UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010

Commission File Number 001-16407

ZIMMER HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	13-4151777
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*

345 East Main Street, Warsaw, IN 46580
(Address of principal executive offices)
Telephone: (574) 267-6131

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

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

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

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

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

As of October 22, 2010, 197,443,081 shares of the registrant's $.01 par value common stock were outstanding.

ZIMMER HOLDINGS, INC.

INDEX TO FORM 10-Q

September 30, 2010

Part I — Financial Information

Item 1. *Financial Statements*

ZIMMER HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS
(In millions, except per share amounts, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net Sales	$965.0	$975.6	$3,085.5	$2,988.1
Cost of products sold	219.2	249.3	738.2	716.3
Gross Profit	745.8	726.3	2,347.3	2,271.8
Research and development	57.6	52.2	163.1	154.0
Selling, general and administrative	411.6	412.9	1,296.3	1,268.9
Certain claims (Note 14)	—	35.0	75.0	35.0
Net curtailment and settlement (Note 11)	—	—	—	(32.1)
Acquisition, integration, realignment and other (Note 2)	5.0	22.2	19.1	65.7
Operating expenses	474.2	522.3	1,553.5	1,491.5
Operating Profit	271.6	204.0	793.8	780.3
Interest and other, net	(14.2)	(4.2)	(43.1)	(11.9)
Earnings before income taxes	257.4	199.8	750.7	768.4
Provision for income taxes	66.3	49.9	188.7	206.2
Net Earnings of Zimmer Holdings, Inc.	$191.1	$149.9	$ 562.0	$ 562.2
Earnings Per Common Share				
Basic	$ 0.96	$ 0.70	$ 2.79	$ 2.60
Diluted	$ 0.96	$ 0.70	$ 2.78	$ 2.59
Weighted Average Common Shares Outstanding				
Basic	198.7	213.6	201.2	216.6
Diluted	199.7	214.5	202.3	217.4

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

ZIMMER HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In millions, except share amounts)

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 918.6	$ 691.7
Short-term investments	63.0	66.4
Accounts receivable, less allowance for doubtful accounts	757.8	751.4
Inventories, net	925.4	913.2
Prepaid expenses and other current assets	104.7	105.4
Deferred income taxes	237.8	209.9
Total current assets	3,007.3	2,738.0
Property, plant and equipment, net	1,177.4	1,221.7
Goodwill	2,738.7	2,783.5
Intangible assets, net	814.1	858.0
Other assets	266.2	184.3
Total Assets	$ 8,003.7	$ 7,785.5
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 116.5	$ 134.6
Income taxes	57.6	57.5
Other current liabilities	524.5	498.6
Total current liabilities	698.6	690.7
Other long-term liabilities	344.6	328.5
Long-term debt	1,138.6	1,127.6
Total Liabilities	2,181.8	2,146.8
Commitments and Contingencies (Note 14)		
Stockholders' Equity:		
Common stock, $0.01 par value, one billion shares authorized, 254.5 million shares issued in 2010 (254.1 million in 2009)	2.5	2.5
Paid-in capital	3,273.7	3,214.6
Retained earnings	5,664.5	5,102.5
Accumulated other comprehensive income	325.3	358.6
Treasury stock, 57.0 million shares in 2010 (49.9 million in 2009)	(3,444.1)	(3,039.5)
Total Stockholders' Equity	5,821.9	5,638.7
Total Liabilities and Stockholders' Equity	$ 8,003.7	$ 7,785.5

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

ZIMMER HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions, unaudited)

	For the Nine Months Ended September 30, 2010	2009
Cash flows provided by (used in) operating activities:		
Net earnings of Zimmer Holdings, Inc.	$ 562.0	$ 562.2
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	249.5	249.6
Net curtailment and settlement	—	(32.1)
Share-based compensation	45.4	57.7
Income tax benefit from stock option exercises	3.4	0.7
Excess income tax benefit from stock option exercises	(1.1)	(0.1)
Inventory step-up	1.3	9.9
Changes in operating assets and liabilities, net of effect of acquisitions:		
Income taxes	(69.3)	(4.9)
Receivables	(13.1)	10.9
Inventories	6.9	(22.3)
Accounts payable and accrued expenses	(9.1)	(133.6)
Other assets and liabilities	76.6	34.0
Net cash provided by operating activities	852.5	732.0
Cash flows provided by (used in) investing activities:		
Additions to instruments	(133.1)	(102.7)
Additions to other property, plant and equipment	(40.6)	(76.8)
Purchases of investments	(100.6)	—
Sales of investments	56.5	—
Acquisition of intellectual property rights	(8.2)	(32.9)
Investments in other assets	(9.4)	(35.5)
Net cash used in investing activities	(235.4)	(247.9)
Cash flows provided by (used in) financing activities:		
Net borrowing under credit facilities	—	141.0
Proceeds from employee stock compensation plans	12.9	7.6
Excess income tax benefit from stock option exercises	1.1	0.1
Acquisition of noncontrolling interest	—	(8.6)
Repurchase of common stock	(404.6)	(404.4)
Net cash used in financing activities	(390.6)	(264.3)
Effect of exchange rates on cash and cash equivalents	0.4	7.3
Increase in cash and cash equivalents	226.9	227.1
Cash and cash equivalents, beginning of year	691.7	212.6
Cash and cash equivalents, end of period	$ 918.6	$ 439.7

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

ZIMMER HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The financial data presented herein is unaudited and should be read in conjunction with the consolidated financial statements and accompanying notes included in the 2009 Annual Report on Form 10-K filed by Zimmer Holdings, Inc. In our opinion, the accompanying unaudited consolidated financial statements include all adjustments necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods presented. The December 31, 2009 condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Results for interim periods should not be considered indicative of results for the full year. Certain amounts in the 2009 consolidated financial statements have been reclassified to conform to the 2010 presentation.

The words "we," "us," "our" and similar words refer to Zimmer Holdings, Inc. and its subsidiaries. Zimmer Holdings refers to the parent company only.

2. Significant Accounting Policies

Acquisition, Integration, Realignment and Other — We recognize expenses resulting directly from our business combinations and other items as "Acquisition, integration, realignment and other" expenses. Acquisition, integration, realignment and other expenses for the three and nine month periods ended September 30, 2010 and 2009 included (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Impairment/loss on disposal of assets	$ —	$ 0.9	$ 8.1	$ 2.2
Consulting and professional fees	0.7	0.6	2.6	3.2
Employee severance and retention, including share-based compensation acceleration	0.8	1.6	3.0	18.4
Information technology integration	—	0.5	0.1	0.7
Facility and employee relocation	—	2.9	0.5	4.7
Vacated facilities	0.2	—	0.2	1.4
Distributor acquisitions	0.8	4.8	0.8	7.9
Certain litigation matters	1.0	9.3	(0.3)	14.1
Contract terminations	0.6	0.7	3.2	8.6
Other	0.9	0.9	0.9	4.5
Acquisition, integration, realignment and other	$5.0	$22.2	$19.1	$65.7

Recent Accounting Pronouncements — There are no recently issued accounting pronouncements that we have not yet adopted that are expected to have a material effect on our financial position, results of operations or cash flows.

