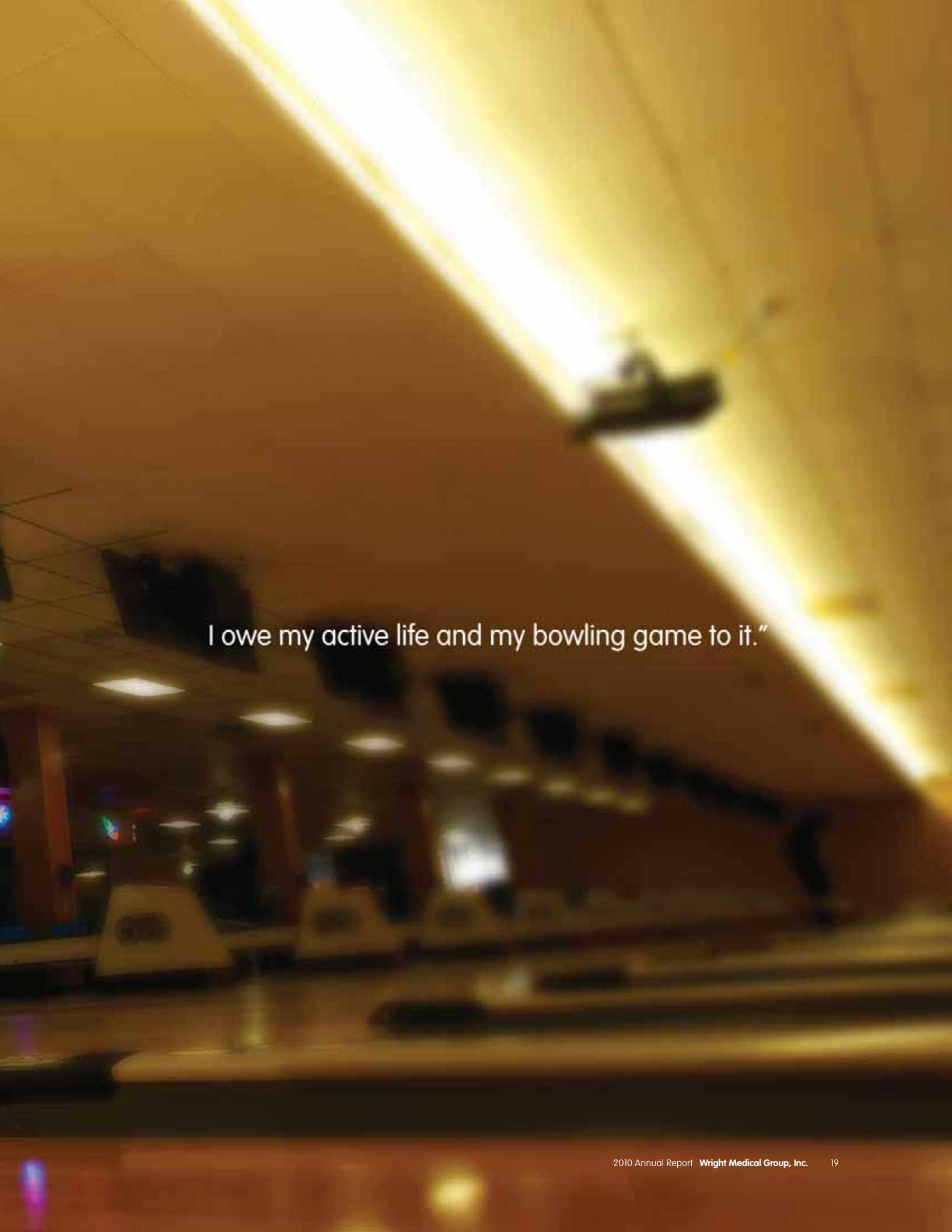
Pam was referred to an orthopaedic surgeon and decided to trade in her arthritic hip for a ceramic-on-ceramic hip from Wright. Four months after her surgery, Pam said she was still recovering and had recently finished her outpatient physical therapy, but already felt a tremendous improvement in her hip — very little pain and a new sense of confidence.

"Family support, especially from my mother and sister, was very important to me before and after surgery."

"I look back on what I was going through and I know it was time to get something done. It's a tremendous relief to be able to live without pain and have my life back."


"Just treating the pain wasn't working. I needed a real solution."
Pam, recipient of Wright's LINEAGE® Ceramic Hip ▶


"I was skeptical of my surgery at first, but
Tom, recipient of Wright's CONSERVE® BFH® Hip and ADVANCE® Medial-Pivot Knee


I owe my active life and my bowling game to it."