3. Comprehensive Income

The reconciliation of net earnings to comprehensive income is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In millions)		(In millions)	
Net earnings of Zimmer Holdings, Inc.	$191.1	$149.9	$562.0	$562.2
Other Comprehensive Income:				
Foreign currency cumulative translation adjustments	144.5	98.0	(34.9)	145.2
Unrealized foreign currency hedge gains/(losses), net of tax	(36.9)	(25.5)	16.1	(37.9)
Reclassification adjustments on foreign currency hedges, net of tax	(5.4)	(4.6)	(14.6)	(16.9)
Unrealized gains (losses) on securities, net of tax	(0.1)	0.2	(0.1)	(0.3)
Adjustments to prior service cost and unrecognized actuarial assumptions, net of tax	(0.9)	0.7	0.2	21.1
Total Other Comprehensive Income	101.2	68.8	(33.3)	111.2
Comprehensive Income Attributable to Zimmer Holdings, Inc.	$292.3	$218.7	$528.7	$673.4

4. Inventories

	September 30, 2010	December 31, 2009
	(In millions)	
Finished goods	$748.2	$718.6
Work in progress	51.1	48.0
Raw materials	126.1	146.6
Inventories, net	$925.4	$913.2

5. Property, Plant and Equipment

	September 30, 2010	December 31, 2009
	(In millions)	
Land	$ 22.0	$ 21.8
Buildings and equipment	1,141.6	1,147.7
Capitalized software costs	166.0	158.8
Instruments	1,308.1	1,210.2
Construction in progress	62.1	62.0
	2,699.8	2,600.5
Accumulated depreciation	(1,522.4)	(1,378.8)
Property, plant and equipment, net	$ 1,177.4	$ 1,221.7

6. Debt

Long-term debt as of September 30, 2010 consisted of our unsecured senior notes (Senior Notes) and borrowings under our $1,350 million senior credit agreement (Senior Credit Facility). Outstanding long-term debt as of September 30, 2010 was $1,138.6 million, comprised of $998.8 million from our Senior Notes and $139.8 million from our Senior Credit Facility. There was no short-term debt outstanding. The estimated fair value of our Senior Notes as of September 30, 2010, based on quoted prices for the specific securities from transactions in over-the-counter markets, was $1,091.4 million. The carrying value of the Senior Credit Facility approximates fair value, as the underlying instruments have variable interest rates at market value.

7. Investments

We invest in short and long-term investments classified as available-for-sale securities. Information regarding our investments as of September 30, 2010 is as follows (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt securities	$ 57.8	$—	$(0.1)	$ 57.7
Foreign government debt securities	4.1	—	—	4.1
U.S. agency debt securities	11.2	—	—	11.2
Certificates of deposit	37.1	—	—	37.1
Total short and long-term investments	$110.2	$—	$(0.1)	$110.1

Information regarding our investments as of December 31, 2009 is as follows (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Certificates of deposit	$66.4	$—	$—	$66.4
Total short-term investments	$66.4	$—	$—	$66.4

Unrealized gains and losses on these investments are recorded in other comprehensive income in our consolidated balance sheet.

The following table shows the fair value and gross unrealized losses for all available-for-sale securities in an unrealized loss position deemed to be temporary as of September 30, 2010 (in millions):

	Fair Value	Unrealized Losses
Corporate debt securities	$37.3	$(0.1)
Total	$37.3	$(0.1)

All securities in the table above have been in an unrealized loss position for less than twelve months. A total of thirteen securities were in an unrealized loss position as of September 30, 2010.

The unrealized losses on our investments in corporate debt securities were caused by increases in interest yields resulting from the current adverse conditions in the global credit markets. We believe the unrealized losses associated with our available-for-sale securities as of September 30, 2010 are temporary because we do not intend to sell these investments, nor is it more likely than not that we will be required to sell them, before recovery of their amortized cost basis.

The amortized cost and fair value of our available-for-sale fixed-maturity securities by contractual maturity as of September 30, 2010 are as follows (in millions):

	Amortized Cost	Fair Value
Due in one year or less	$ 63.0	$ 63.0
Due after one year through two years	47.2	47.1
Total	$110.2	$110.1

8. Fair Value Measurement of Assets and Liabilities

The following assets and liabilities are recorded at fair value on a recurring basis as of September 30, 2010 (in millions):

		Fair Value Measurements at Reporting Date Using:		
	Recorded Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available-for-sale securities				
Corporate debt securities	$ 57.7	$—	$ 57.7	$—
Foreign government debt securities	4.1	—	4.1	—
U.S. agency debt securities	11.2	—	11.2	—
Certificates of deposit	37.1	—	37.1	—
Total available-for-sale securities	110.1	—	110.1	—
Derivatives, current and long-term	21.1	—	21.1	—
	$131.2	$—	$131.2	$—
Liabilities				
Derivatives, current and long-term	$ 36.9	$—	$ 36.9	$—
	$ 36.9	$—	$ 36.9	$—

The following assets and liabilities were recorded at fair value on a recurring basis as of December 31, 2009 (in millions):

		Fair Value Measurements at Reporting Date Using:		
	Recorded Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available-for-sale securities				
Certificates of deposit	$66.4	$—	$66.4	$—
Total available-for-sale securities	66.4	—	66.4	—
Derivatives, current and long-term	12.4	—	12.4	—
	$78.8	$—	$78.8	$—
Liabilities				
Derivatives, current and long-term	$32.7	$—	$32.7	$—
	$32.7	$—	$32.7	$—

Available-for-sale securities are valued using broker prices for identical assets in over-the-counter markets.

Derivatives relate to foreign currency exchange forward contracts entered into with various third parties. We value these instruments using a market approach based on foreign currency exchange rates obtained from active markets and perform ongoing assessments of counterparty credit risk.

9. Derivative Instruments and Hedging Activities

We are exposed to certain market risks relating to our ongoing business operations, including foreign currency risk, commodity price risk, interest rate risk and credit risk. We manage our exposure to these and other market risks through regular operating and financing activities. Currently, the only risk that we manage through the use of derivative instruments is foreign currency risk.

We operate on a global basis and are exposed to the risk that our financial condition, results of operations and cash flows could be adversely affected by changes in foreign currency exchange rates. To reduce the potential effects of foreign currency exchange rate movements on net earnings, we enter into derivative financial instruments in the form of foreign currency exchange forward contracts and options with major financial institutions. We are primarily exposed to foreign currency exchange rate risk with respect to transactions and net assets denominated in Euros, Swiss Francs, Japanese Yen, British Pounds, Canadian Dollars, Australian Dollars, Korean Won, Swedish Krona, Czech Koruna, Thai Baht, Taiwan Dollars, South African Rand, Russian Rubles and Indian Rupees. We do not use derivative financial instruments for trading or speculative purposes.

We report all derivative instruments as assets or liabilities on the balance sheet at fair value.

Derivatives Designated as Hedging Instruments

Our revenues are generated in various currencies throughout the world. However, a significant amount of our inventory is produced in U.S. Dollars. Therefore, movements in foreign currency exchange rates may have different proportional effects on our revenues compared to our cost of products sold. To minimize the effects of foreign currency exchange rate movements on cash flows, we hedge intercompany sales of inventory expected to occur within the next 30 months with foreign currency exchange forward contracts and options. We designate these derivative instruments as cash flow hedges. We have not entered into any derivative instruments designated as fair value or net investment in foreign operation hedges.

We perform quarterly assessments of hedge effectiveness by verifying and documenting the critical terms of the hedge instrument and that forecasted transactions have not changed significantly. We also assess on a quarterly basis whether there have been adverse developments regarding the risk of a counterparty default. For derivatives which qualify as hedges of future cash flows, the effective portion of changes in fair value is temporarily recorded in other comprehensive income and then recognized in cost of products sold when the hedged item affects net earnings. The ineffective portion of a derivative's change in fair value, if any, is reported in cost of products sold immediately. The net amount recognized in earnings during the three and nine month periods ended September 30, 2010 and 2009 due to ineffectiveness and amounts excluded from the assessment of hedge effectiveness was not significant.

For forward contracts and options outstanding at September 30, 2010, we have obligations to purchase U.S. Dollars and sell Euros, Japanese Yen, British Pounds, Canadian Dollars, Australian Dollars, Korean Won, Swedish Krona, Czech Koruna, Thai Baht, Taiwan Dollars, South African Rand, Russian Rubles and Indian Rupees and purchase Swiss Francs and sell U.S. Dollars at set maturity dates ranging from October 2010 through March 2013. As of September 30, 2010, the notional amounts of outstanding forward contracts and options entered into with third parties to purchase U.S. Dollars were $1.3 billion. As of September 30, 2010, the notional amounts of outstanding forward contracts entered into with third parties to purchase Swiss Francs were $207.8 million.

As of September 30, 2010 and December 31, 2009, all derivative instruments designated as cash flow hedges are recorded at fair value on the balance sheet. On our consolidated balance sheet, we recognize individual forward contracts and options with the same counterparty on a net asset/liability basis if we have a master netting agreement with the counterparty. The fair value of derivative instruments on a gross basis as of September 30, 2010 and December 31, 2009 is as follows (in millions):

	September 30, 2010		December 31, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Asset Derivatives				
Foreign exchange forward contracts	Other current assets	$28.5	Other current assets	$23.3
Foreign exchange forward contracts	Other assets	10.0	Other assets	6.3
Total asset derivatives		$38.5		$29.6
Liability Derivatives				
Foreign exchange forward contracts	Other current liabilities	$36.7	Other current liabilities	$35.4
Foreign exchange forward contracts	Other long-term liabilities	17.6	Other long-term liabilities	14.5
Total liability derivatives		$54.3		$49.9

The fair value of outstanding derivative instruments recorded on the balance sheet at September 30, 2010, together with settled derivatives where the hedged item has not yet affected earnings, was a net unrealized loss of $27.9 million, or $12.5 million after taxes, which is deferred in other comprehensive income, of which $11.0 million, or $2.7 million after taxes, is expected to be reclassified to earnings over the next twelve months.

Derivative instruments had the following effects on other comprehensive income (OCI) on our consolidated balance sheet and our consolidated statement of earnings on a gross basis for the three and nine month periods ended September 30, 2010 and 2009 (in millions):

	Amount of Gain/(Loss) Recognized in OCI				Amount of Gain/(Loss) Reclassified from OCI to Cost of Products Sold			
	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivative Instrument	2010	2009	2010	2009	2010	2009	2010	2009
Foreign exchange forward contracts	$(49.3)	$(34.2)	$9.6	$(45.9)	$5.0	$4.7	$12.6	$15.4
Foreign exchange options	—	(1.0)	—	(1.9)	—	0.2	—	1.1
Total	$(49.3)	$(35.2)	$9.6	$(47.8)	$5.0	$4.9	$12.6	$16.5

Derivatives Not Designated as Hedging Instruments

We enter into foreign currency forward exchange contracts with terms of one month to manage currency exposures for monetary assets and liabilities denominated in a currency other than an entity's functional currency. As a result, any foreign currency remeasurement gains/losses recognized in earnings are generally offset with gains/losses on the foreign currency forward exchange contracts in the same reporting period. These offsetting gains/losses are recorded in cost of products sold as the underlying assets and liabilities exposed to remeasurement include inventory-related transactions. These contracts are settled on the last day of each reporting period. Therefore, there is no outstanding balance related to these contracts recorded on the balance sheet as of the end of the reporting period. The notional amounts of these contracts are typically in a range of $1.1 billion to $1.4 billion per quarter.

The following gains/(losses) from these derivative instruments were recognized in cost of products sold on our consolidated statement of earnings (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Derivative Instrument	2010	2009	2010	2009
Foreign exchange forward contracts	$(14.7)	$(9.6)	$3.6	$(12.9)
Total	$(14.7)	$(9.6)	$3.6	$(12.9)

This impact does not include any offsetting gains/losses recognized in earnings as a result of foreign currency remeasurement of monetary assets and liabilities denominated in a currency other than an entity's functional currency.

10. Income Taxes

We operate in multiple income tax jurisdictions both inside and outside the United States and are currently under audit in numerous federal, state and foreign jurisdictions. Accordingly, we expect that the net amount of tax liability for unrecognized tax benefits will change in the next twelve months due to changes in audit status, expiration of statutes of limitations and other events which could impact our determination of unrecognized tax benefits. We anticipate changes in the fourth quarter of 2010 due to the potential conclusion of multiple tax examinations and statute expirations. Currently, we cannot reasonably estimate the amount by which our unrecognized tax benefits will change.

11. Retirement Benefit Plans

We have defined benefit pension plans covering certain U.S. and Puerto Rico employees. The employees who are not participating in the defined benefit plans receive additional benefits under our defined contribution plans. Plan benefits are primarily based on years of credited service and the participant's compensation. In addition to the U.S. and Puerto Rico defined benefit pension plans, we sponsor various non-U.S. pension arrangements, including retirement and termination benefit plans required by local law or coordinated with government sponsored plans.

The components of net pension expense for the three and nine month periods ended September 30, 2010 and 2009, for our U.S. and non-U.S. defined benefit retirement plans are as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Service cost	$ 6.4	$ 6.7	$ 18.9	$ 19.5
Interest cost	4.5	4.4	13.5	13.0
Expected return on plan assets	(6.5)	(6.3)	(19.4)	(18.5)
Amortization of unrecognized prior service cost	(0.2)	(0.1)	(0.6)	(0.1)
Amortization of unrecognized actuarial loss	0.8	1.7	2.5	4.7
Curtailment	—	—	—	0.4
Net periodic benefit cost	$ 5.0	$ 6.4	$ 14.9	$ 19.0

We contributed $23.0 million during the nine month period ended September 30, 2010 to our U.S. and Puerto Rico defined benefit plans and do not expect to contribute additional funds to these plans during the remainder of 2010. We contributed $10.3 million to our foreign-based defined benefit plans in the nine month period ended September 30, 2010 and expect to contribute approximately $4 million to these foreign-based plans during the remainder of 2010.

During the three month period ended June 30, 2009, we amended the postretirement healthcare benefit plans for certain U.S. and Puerto Rico employees. Participants in the plans between the ages of 55 and 65 who were previously receiving benefits will continue to receive benefits until reaching the age of 65. For all other participants in the plans, no benefits will be paid after January 1, 2010. Additionally, we contributed approximately $7 million to a Voluntary Employees' Beneficiary Association (VEBA) trust to settle any future obligations. We recognized a curtailment gain and settlement loss related to these actions.

The components of net periodic benefit expense for the nine month periods ended September 30, 2010 and 2009 for our U.S. and Puerto Rico postretirement benefit plans are as follows (in millions):

	Nine Months Ended September 30,	
	2010	2009
Service cost	$—	$ 0.8
Interest cost	—	1.3
Amortization of unrecognized prior service cost	—	(0.2)
Amortization of unrecognized actuarial loss	—	0.3
Settlement	—	3.2
Curtailment	—	(35.3)
Net periodic benefit cost	$—	$(29.9)

12. Earnings Per Share

The following is a reconciliation of weighted average shares for the basic and diluted shares computations (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Weighted average shares outstanding for basic net earnings per share	198.7	213.6	201.2	216.6
Effect of dilutive stock options and other equity awards	1.0	0.9	1.1	0.8
Weighted average shares outstanding for diluted net earnings per share	199.7	214.5	202.3	217.4

During the three and nine month periods ended September 30, 2010, an average of 14.4 million options and 13.5 million options, respectively, to purchase shares of common stock were not included in the computation of diluted earnings per share as the exercise prices of these options were greater than the average market price of the common stock. During the three and nine month periods ended September 30, 2009, an average of 13.6 million options and 14.7 million options, respectively, were not included in the computation.

In the three month period ended September 30, 2010, we repurchased 4.2 million shares of our common stock at an average price of $53.58 per share for a total cash outlay of $225.7 million, including commissions. In the nine month period ended September 30, 2010, we repurchased 7.1 million shares of our common stock at an average price of $56.61 per share for a total cash outlay of $404.6 million, including commissions. As of September 30, 2010, approximately $1.3 billion remained authorized under a $1.5 billion repurchase program, which will expire on December 31, 2013.