Wright's PATH® Tissue-Preserving Surgical Technique: Preserving Soft Tissue, Retaining Joint Function

The new frontier in hip solutions focuses not only on advanced implant technologies, but refined surgical approaches to help get patients moving more quickly. Wright has made great strides in providing less invasive hip surgery options through the development of its PATH® tissue-preserving surgical technique. The technique focuses on minimizing disruption to soft tissues surrounding the hip joint – and decreasing patient recovery time from months or weeks to just days.

While other techniques focus on simply reducing the surgical incision size, Wright's PATH® technique minimizes damage to muscles and tendons throughout the surgical site. By preserving these delicate soft tissues, surgeons can help patients retain much of their joint function immediately after surgery, significantly reduce their postoperative discomfort, and help them return to normal activities more quickly than ever before.[4]

In many cases, patients treated by this technique are walking, unassisted, within days, not weeks.[5]

Watch Fast Recovery Patient Videos Now

See for yourself what some of Wright's PATH® patients are able to do, just one day – two days – one week, post-op. Simply scan the quick response code (QR code) with your mobile device and click on "Fast Recovery Videos". Or you can visit www.hips4fastrecovery.com.

[4] Brad L. Penenberg, MD, "Percutaneously Assisted Total Hip Arthroplasty (PATH): A Preliminary Report," The Journal of Bone and Joint Surgery (American), 2008;90:209-220.

[5] Brad L. Penenberg, MD; W. Seth Bolling, MD; Michelle E. Riley, PA-C, "Percutaneously Assisted Total Hip Arthroplasty (PATH®):A New Soft Tissue Sparing Technique," Scientific Exhibit at the 75th AAOS Annual Meeting.

"3 days after surgery, I was back to work."

Hip Articulation Options for a Variety of Needs

Innovation in orthopaedics often goes beyond the finer scientific details of introducing a technology that is "new". It includes assessing the best in proven technologies and combining them into one system for maximum versatility. This approach is certainly illustrated through the variety of articulating surface options available in Wright's DYNASTY® Acetabular Cup System. While the system incorporates ground-breaking technologies, such as Wright's BIOFOAM® Cancellous Titanium™, the variety of articulating surface options available with the system is an innovation on its own.

In total hip arthroplasty, patient needs fall across a broad spectrum. Age, activity level and patient size all play significant roles in determining the implant options that are most likely to deliver favorable outcomes. In acetabular cup systems, choosing the right articulating surface for a patient is critical. That's why Wright gives surgeons the option to choose metal-on-metal or cross-linked polyethylene acetabular liners to pair with metal or ceramic femoral heads.

For any total joint arthroplasty patient, a successful surgical result rests in the hands of a skilled surgeon equipped with quality implant solutions. The DYNASTY® Acetabular Cup System provides the surgeon with the right tools to deliver optimal outcomes for patients.

DYNASTY®
Acetabular Cup System

"9 months post-op, I was back on the water."

◀ Jon, who had his hip reconstructed through Wright's **PATH® Tissue-Preserving Technique**

Jean is a world-class athlete, competing in racquetball, and scoring numerous trophies along the way. She says, "It's a tough lifestyle, but I'm tough too – you have to be to play at my level." Jean never stopped to think that an injury had the potential to sideline her racquetball career.

But, just weeks from her most important competition, Jean fell on her property, breaking both her radius and ulna. She was devastated by the injury. When Dr. Samir Sodha offered her the option of the MICRONAIL® Distal Radius Fixation System (an intramedullary nail), Jean leapt at the chance. The MICRONAIL® implant is an innovative surgical wrist repair device. The minimally invasive implant's design causes less morbidity, enabling the patient a faster recovery than a traditional method of treatment such as casting. Because the permanent MICRONAIL® implant resides completely inside the bone, it is designed to reduce risk of tendon irritation or rupture sometimes seen with the traditional treatment which uses plates and screws.[1]

"I had to have a MICRONAIL®," says Jean. "I simply couldn't have a cast. I wouldn't have been able to play for months and my wrist may not have had the stability it got from the MICRONAIL® implant."

Using her experience as a professional athlete to her advantage, Jean worked hard to recover quickly after her surgery. **"Without the MICRONAIL® implant, I wouldn't have been able to compete in my world championship."**

[1] Tamara D. Rozental, MD, Philip E. Blazar, MD, "Functional Outcome and Complications After Volar Plating for Displaced, Unstable Fractures of the Distal Radius," *Journal of Hand Surgery*, Vol. 31, Issue 3 (March 2006) 359-365.