13. Segment Information

We design, develop, manufacture and market orthopaedic reconstructive implants, dental implants, spinal implants, trauma products and related surgical products which include surgical supplies and instruments designed to aid in surgical procedures and post-operation rehabilitation. We also provide other healthcare related services. Revenue related to these other healthcare related services currently represents less than 1 percent of our total net sales. We manage operations through three major geographic segments — the Americas, which is comprised principally of the United States and includes other North, Central and South American markets; Europe, which is comprised principally of Europe and includes the Middle East and African markets; and Asia Pacific, which is comprised primarily of Japan and includes other Asian and Pacific markets. This structure is the basis for our reportable segment information discussed below. Management evaluates operating segment performance based upon segment operating profit exclusive of operating expenses pertaining to global operations and corporate expenses, share-based compensation, certain claims, acquisition, integration, realignment and other, net curtailment and settlement, inventory step-up and intangible asset amortization expense. Global operations include research, development engineering, medical education, brand management, corporate legal, finance, and human resource functions, and U.S. and Puerto Rico based manufacturing operations and logistics. Intercompany transactions have been eliminated from segment operating profit.

Net sales and segment operating profit are as follows (in millions):

	Net Sales		Operating Profit	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
Americas	$583.2	$584.5	$ 290.0	$ 291.1
Europe	215.8	242.4	68.8	76.0
Asia Pacific	166.0	148.7	64.3	62.7
Total	$965.0	$975.6		
Share-based compensation			(14.8)	(17.6)
Inventory step-up			—	(2.9)
Acquisition, integration, realignment and other			(5.0)	(22.2)
Certain claims			—	(35.0)
Global operations and corporate functions			(131.7)	(148.1)
Operating profit			$ 271.6	$ 204.0

	Net Sales		Operating Profit	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Americas	$1,808.2	$1,768.7	$ 904.4	$ 876.8
Europe	778.4	787.9	275.4	300.9
Asia Pacific	498.9	431.5	191.1	182.3
Total	$3,085.5	$2,988.1		
Share-based compensation			(45.4)	(57.7)
Inventory step-up			(1.3)	(9.9)
Acquisition, integration, realignment and other			(19.1)	(65.7)
Certain claims			(75.0)	(35.0)
Net curtailment and settlement			—	32.1
Global operations and corporate functions			(436.3)	(443.5)
Operating profit			$ 793.8	$ 780.3

Net sales by product category are as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Reconstructive implants	$723.8	$736.9	$2,346.5	$2,277.2
Dental	49.0	48.0	156.6	148.1
Trauma	58.1	57.6	176.3	171.2
Spine	56.5	61.7	174.4	190.5
Surgical and other	77.6	71.4	231.7	201.1
Total	$965.0	$975.6	$3,085.5	$2,988.1

14. Commitments and Contingencies

Product Liability-Related Claims

We are subject to product liability claims arising in the ordinary course of our business. We establish standard accruals for product liability claims in conjunction with outside counsel based on current information and historical settlement information for open claims, related legal fees and claims incurred but not reported. These standard product liability accruals are recognized in selling, general and administrative expense. We may also establish provisions for certain product liability claims outside of the standard accruals that are recorded separately on our statement of earnings, such as the provision for claims related to the *Durom*® Acetabular Component (*Durom* Cup) discussed below. We maintain insurance, subject to self-insured retention requirements, for losses from these and other claims.

On July 22, 2008, we temporarily suspended marketing and distribution of the *Durom* Cup in the U.S. Subsequently, a number of product liability lawsuits and other claims have been asserted against us. We have settled some of these claims and the others are still pending. Additional claims may be asserted in the future.

We recorded a provision of $69.0 million in 2008 as "Certain Claims" on our statement of earnings representing our estimate of the *Durom* Cup-related claims we expected to be made for revision surgeries occurring within two years of the original surgery. In the third quarter of 2009, based on claims information received after our initial estimate, we increased our estimate of the number of claims for revision surgeries occurring within two years of the original surgery and, accordingly, increased the "Certain Claims" provision by $35.0 million. In the second quarter of 2010, based on more recent claims information available and after consultation with an independent actuary, we revised our estimate to include all claims for revisions of original surgeries performed before July 22, 2008 on a worldwide basis, regardless of the amount of time between the revision surgery and the original surgery. As a result, we increased the "Certain Claims" provision by $75.0 million, for a total of $179.0 million, in the second quarter of 2010. We did not change the "Certain Claims" provision in the third quarter of 2010.

From 2008 through March 31, 2010, we recorded $42.7 million as part of our standard product liability accruals for worldwide claims relating to revisions of *Durom* Cup cases where the revisions had occurred, or were estimated to occur, more than two years after the original surgery. Of this amount, $3.5 million was recorded in the three month period ended September 30, 2009, $10.4 million in the nine month period ended September 30, 2009 and $10.9 million in the first quarter of 2010. Beginning with the second quarter of 2010, any additional provisions for such claims are recorded as part of the "Certain Claims" accrual, as described above.

We will continue to record any provisions for claims relating to *Durom* Cup cases where the original surgery was performed after July 22, 2008 as part of our standard product liability accruals. As of September 30, 2010, we have recorded provisions totaling $4.1 million for such post-suspension claims.

Our estimate as of September 30, 2010 of the remaining liability for all *Durom* Cup-related claims relating to original surgeries performed before July 22, 2008 is $142.5 million, of which $42.5 million is classified as short-term in "Other current liabilities" and $100.0 million is classified as long-term in "Other long-term liabilities" on our consolidated balance sheet. We expect to pay the majority of the *Durom* Cup-related claims within the next three years.

We rely on significant estimates in determining the provisions for *Durom* Cup-related claims, including estimates of the number of claims that we may eventually receive. The actual number of claims that we receive may differ from our estimates, which could result in further changes to the provision.

Intellectual Property-Related Claims

We are subject to claims of patent infringement and other intellectual property-related claims and lawsuits in the ordinary course of our business. We maintain insurance, subject to self-insured retention requirements, for losses from these and other claims.

On February 15, 2005, Howmedica Osteonics Corp. filed an action against us and an unrelated party in the United States District Court for the District of New Jersey alleging infringement of U.S. Patent Nos. 6,174,934; 6,372,814; 6,664,308; and 6,818,020. On June 13, 2007, the Court granted our motion for summary judgment on the invalidity of the asserted claims of U.S. Patent Nos. 6,174,934; 6,372,814; and 6,664,308 by ruling that all of the asserted claims are invalid for indefiniteness. On August 19, 2008, the Court granted our motion for summary judgment of non-infringement of certain claims of U.S. Patent No. 6,818,020, reducing the number of claims at issue in the suit to five. On April 9, 2009, in response to our earlier petition, the U.S. Patent and Trademark Office (USPTO) instituted re-examination proceedings against U.S. Patent No. 6,818,020. The USPTO rejected all previously issued claims of U.S. Patent No. 6,818,020 as being unpatentable in light of one or more prior art references. On September 30, 2009, the Court issued an order staying proceedings in the litigation pending the outcome of the re-examination process. Subsequent to that stay order, Howmedica filed a motion seeking to certify an appeal of the summary judgment ruling on the ’934, ’814 and ’308 patents. That motion was granted on January 13, 2010. On October 13, 2010, the U.S. Court of Appeals for the Federal Circuit affirmed the District Court’s ruling on the invalidity of the asserted claims of the ’934, ’814 and ’308 patents. The case otherwise remains stayed pending the USPTO’s re-examination of the ’020 patent. We continue to believe that our defenses against infringement are valid and meritorious, and we intend to continue to defend this lawsuit vigorously.

While it is not possible to predict the outcome of these lawsuits and claims with any certainty, we believe that the liability, if any, resulting from these claims will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Government Investigations

In September 2007, we and other orthopaedic companies settled a U.S. government investigation pertaining to consulting contracts, professional services agreements and other agreements by which remuneration is provided to orthopaedic surgeons. As part of the settlement, we entered into a Corporate Integrity Agreement (CIA) with the Office of Inspector General of the Department of Health and Human Services (OIG-HHS). Under the CIA, which has a term expiring in 2012, we agreed, among other provisions, to continue the operation of our enhanced Corporate Compliance Program, designed to promote compliance with federal healthcare program requirements. We also agreed to retain an independent review organization to perform annual reviews to assist us in assessing our compliance with the obligations set forth in the CIA to ensure that arrangements we enter into do not violate the Anti-Kickback Statute (42 U.S.C. § 1320a-7b). A material breach of the CIA may subject us to exclusion by OIG-HHS from participation in all federal healthcare programs, which would have a material adverse effect on our financial position, results of operations and cash flows.

In November 2007, we received a civil investigative demand from the Massachusetts Attorney General’s office seeking additional information regarding our financial relationships with a number of Massachusetts healthcare providers. We received a similar inquiry from the Oregon Attorney General’s office in October 2008. We are cooperating fully with the investigators with regard to these matters.

In September 2007, the Staff of the U.S. Securities and Exchange Commission (SEC) informed us that it was conducting an investigation regarding potential violations of the Foreign Corrupt Practices Act (FCPA) in the sale of medical devices in a number of foreign countries by companies in the medical device industry. In November 2007, we received a letter from the U.S. Department of Justice (DOJ) requesting that any information provided to the SEC also be provided to the DOJ on a voluntary basis. We are continuing to provide information and cooperate fully with the SEC and the DOJ. In the course of continuing dialogues with the agencies, we have voluntarily disclosed information relating to sales of our products by independent distributors in two South American countries to the SEC and the DOJ. We cannot currently predict the outcome of the investigation or the impact of our voluntary disclosures to the authorities.

Putative Class Actions

On August 5, 2008, a complaint was filed in the U.S. District Court for the Southern District of Indiana, Plumbers and Pipefitters Local Union 719 Pension Fund v. Zimmer Holdings, Inc., et al., naming us and two of our executive officers as defendants. The complaint related to a putative class action on behalf of persons who purchased our common stock between January 29, 2008 and July 22, 2008. The complaint alleged that the defendants violated the federal securities law by allegedly failing to disclose developments relating to our orthopaedic surgical products manufacturing operations in Dover, Ohio and the *Durom* Cup. The plaintiff sought unspecified damages and interest, attorneys' fees, costs and other relief. On December 24, 2008, the lead plaintiff filed a consolidated complaint that alleged the same claims and related to the same time period. The defendants filed a motion to dismiss the consolidated complaint on February 23, 2009. On December 1, 2009, the Court granted defendants' motion to dismiss, without prejudice. On January 15, 2010, the plaintiff filed a motion for leave to amend the consolidated complaint. That motion is pending. We believe this lawsuit is without merit, and we and the individual defendants intend to defend it vigorously.

On November 20, 2008, a complaint was filed in the U.S. District Court for the Northern District of Indiana, Dewald v. Zimmer Holdings, Inc., et al., naming us and certain of our current and former directors and employees as defendants. The complaint relates to a putative class action on behalf of all persons who were participants in or beneficiaries of our U.S. or Puerto Rico Savings and Investment Programs (plans) between October 5, 2007 and the date of filing and whose accounts included investments in our common stock. The complaint alleges, among other things, that the defendants breached their fiduciary duties in violation of the Employee Retirement Income Security Act of 1974, as amended, by continuing to offer Zimmer stock as an investment option in the plans when the stock purportedly was no longer a prudent investment and that defendants failed to provide plan participants with complete and accurate information sufficient to advise them of the risks of investing their retirement savings in Zimmer stock. The plaintiff seeks an unspecified monetary payment to the plans, injunctive and equitable relief, attorneys' fees, costs and other relief. On January 23, 2009, the plaintiff filed an amended complaint that alleges the same claims and clarifies that the class period is October 5, 2007 through September 2, 2008. The defendants filed a motion to dismiss the amended complaint on March 23, 2009. The motion to dismiss is pending with the court. On June 12, 2009, the U.S. Judicial Panel on Multidistrict Litigation entered an order transferring the Dewald case to the U.S. District Court for the Southern District of Indiana for coordinated or consolidated pretrial proceedings with the Plumbers & Pipefitters Local Union 719 Pension Fund case referenced above. We believe this lawsuit is without merit, and we and the individual defendants intend to defend it vigorously.

Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Overview

We are a global leader in the design, development, manufacture and marketing of orthopaedic reconstructive implants, dental implants, spinal implants, trauma products and related surgical products. We also provide other healthcare related services. We have operations in more than 25 countries and market products in more than 100 countries. We manage operations through three reportable geographic segments — the Americas, Europe and Asia Pacific.

Certain percentages presented in Management's Discussion and Analysis are calculated from the underlying whole-dollar amounts and therefore may not recalculate from the rounded numbers used for disclosure purposes. In addition, certain amounts in the 2009 consolidated financial statements have been reclassified to conform to the 2010 presentation.

We believe the following developments or trends are important in understanding our financial condition, results of operations and cash flows for the three and nine month periods ended September 30, 2010 and our expected results for the remainder of 2010.

Demand (Volume and Mix) Trends

Increased volume and changes in the mix of product sales contributed 1 percentage point of sales growth during the three month period ended September 30, 2010, compared to a 4 percentage point contribution in the same 2009 period. In the third quarter, the market experienced a slowdown in hospital procedure volumes due to global economic conditions, unemployment, strict national healthcare budgets and other factors, particularly in our Americas and Europe segments.

Long-term indicators still point toward sustained growth driven by an aging global population, growth in emerging markets, obesity, proven clinical benefits, new material technologies, advances in surgical techniques and more active lifestyles, among other factors. In addition, the ongoing shift in demand to premium products, such as *Longevity®* and *Prolong®* Highly Crosslinked Polyethylenes, *Trabecular Metal*™ Technology products, hip stems with *Kinectiv®* Technology, high-flex knees, knee revision products, porous hip stems and the introduction of patient specific devices, is expected to continue to positively affect sales growth.

Pricing Trends

Global selling prices decreased 1 percent during the three month periods ended September 30, 2010 and 2009. Selling prices in the Americas decreased 1 percent during the three month periods ended September 30, 2010 and 2009. Europe selling prices were flat during the three month period ended September 30, 2010, compared to a 1 percent decrease in the same 2009 period. Primarily due to the bi-annual pricing adjustments in Japan that went into effect on April 1, 2010, Asia Pacific selling prices decreased 3 percent during the three month period ended September 30, 2010, compared to flat pricing in the same 2009 period. We continue to expect selling prices will be down approximately 1 to 2 percent on a global basis for 2010 largely due to governmental healthcare cost containment efforts and continuing pricing pressure from local hospitals and health systems.

Foreign Currency Exchange Rates

For the three month period ended September 30, 2010, foreign currency exchange rates resulted in a 1 percent decline in sales. For the year ending December 31, 2010, we estimate that an overall weaker U.S. Dollar versus foreign currency exchange rates will have a positive effect of approximately 0-1 percent on sales. We seek to mitigate currency risk through regular operating and financing activities, and, under appropriate circumstances and subject to proper authorization, through the use of forward contracts and foreign currency options solely for managing foreign currency volatility and risk. Changes to foreign currency exchange rates affect sales growth, but due to offsetting gains/losses on hedge contracts, which are recorded in cost of products sold, the effect on net earnings in the near term is expected to be minimal.

Third Quarter and Year-To-Date Results of Operations

Net Sales by Operating Segment

The following tables present net sales by operating segment and the components of the percentage changes (dollars in millions):

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	% Inc / (Dec)	Volume/ Mix	Price	Foreign Exchange
Americas	$583.2	$584.5	—%	1%	(1)%	—%
Europe	215.8	242.4	(11)	(4)	—	(7)
Asia Pacific	166.0	148.7	12	7	(3)	8
Total	$965.0	$975.6	(1)	1	(1)	(1)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	% Inc / (Dec)	Volume/ Mix	Price	Foreign Exchange
Americas	$1,808.2	$1,768.7	2%	3%	(1)%	—%
Europe	778.4	787.9	(1)	—	—	(1)
Asia Pacific	498.9	431.5	16	9	(2)	9
Total	$3,085.5	$2,988.1	3	3	(1)	1

"Foreign Exchange" as used in the tables in this report represents the effect of changes in foreign currency exchange rates on sales growth.