"I had to have a MICRONAIL.® I couldn't have a cast."

Jean, recipient of Wright's **MICRONAIL® Distal Radius Fixation Implant** ▶

NEW from Wright

Dependable Elbow Plating with Less Soft Tissue Irritation

Broadening our line of upper extremity solutions, Wright recently introduced the EVOLVE® Elbow Plating System (EPS) to treat fractures of the distal humerus and proximal ulna. It is estimated over 200,000 of these fractures occur annually in the United States alone, with a significant number of those injuries requiring surgical treatment. Because the elbow has very little soft tissue surrounding it, surgical fixation using thick plates and prominent screws often results in discomfort for the patient. To remedy this situation, the patient may have to endure an additional procedure to remove the hardware.

Wright's EVOLVE® Elbow Plating System addresses these common concerns through a low profile design to reduce the possibility of soft tissue irritation. The stainless steel plate is also anatomically designed for a more precise fit for the patient, reducing the need for the surgeon to bend the plate to achieve a proper fit. For greater stability, the plate and screw interface incorporates our ORTHOLOC™ Polyaxial Locking technology. The EVOLVE® Elbow Plating System offers a "complete" surgical solution that not only provides dependable fracture fixation, but also successfully addresses the common procedure-specific challenge of soft tissue irritation.

EVOLVE®
Elbow Plating System

"Every aspect of my life was challenging."

A Breakthrough in Total Ankle Replacement

As Margie's arthritis got progressively worse, everyday tasks became increasingly more complicated. Going to the playground with her grandchildren wasn't as enjoyable as it had been, basic housework was difficult, and grocery shopping was nearly impossible. When the pain in her ankles caused her to sit out some of her favorite line dances, Margie knew she needed to seek treatment.

In July of 2008, she was implanted with her first artificial ankle and then returned in February of 2009 to have her other arthritic ankle replaced too. The results have been beyond her expectations. "Thanks to my two new ankles, I am enjoying every minute of my life."

Margie was treated with INBONE® Total Ankle replacements. The INBONE® Total Ankle began as a leading foot and ankle surgeon's quest to provide a surgical solution to ankle arthritis patients for pain reduction and restored mobility. The INBONE® ankle team carefully studied previous ankle designs to determine the causes of implant failure. With that knowledge in hand, and using design elements already proven successful in hip and knee implants, INBONE® ankle engineers designed a total ankle replacement unlike any existing options available.

The prosthesis consists of two main pieces: a tibial (shin bone) component and a talar (ankle bone) component.

The tibial component features a polyethylene (plastic) piece secured within a titanium (metal) holder. A long titanium stem securely anchors this half of the implant within the tibia. The talar component is an anatomically shaped, highly polished cobalt chrome metal piece which also features a stem. The talar stem is inserted into the talus (ankle bone) to securely anchor this half of the implant. Once installed, the smooth plastic surface of the tibial component is designed to rotate on the highly polished metal surface of the talar component, allowing for smooth, fluid movement.