Net Sales by Product Category

The following tables present net sales by product category and the components of the percentage changes (dollars in millions):

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	% Inc / (Dec)	Volume/ Mix	Price	Foreign Exchange
Reconstructive						
Knees	$402.9	$416.1	(3)%	(1)%	(2)%	—%
Hips	287.3	288.2	—	3	(2)	(1)
Extremities	33.6	32.6	3	3	1	(1)
Total	723.8	736.9	(2)	1	(2)	(1)
Dental	49.0	48.0	2	2	3	(3)
Trauma	58.1	57.6	1	(1)	2	—
Spine	56.5	61.7	(9)	(6)	(1)	(2)
Surgical and other	77.6	71.4	9	8	—	1
Total	$965.0	$975.6	(1)	1	(1)	(1)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	% Inc/ (Dec)	Volume/ Mix	Price	Foreign Exchange
Reconstructive						
Knees	$1,316.2	$1,282.0	3%	3%	(2)%	2%
Hips	920.1	895.9	3	3	(2)	2
Extremities	110.2	99.3	11	10	—	1
Total	2,346.5	2,277.2	3	3	(1)	1
Dental	156.6	148.1	6	3	3	—
Trauma	176.3	171.2	3	(1)	2	2
Spine	174.4	190.5	(8)	(8)	(1)	1
Surgical and other	231.7	201.1	15	14	(1)	2
Total	$3,085.5	$2,988.1	3	3	(1)	1

The following tables present net sales by product category by region (dollars in millions):

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	% Inc/ (Dec)	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	% Inc/ (Dec)
Reconstructive						
Knees						
Americas	$263.3	$269.6	(2)%	$ 829.3	$ 816.5	2%
Europe	77.4	89.2	(13)	297.1	301.8	(2)
Asia Pacific	62.2	57.3	9	189.8	163.7	16
Hips						
Americas	142.3	138.1	3	437.5	423.0	3
Europe	88.1	99.4	(11)	309.1	318.8	(3)
Asia Pacific	56.9	50.7	12	173.5	154.1	13
Extremities						
Americas	26.3	25.3	4	85.5	76.7	12
Europe	4.9	5.3	(9)	17.6	17.0	4
Asia Pacific	2.4	2.0	18	7.1	5.6	25
Total	723.8	736.9	(2)	2,346.5	2,277.2	3
Dental						
Americas	27.6	25.4	9	83.3	77.5	7
Europe	14.4	16.2	(11)	54.6	53.3	3
Asia Pacific	7.0	6.4	11	18.7	17.3	8
Trauma						
Americas	32.3	31.2	3	96.2	94.8	1
Europe	11.0	13.2	(16)	34.0	36.5	(7)
Asia Pacific	14.8	13.2	12	46.1	39.9	15
Spine						
Americas	40.8	48.0	(15)	126.5	148.0	(15)
Europe	11.1	9.8	12	36.6	32.3	13
Asia Pacific	4.6	3.9	19	11.3	10.2	11
Surgical and other						
Americas	50.6	46.9	8	149.9	132.2	13
Europe	8.9	9.3	(4)	29.4	28.2	4
Asia Pacific	18.1	15.2	20	52.4	40.7	29
Total	$965.0	$975.6	(1)	$3,085.5	$2,988.1	3

Knees

Knee sales decreased 3 percent in the three month period ended September 30, 2010, but increased 3 percent in the nine month period ended September 30, 2010. The third quarter decrease was primarily due to broader economic conditions impacting volume/mix and competitive pressures from newer knee systems that have more modern surgical instruments for implantation. We intend to counter these competitive pressures in the fourth quarter and thereafter as we continue to launch our new patient specific and posterior referencing instrumentation systems.

The *NexGen®* Complete Knee Solution product line, including *Gender Solutions*™ Knee Femoral Implants, the *NexGen* LPS-Flex Knee and the *NexGen* CR-Flex Knee, together with the *Gender Solutions Natural-Knee®* Flex System led knee sales. In addition, sales of partial knee devices, including the *Zimmer®* Uni Knee and the recently released *Gender Solutions* Patello Femoral Joint, exhibited growth. In Europe, changes in foreign currency exchange rates negatively affected knee sales in the three and nine month periods ended September 30, 2010 by 7 percent and 2 percent, respectively. In Asia Pacific, changes in foreign currency exchange rates positively affected knee sales in the three and nine month periods ended September 30, 2010 by 8 percent and 10 percent, respectively.

Hips

Hip sales were flat in the three month period ended September 30, 2010 and increased 3 percent in the nine month period ended September 30, 2010. In the third quarter we estimate that our Americas segment experienced growth at or above overall market growth driven primarily by our *Continuum*™ Acetabular System and our *Zimmer* M/L Taper Stem with *Kinectiv* Technology. In our Europe segment we estimate that our growth was below market due to competitive pressures on our primary stem portfolio and other country-specific issues.

The *Zimmer* M/L Taper Stem, the *Zimmer* M/L Taper Stem with *Kinectiv* Technology, the *CLS® Spotorno®* Stem from the *CLS* Hip System and the *Alloclassic® Zweymüller®* Hip Stem led hip stem sales. In addition, sales of revision Hip products, such as the *ZMR®* Hip System and the *Trabecular Metal* Revision Shell and Augment Cups, were strong when compared to the prior year period, as were sales of *BIOLOX®*[1] *delta* Heads and *Fitmore®* Hip Stems. In Europe, changes in foreign currency exchange rates negatively affected hip sales in the three and nine month periods ended September 30, 2010 by 7 percent and 1 percent, respectively. In Asia Pacific, changes in foreign currency exchange rates positively affected hip sales in the three and nine month periods ended September 30, 2010 by 8 percent and 9 percent, respectively.

Extremities

Extremities sales have grown by 11 percent in the nine month period ended September 30, 2010 despite only 3 percent growth in the three month period ended September 30, 2010. The decline in third quarter growth was primarily due to the economic environment in our Americas segment. The *Bigliani/Flatow®* Complete Shoulder Solution and the *Zimmer Trabecular Metal* Reverse Shoulder System led extremities sales.

Dental

Dental sales have experienced growth throughout 2010; sales growth was 2 and 6 percent in the three and nine month periods ended September 30, 2010, respectively. Sales were led by the *Tapered Screw-Vent®* Implant System. Regenerative product sales exhibited strong growth.

Trauma

Trauma sales increased 1 and 3 percent in the three and nine month periods ended September 30, 2010, respectively. We have continued the launch of the *Zimmer Natural Nail*™ system, and we anticipate that a broader launch of that system will continue to positively affect sales growth. *Zimmer Periarticular Locking Plates and the ITST®* Intertrochanteric/Subtrochanteric Fixation System led trauma sales, while sales of cable products also made a strong contribution.

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[1] Registered trademark of CeramTec AG

Spine

Spine sales decreased 9 and 8 percent in the three and nine month periods ended September 30, 2010, respectively. Our spine business in the Americas continued to experience operational challenges, a difficult reimbursement landscape and challenges related to the *Dynesys*® Dynamic Stabilization System. Growth in spine sales in Europe and Asia Pacific was driven by the stabilization of our distribution channels, which followed the Abbott Spine integration activity of 2009. Solid sales of the *PathFinder*® and *Sequoia*® Pedicle Screw Systems, our *Universal Clamp*® System and our *Trinica*® Anterior Cervical Plate System partly offset a decline in sales of the *Dynesys* system.