NEW from Wright

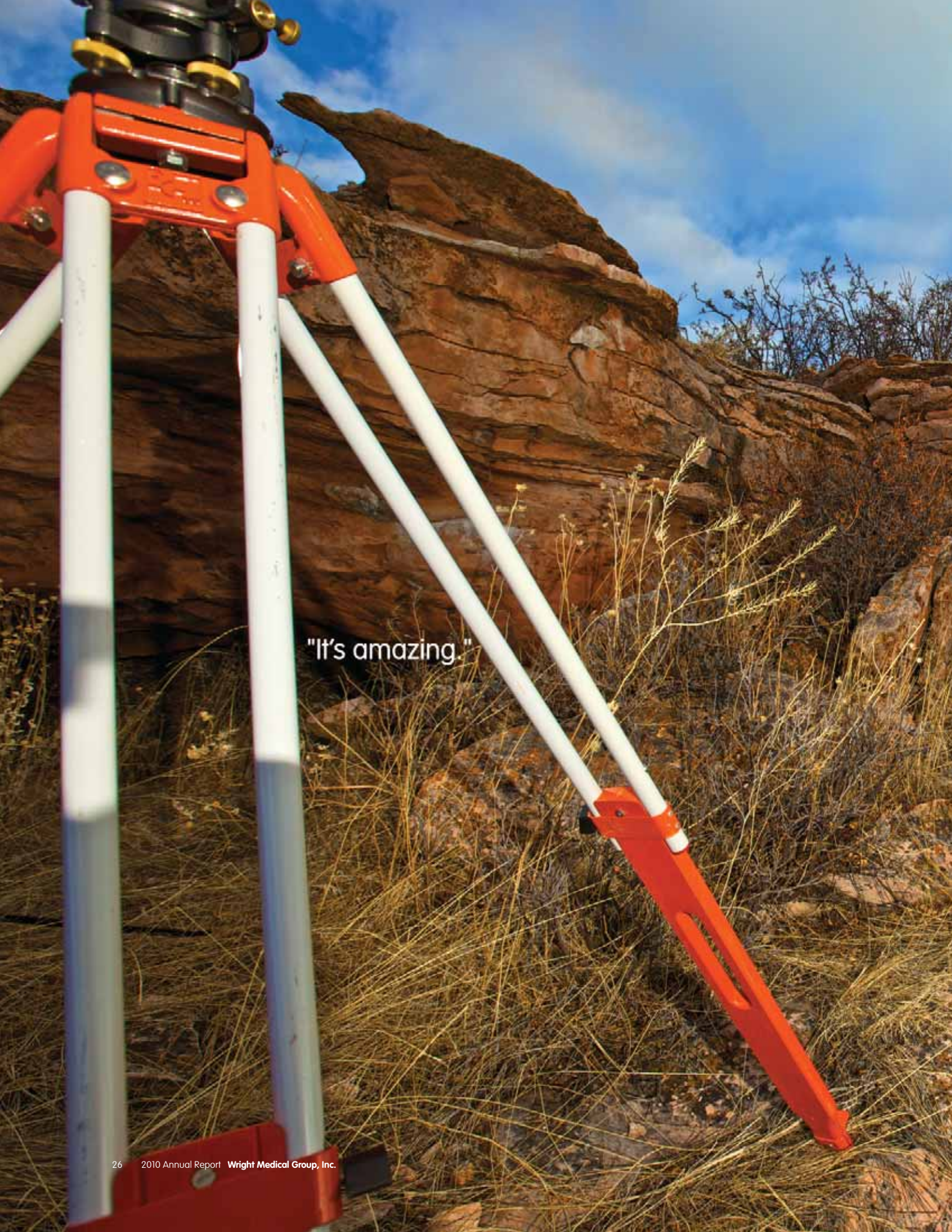
Patient-Friendly Fixation for Hammertoe Deformity

In the United States alone, it is estimated that between 10% and 20% of the population is affected by a forefoot deformity known as "hammertoe." The condition is caused by an imbalance in the soft tissue surrounding the bony structures of the lesser toes. The result is an elevation or abnormal bending of the affected toe, which can cause severe discomfort for the patient when shoes are worn.

For decades, the most common surgical treatment of hammertoe deformities has involved use of a pin that is placed through the center of the affected toe and remains partially exposed for up to 6 weeks of healing and recovery, followed by removal during a follow-up office visit with the surgeon. Most complications in hammertoe repair – and a great deal of patient anxiety – revolve around the use of a pin. During recovery, patients are burdened with the worry of protecting surgical hardware that protrudes from the treated toe. And when the occasional "bump" of the pin does occur, the pain can be excruciating. A great deal of anxiety can also surround removal of the pin at the doctor's office.

Wright's PRO-TOE™ VO Hammertoe Fixation System offers an alternative for surgical treatment, eliminating the use of a pin – and the associated anxiety for the patient. The system features a stainless steel screw design that is implanted within the bone of the affected toe, providing reliable fixation with no exposed hardware. The unique design and single-use instrumentation of the PRO-TOE™ VO Hammertoe Fixation System facilitate a simplified, more efficient procedure for the surgeon and the patient. With no protruding pin to protect and later remove, patients can focus on recovery and getting back on their feet.

PRO-TOE™ VO
Hammertoe Fixation System


"It's amazing."


"I can walk stairs without having to hang on to a rail."
Steve, recipient of Wright's INBONE® Total Ankle

Senior Management

David D. Stevens
Interim CEO

Lance A. Berry
SVP & Chief Financial Officer

Timothy E. Davis
SVP, Corporate Development

Rhonda L. Fellows
SVP, Government Affairs, National Accounts & Reimbursements

William L. Griffin
SVP, Global Operations

Cary P. Hagan
SVP, Commercial Operations – EMEA

Karen L. Harris-Coleman
SVP, Sales & Marketing – Japan, Latin America & Pacific Rim

Raymond C. Kolls
SVP, General Counsel & Secretary

Edward A. Steiger
SVP, Human Resources

Eric A. Stookey
SVP & Chief Commercial Officer

John T. Treace
SVP, Global Marketing & US Sales

William J. Flannery
VP, Logistics & Materials

Kyle M. Joines
VP, Manufacturing

Joyce B. Jones
VP & Treasurer

Lisa L. Michels
VP & Chief Compliance Officer

Alicia M. Napoli
VP, Clinical & Regulatory

Jennifer S. Walker
VP & Corporate Controller

Directors

Gary D. Blackford
President & CEO
Universal Hospital Services, Inc.
Director since 2008

Martin J. Emerson
President and CEO
Galil Medical, Inc.
Director since 2006

Lawrence W. Hamilton
Formerly – SVP, HR
Tech Data Corporation
Director since 2007

Ronald K. Labrum
CEO
Fenwal, Inc.
Director since 2011

John L. Miclot
Executive in Residence
Warburg-Pincus
Director since 2007

Amy S. Paul
Formerly – Group VP, International
C.R. Bard, Inc.
Director since 2008

Robert J. Quillinan
Formerly - CFO
Coherent, Inc.
Director since 2006

David D. Stevens
Interim CEO
Wright Medical Group, Inc.
Director since 2004

Management's Discussion and Analysis of Financial Condition and Results of Operations

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 other similar terms. 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.

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 our Annual Report on Form 10-K for the year ended December 31, 2010 within Item 1A), 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 United States Food and Drug Administration 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.

Readers should not place undue reliance on forward-looking statements. Such statements are made as of the date of this annual report, and we undertake no obligation to update such statements after this date.

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. MD&A is organized as follows:

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-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.

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.

A detailed discussion of these and other factors is provided in our annual report on Form 10-K for the year ended December 31, 2010 within Item 1A.

Results of Operations

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

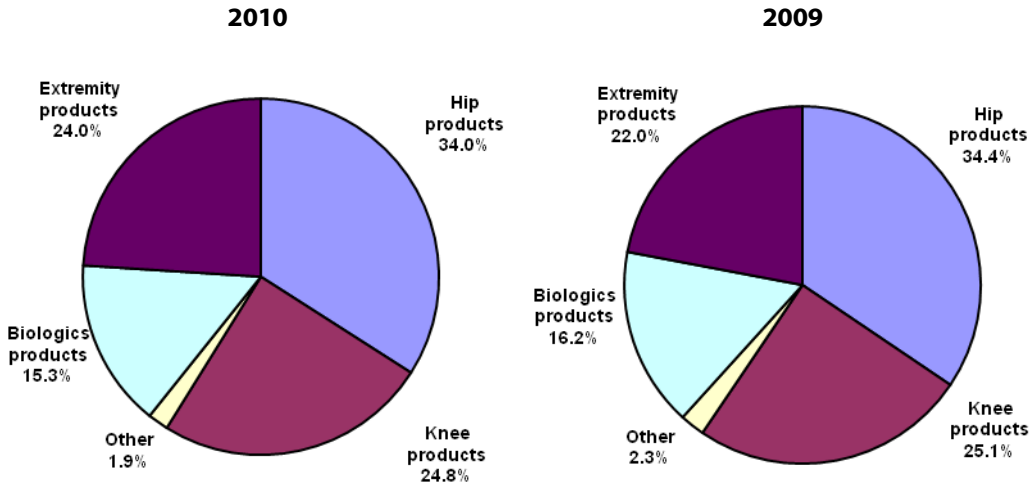
The following table sets forth, for the periods indicated, our results of operations expressed as dollar amounts (in thousands) and as percentages of net sales:

	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	Year Ended December 31, 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%

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 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.