Surgical and other

Surgical sales increased 9 and 15 percent in the three and nine month periods ended September 30, 2010, respectively. We have continued to regain market share in certain products after a voluntary recall and temporary suspension of production in 2008 that suppressed 2009 sales. Surgical sales were led by *PALACOS*®[2] Bone Cement and powered instruments. Our wound debridement products also made a strong contribution.

Expenses as a Percent of Net Sales

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	Inc/(Dec)	2010	2009	Inc/(Dec)
Cost of products sold	22.7%	25.6%	(2.9)	23.9%	24.0%	(0.1)
Research and development	6.0	5.3	0.7	5.3	5.1	0.2
Selling, general and administrative	42.7	42.3	0.4	42.0	42.5	(0.5)
Acquisition, integration, realignment and other	0.5	2.3	(1.8)	0.6	2.2	(1.6)
Certain claims	—	3.6	(3.6)	2.4	1.2	1.2
Net curtailment and settlement	—	—	—	—	(1.1)	1.1
Operating profit	28.1	20.9	7.2	25.7	26.1	(0.4)
Interest and other, net	(1.5)	(0.4)	1.1	(1.4)	(0.4)	1.0

Cost of Products Sold

The decrease in cost of products sold as a percentage of net sales for the three month period ended September 30, 2010 compared to the same 2009 period is due to our manufacturing network operating at a higher level of efficiency in the 2010 period and lower excess and obsolescence charges resulting from improved inventory management. Additionally, in the 2009 period there was a fire in one of our facilities that resulted in increased inventory scrap and caused us to incur idle plant expenses due to operating at less than normal capacity.

In the nine month period ended September 30, 2010, there was only a 10 basis point decrease in costs of products sold as a percentage of net sales compared to the same 2009 period. In the last half of 2009 and early 2010, lower production levels caused our manufacturing costs per unit to be higher. This increased cost was recognized in the first and second quarters of 2010 and, therefore, in the nine month period ended September 30, 2010, costs per unit have been higher compared to the same 2009 period. However, this increase has been mostly offset by lower excess and obsolescence charges resulting from improved inventory management.

Operating Expenses

Research and development expense, or R&D, increased to $57.6 million and $163.1 million for the three and nine month periods ended September 30, 2010, respectively, from $52.2 million and $154.0 million in the same 2009 periods. This increase is in line with our strategy to focus more investment into new product development activities across nearly all of our product categories as well as to increase spending on external research, clinical,

[2] Registered trademark of Heraeus Kulzer GmbH

regulatory and quality initiatives. We continue to expect R&D spending in 2010 to be between 5 to 6 percent of sales for the full year.

Selling, general and administrative expense, or SG&A, decreased slightly to $411.6 million from $412.9 million for the three month period ended September 30, 2010 compared to the same 2009 period, which reflects lower product liability costs and disciplined discretionary spending throughout the 2010 period. SG&A as a percentage of sales, however, increased by 40 basis points as a result of lower sales in the 2010 period.

SG&A expense increased to $1,296.3 million during the nine month period ended September 30, 2010 from $1,268.9 million in the same 2009 period. This is an improvement in SG&A as a percentage of sales by 50 basis points, reflecting disciplined spending combined with a higher base of sales. The overall dollar increase in spending was driven by medical education and training activities and incremental costs associated with certain operational and growth initiatives.

"Certain Claims" expense is a provision for estimated liabilities to *Durom* Cup patients undergoing revision surgeries. A provision of $104.0 million was originally recorded during 2008 and 2009 with an additional $75.0 million recorded during the three month period ended June 30, 2010, bringing the total provision to $179.0 million for these claims. We did not change this provision during the third quarter of 2010. For more information regarding these claims, see Note 14 to the consolidated financial statements.

We recognized a net curtailment and settlement gain of $32.1 million during the three month period ended June 30, 2009 related to amending our U.S. and Puerto Rico postretirement benefit plans.

Acquisition, integration, realignment and other expenses for the three and nine month periods ended September 30, 2010 decreased to $5.0 million and $19.1 million, respectively, from $22.2 million and $65.7 million in the same 2009 periods. The 2010 expenses include costs incurred as part of our pending acquisition of Beijing Montagne Medical Device Co., Ltd. as well as costs relating to a transformation of our information technology infrastructure. Acquisition, integration, realignment and other expenses were higher in the 2009 periods due to severance and termination-related expenses that we incurred as a result of the initiation of our global workforce realignment in the second quarter of 2009. The decrease in acquisition, integration, realignment and other expenses in the 2010 periods is also due to a reduction in contract termination costs and lower legal fees due to the settlement of certain litigation matters.

Operating Profit, Interest and Other Expense, Income Taxes and Net Earnings

Operating profit for the three and nine month periods ended September 30, 2010 increased to $271.6 million and $793.8 million, respectively, from $204.0 million and $780.3 million in the same 2009 periods. The increase in operating profit during the three month period ended September 30, 2010 is due to lower costs of product sold and reduced operating expenses, most notably lower acquisition, integration, realignment and other expenses and no changes to the "Certain Claims" provision recorded in the same 2010 period. The increase in operating profit during the nine month period ended September 30, 2010 is primarily due to lower operating expenses as a percent of sales and higher reported revenues.

Interest and other, net for the three and nine month periods ended September 30, 2010, increased to $14.2 million and $43.1 million, respectively, compared to $4.2 million and $11.9 million in the same 2009 periods. The increase in interest expense is a result of the senior unsecured notes that we issued in November 2009.

The effective tax rate on earnings before income taxes for the three month period ended September 30, 2010 increased to 25.8 percent, from 25.0 percent in the same 2009 period. The effective tax rate on earnings before income taxes for the nine month period ended September 30, 2010 decreased to 25.1 percent, from 26.8 percent in the same 2009 period, primarily due to the tax effect of the "Certain Claims" provision recorded in the 2010 period as well as the favorable resolution of certain tax positions. We anticipate the outcome of various federal, state and foreign audits as well as expiration of statutes of limitations potentially could impact our fourth quarter effective tax rate. Currently, we cannot reasonably estimate their impact on our financial results.

Net earnings increased 27 percent to $191.1 million for the three month period ended September 30, 2010, compared to $149.9 million in the same 2009 period. Net earnings during the nine month period ended September 30, 2010 were flat at $562.0 million compared to $562.2 million in the same 2009 period. For the three month 2010 period, basic and diluted earnings per share both increased 37 percent to $0.96, from $0.70 in the same 2009 period. For the nine month 2010 period, basic and diluted earnings per share both increased 7 percent to $2.79 and $2.78, respectively, from $2.60 and $2.59 in the same 2009 period. The disproportional change in earnings per share as compared with net earnings is attributed to the effect of 2010 and 2009 share repurchases.

Liquidity and Capital Resources

Cash flows provided by operating activities were $852.5 million for the nine month period ended September 30, 2010, compared to $732.0 million in the same 2009 period. The principal source of cash from operating activities was net earnings. Non-cash items included in net earnings accounted for another $296.2 million of operating cash. All other items of operating cash flows reflect a use of $5.7 million of cash, compared to a use of $115.3 million in the same 2009 period. In the 2009 period we resolved outstanding payments to healthcare professionals and institutions, resulting in substantial cash outflows, partially offset by higher tax payments in the 2010 period.

At September 30, 2010, we had 67 days of sales outstanding in trade accounts receivable, which represents an increase of 6 days compared to June 30, 2010 and an increase of 4 days compared to September 30, 2009. At September 30, 2010, we had 380 days of inventory on hand, which is an increase of 62 days compared to June 30, 2010 and an increase of 27 days from September 30, 2009. The third quarter increase over the second quarter reflects the pattern of seasonality in our reconstructive business.