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

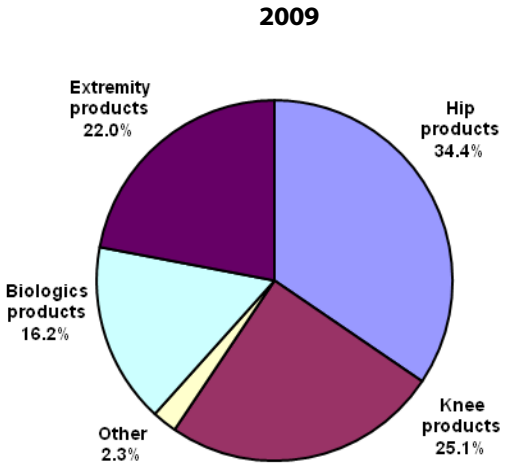
The following table sets forth, for the periods indicated, our results of operations expressed as dollar amounts (in thousands) and as percentages of net sales:

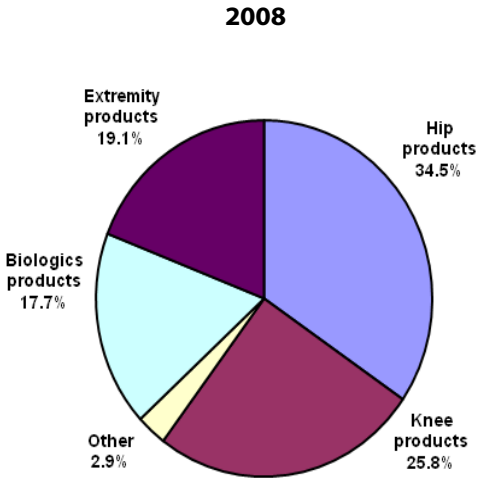
	Year Ended December 31,			
	2009		2008	
	Amount	% of Sales	Amount	% of Sales
Net sales	$ 487,508	100.0%	$ 465,547	100.0%
Cost of sales	148,715	30.5%	134,377	28.9%
Gross profit	338,793	69.5%	331,170	71.1%
Operating expenses:				
Selling, general and administrative	270,456	55.5%	261,396	56.1%
Research 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%

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	Year Ended December 31, 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 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.

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 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 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 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, 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. 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.

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 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.

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.

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.

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. 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 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 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 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 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.

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 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.

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.

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, 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.

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.

Memphis, Tennessee

February 10, 2011

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 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.

Memphis, Tennessee

February 10, 2011

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.

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.

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)
Investment in held-to-maturity marketable securities	(4,671)	-	-
Sale 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 period	84,409	87,865	229,026
Cash and cash equivalents, end of period	$ 153,261	$ 84,409	$ 87,865

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

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

	Common Stock, Voting					
	Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total 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
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.

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

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 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.

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.

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.

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-sales 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-sales 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	-	-
Total available-for-sale marketable securities	86,819	85,389	1,430	-
	$ 171,228	$ 169,798	$ 1,430	$ -
Liabilities				
Convertible Senior Notes	$ 176,000	$ 176,000	$ -	$ -
	$ 176,000	$ 176,000	$ -	$ -

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 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	Fair Value	Cost Basis	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

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 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

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 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

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 %

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 carry forwards 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.

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.

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 Plan

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 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.

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.

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, $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

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

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

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 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.

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	10,966	13,575
Total net sales	$ 518,973	$ 487,508	$ 465,547
Net sales by geographic region:			
United States	$ 309,983	$ 299,587	$ 282,081
Europe	102,431	102,379	112,771
Other	106,559	85,542	70,695
Total	$ 518,973	$ 487,508	$ 465,547
Operating income (loss) by geographic region:			
United States	$ 7,838	$ 16,268	$ 21,546
Europe	1,619	(11,683)	(14,909)
Other	27,717	19,366	15,776
Total	$ 37,174	$ 23,951	$ 22,413

	December 31,	
	2010	2009
Long-lived assets:		
United States	$ 129,450	$ 108,389
Europe	12,383	17,510
Other	16,414	13,809
Total	$ 158,247	$ 139,708

Our subsidiary in Japan represented approximately 11%, 10%, and 8% of our total net sales in 2010, 2009, and 2008, respectively. No other single foreign country accounted for more than 10% of our total net sales during 2010, 2009, or 2008.

During 2010, 2009, and 2008, our operating income included restructuring charges associated with the closure of our facility in Toulon, France. During 2010 and 2009 our operating income also included restructuring charges associated with the closure of our facility in Creteil, France. Our U.S. region recognized $675,000, $3.3 million and $1.6 million of restructuring charges in 2010, 2009 and 2008, respectively, and our European region recognized $244,000, $279,000 and $5.1 million of restructuring charges in 2010, 2009 and 2008, respectively. Additionally, in 2010, 2009 and 2008, our U.S. region recognized $10.9 million, $7.8 million and $7.6 million of charges related to the U.S. government inquiries and, in 2010, our DPA. In 2009, our European region recognized a provision of $5.6 million related to the trade receivable balance of our stocking distributor in Turkey. In 2008, our U.S. region recognized $2.5 million of acquired in-process research and development costs related to our Inbone acquisition and $2.6 million related to an unfavorable appellate court decision.

18. Quarterly Results of Operations (unaudited):

The following table presents a summary of our unaudited quarterly operating results for each of the four quarters in 2010 and 2009, respectively (in thousands). This information was derived from unaudited interim financial statements that, in the opinion of management, have been prepared on a basis consistent with the financial statements contained elsewhere in this filing and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of such information when read in conjunction with our audited financial statements and related notes. The operating results for any quarter are not necessarily indicative of results for any future period.

	2010			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 131,244	$ 127,734	$ 121,708	$ 138,287
Cost of sales	40,141	39,934	37,989	40,392
Gross profit	91,103	87,800	83,719	97,895
Operating expenses:				
Selling, general and administrative	76,438	67,774	64,877	73,324
Research and development	9,835	9,784	8,779	8,902
Amortization of intangible assets	649	634	708	720
Restructuring charges	544	461	134	(220)
Total operating expenses	87,466	78,653	74,498	82,726
Operating income	$ 3,637	$ 9,147	$ 9,221	$ 15,169
Net (loss) income	$ (525)	$ 4,847	$ 4,650	$ 8,869
Net (loss) income per share, basic	$ (0.01)	$ 0.13	$ 0.12	$ 0.23
Net (loss) income per share, diluted	$ (0.01)	$ 0.13	$ 0.12	$ 0.22

	2009			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 120,912	$ 118,926	$ 117,742	$ 129,928
Cost of sales	38,021	36,745	35,880	38,069
Gross profit	82,891	82,181	81,862	91,859
Operating expenses:				
Selling, general and administrative	66,609	65,821	63,703	74,323
Research and development	8,906	9,017	8,537	9,231
Amortization of intangible assets	1,317	1,308	1,274	1,252
Restructuring charges	66	794	131	2,553
Total operating expenses	76,898	76,940	73,645	87,359
Operating income	$ 5,993	$ 5,241	$ 8,217	$ 4,500
Net income	$ 3,317	$ 2,427	$ 4,152	$ 2,235
Net income per share, basic	$ 0.09	$ 0.07	$ 0.11	$ 0.06
Net income per share, diluted	$ 0.09	$ 0.06	$ 0.11	$ 0.06

Our operating income in 2010 included charges related to the U.S. government inquiries and, in the fourth quarter of 2010, our DPA, for which we recognized $8.1 million, $606,000, $942,000 and $1.3 million during the first, second, third and fourth quarters of 2010, respectively. Net income in 2010 included the after-tax effect of these amounts.

Our operating income in 2009 included charges related to the U.S. government inquiries, for which we recognized $4.1 million, $2.0 million, and $1.6 million during the first, second, and third quarters of 2009, respectively. A minimal amount was recognized in the fourth quarter of 2009. In addition, our operating income during the fourth quarter of 2009 included $2.1 million of restructuring charges related to the closure of our office in Creteil, France and a $5.6 million provision for the trade receivable balance from our stocking distributor in Turkey. Net income in 2009 included the after-tax effect of these amounts as well as the after-tax effect of $2.6 million of charges related to the write-off of CTA balances from three foreign subsidiaries following their substantially complete liquidation (see Note 2).

Management's Annual Report on Internal Control Over Financial Reporting

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. Our disclosure controls and procedures are designed to ensure that material information relating to us, including our consolidated subsidiaries, is made known to our principal executive officer and principal financial officer by others within our organization. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2010 to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and principal financial officer as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2010.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2010. Our internal control over financial reporting as of December 31, 2010, has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Changes in Internal Control Over Financial Reporting

During the three months ended December 31, 2010, there were no significant changes in our internal control over financial reporting that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

corporate information

Transfer Agent and Registrar

American Stock Transfer & Trust Company, Inc. acts as transfer agent and registrar for us and maintains all stockholder records. Communications concerning stock holdings, lost certificates, transfer of shares, duplicate mailings or changes of address should be directed to:

Wright Medical Group, Inc.
c/o American Stock Transfer & Trust Company
6201 15th Avenue, Brooklyn, NY 11219
800.937.5449 info@amstock.com

Cash Dividend Policy

We have never declared or paid cash dividends on common stock and do not anticipate a change in this policy in the foreseeable future. We currently intend to retain any future earnings for the operation and expansion of our business.

Stock Prices and Trading Data

Our common stock is traded on the Nasdaq Global Select Market under the symbol "WMGI." Stock price quotations are available in the investor relations section of our website at www.wmt.com and are printed daily in major newspapers, including The Wall Street Journal.

The ranges of high and low sale prices per share for our common stock for 2010 and 2009 are set forth below. Price data reflect actual transactions. In all cases, the prices shown are inter-dealer prices and do not reflect markups, markdowns, or commissions.

Stockholders

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

Independent Auditors

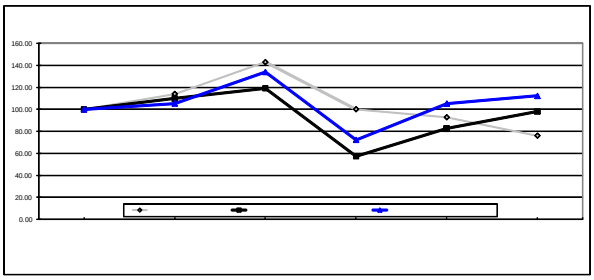
KPMG LLP
Memphis, Tennessee

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

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

*denotes high & low sale prices

Non-GAAP Financial Measures

We use non-GAAP financial measures, such as gross profit, as adjusted, operating income, as adjusted, net income, as adjusted, net income, as adjusted, per diluted share and free cash flow. Our management believes that the presentation of these measures provides useful information to investors. These measures may assist investors in evaluating our operations, period over period. The measures exclude such items as business development activities, including purchased in-process research and development, the financial impact of significant litigation, costs of the U.S. government inquiries and our deferred prosecution agreement, restructuring charges and non-cash, stock-based expense, all of which may be highly variable, difficult to predict and of a size that could have substantial impact on our reported results of operations for a period. Free cash flow is calculated by subtracting capital expenditures from cash provided by operating activities.

Management uses these measures internally for evaluation of the performance of the business, including the allocation of resources and the evaluation of results relative to employee performance compensation targets. Investors should consider these non-GAAP measures only as a supplement to, not as a substitute for or as superior to, measures of financial performance prepared in accordance with GAAP. This annual report includes discussion of non-GAAP financial measures. Reference is made to the most directly comparable GAAP financial measures and the reconciliation of the differences between the two financial measures, which is found on page 1 of this annual report and is otherwise available in the "Corporate - Investor Information - Supplemental Financial Information" section of our website located at www.wmt.com.

Page left intentionally blank

Page left intentionally blank

Page left intentionally blank

Corporate Information

Wright Medical Group, Inc. 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 product offerings include hardware for the foot, ankle, hand, wrist, elbow and shoulder; biologic products using both biological tissue-based and synthetic materials; and large joint implants for the hip and knee.

We participate in the worldwide orthopaedic market and distribute our products through a combination of direct sales personnel and a network of independent distributors and sales personnel.

Headquartered in Arlington, Tennessee, we have been in business for 60 years and retain approximately 1,400 employees who provide outstanding service and innovative products throughout the world.

Our common stock is traded on the Nasdaq Global Select Market under the symbol "WMGI".

Investor Relations Information

Stockholders, securities analysts, and investors seeking more information can access the following information via the internet at www.wmt.com:

- News releases describing our significant events and sales and earnings results for each quarter and the fiscal year.
- Annual, Quarterly, and Current Reports filed with the Securities and Exchange Commission describing our business and financial condition.
- Corporate governance information such as committee charters, code of business conduct, etc.

In addition, investors are welcome to call, write, or fax us to request the information above – including a copy of our Annual Report or Form 10-K, free of charge. Inquires should be directed to:

Wright Medical Group, Inc.
Attn: Investor Relations
5677 Airline Road, Arlington, TN 38002
901.867.4113
901.867.4390 Fax

Annual Meeting

The annual meeting of our stockholders will be held on May 11, 2011 beginning at 8:00 am (Central Time) at the:

Hilton Memphis
939 Ridge Lake Boulevard
Memphis, TN 38120
901.684.6664

The Notice of Annual Meeting and Proxy Statement are being mailed to stockholders with this annual report.

celebrating

Wright's diamond anniversary

WRIGHT.

Create Motion.™

Wright Medical Group, Inc.
5677 Airline Road
Arlington, TN USA 38002
901. 867. 9971 phone
800. 238. 7188 toll-free
www.wmt.com

Printed in the USA. M6737-121108