Cash flows used in investing activities were $235.4 million for the nine month period ended September 30, 2010, compared to $247.9 million in the same 2009 period. Additions to instruments increased by $30.4 million during the nine month period ended September 30, 2010 compared to the same 2009 period. Spending on other property, plant and equipment decreased by $36.2 million during the nine month period ended September 30, 2010 compared to the same 2009 period. During the nine month period ended September 30, 2010, we purchased $100.6 million of fixed-maturity investments classified as available-for-sale that have staggered maturities over a two year period and sold $56.5 million of similar investments. Acquired intellectual property rights of $8.2 million in the nine month period ended September 30, 2010 and $32.9 million in the same 2009 period relate to lump-sum payments made to certain healthcare professionals and institutions in place of future royalty payments that otherwise would have been due under the terms of an existing contractual arrangement. Investments in other assets in both 2010 and 2009 primarily relate to payments to acquire certain foreign-based distributors.

Cash flows used in financing activities were $390.6 million for the nine month period ended September 30, 2010, compared to $264.3 million in the same 2009 period. For the nine months ended September 30, 2010, we repurchased 7.1 million common shares for a total of $404.6 million, including commissions, under our share repurchase program authorized by our Board of Directors, compared to $404.4 million in the same 2009 period. In the 2009 period, we borrowed against our senior credit facility, in part, to fund these share repurchases. Proceeds from our stock compensation plans increased in the nine month period ended September 30, 2010, compared to the same 2009 period, due to an increase in employee stock option exercises.

We have two outstanding tranches of unsecured senior notes (Senior Notes): $500 million aggregate principal amount of 4.625% Senior Notes due November 30, 2019 and $500 million aggregate principal amount of 5.75% Senior Notes due November 30, 2039. Interest on the Senior Notes is payable on May 30 and November 30 of each year until maturity. We may redeem the Senior Notes at our election in whole or in part at any time prior to maturity at the applicable redemption prices.

We have a five year $1,350 million revolving, multi-currency, senior unsecured credit facility maturing November 30, 2012 (Senior Credit Facility). We had $139.8 million in outstanding borrowings under the Senior Credit Facility as of September 30, 2010, and an availability of $1,210.2 million. We were in compliance with all covenants under the Senior Credit Facility as of September 30, 2010.

We also have available uncommitted credit facilities totaling $78.2 million.

We may use excess cash to repurchase additional common stock under our share repurchase program. As of September 30, 2010, approximately $1.3 billion remained authorized under a $1.5 billion repurchase program, which will expire on December 31, 2013.

We place our cash in highly rated financial institutions and limit the amount of credit exposure to any one entity. We invest only in high-quality financial instruments in accordance with our internal investment policy.

Management believes that cash flows from operations and available borrowings under the Senior Credit Facility are sufficient to meet our working capital, capital expenditure and debt service needs. Should investment opportunities arise, we believe that our earnings, balance sheet and cash flows will allow us to obtain additional capital, if necessary.

Recent Accounting Pronouncements

There are no recently issued accounting pronouncements that we have not yet adopted that are expected to have a material effect on our financial position, results of operations or cash flows.

Critical Accounting Estimates

There were no changes in the nine month period ended September 30, 2010 to the application of critical accounting policies as described in our Annual Report on Form 10-K for the year ended December 31, 2009. The information below provides an update on how certain of those critical accounting policies were applied in the current year.

Commitments and Contingencies — During the nine month period ended September 30, 2010, we recorded an additional provision for certain claims of $75.0 million, and we revised the definition of "Certain Claims" recorded in our statement of earnings to include worldwide claims relating to all revisions of *Durom* Cup cases where the original surgery was performed before our July 22, 2008 suspension of marketing and distribution, regardless of the time period elapsed between the original surgery and the revision surgery. This additional provision represents management's updated estimate of liability to *Durom* Cup patients undergoing revisions associated with original surgeries occurring before July 22, 2008.

Goodwill and Intangible Assets — In the fourth quarter of 2009 we incurred a goodwill impairment charge of $73.0 million related to our U.S. Spine reporting unit. Although there were signs of improvement in the three month period ended March 31, 2010, such as growth in sales of acquired Abbott Spine products, our U.S. Spine reporting unit continued to experience challenges, so we performed another impairment test in the first quarter of 2010.

Using methodology similar to that used in the fourth quarter of 2009, we determined the estimated fair value of the reporting unit using an equal weighting of income and market approaches. The estimated fair value of the reporting unit was greater (although not substantially greater) than the carrying value of the net assets, so we did not record a goodwill impairment charge.

Although revenues of the U.S. Spine reporting unit decreased in the three month periods ended June 30, 2010 and September 30, 2010, the revenue and underlying cash flows were in line with our estimates. Therefore, no impairment test was performed on this reporting unit in the second or third quarters of 2010.

If the estimated cash flows of the U.S. Spine reporting unit decrease relative to our current estimates, we may have to record impairment charges in the future. Factors that could result in our cash flows being lower than our current estimates include: 1) decreased revenues caused by changes in the healthcare market, poor execution of our operating plans, or our inability to generate new product revenue from our research and development activities, and 2) our inability to achieve the estimated operating margins in our forecasts due to unforeseen factors. Additionally, changes in the broader economic environment could cause changes to our estimated discount rates which will impact our estimated fair values, or may cause changes to the comparable transaction methodology we employed under the market approach of estimating fair value.

We have five other reporting units subject to goodwill impairment testing, but there were no events or circumstances that would warrant an interim test. Therefore, no impairment testing was performed. For each of those five reporting units, the estimated fair value substantially exceeded its carrying value at the last annual impairment test.

Forward-Looking Statements

This quarterly report contains certain statements that are forward-looking statements within the meaning of federal securities laws. When used in this report, the words "may," "will," "should," "anticipate," "estimate," "expect," "plan," "believe," "predict," "potential," "project," "target," "forecast," "intend," "assume," "guide," "seek" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to:

- competition;
- pricing pressures;
- dependence on new product development, technological advances and innovation;
- the impact of the federal healthcare reform legislation, including the new excise tax on medical devices;
- reductions in reimbursement levels by third-party payors and cost containment efforts of healthcare purchasing organizations;
- the costs of defending or resolving putative class action litigation arising out of trading or ownership of our stock;
- our compliance through 2012 with the Corporate Integrity Agreement we entered into as part of the September 2007 settlement with the United States government;
- the success of our quality initiatives;
- the outcome of the investigation by the U.S. government into Foreign Corrupt Practices Act matters announced in October 2007;
- challenges relating to changes in and compliance with governmental laws and regulations affecting our U.S. and international businesses, including regulations of the U.S. Food and Drug Administration and foreign government regulators, such as more stringent requirements for regulatory clearance of our products;
- tax reform measures, tax authority examinations and associated tax risks and potential obligations;
- retention of our independent agents and distributors;
- changes in customer demand for our products and services caused by demographic changes or other factors;
- changes in general domestic and international economic conditions, including interest rate and currency exchange rate fluctuations;
- our ability to protect proprietary technology and other intellectual property and claims for infringement of the intellectual property rights of third parties;
- product liability claims;
- the possible disruptive effect of additional strategic acquisitions and our ability to successfully integrate acquired companies;
- our ability to form and implement strategic alliances;
- changes in prices of raw materials and products and our ability to control costs and expenses;
- changes in general industry and market conditions, including domestic and international growth rates;
- our dependence on a limited number of suppliers for key raw materials and outsourced activities; and
- shifts in our product category sales mix or our regional sales mix away from products or geographic regions that generate higher operating margins.

Readers of this report are cautioned not to place undue reliance on these forward-looking statements. While we believe the assumptions on which the forward-looking statements are based are reasonable, there can be no assurance that these forward-looking statements will prove to be accurate. This cautionary statement is applicable to all forward-looking statements contained in this report.

We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be set forth in our periodic reports and our other filings with the Securities and Exchange Commission.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

There have been no material changes from the information provided in our Annual Report on Form 10-K for the year ended December 31, 2009.

Item 4. *Controls and Procedures*

We have established disclosure controls and procedures and internal controls over financial reporting to provide reasonable assurance that material information relating to us, including our consolidated subsidiaries, is made known on a timely basis to management and the Board of Directors. However, no control system, no matter how well designed and operated, can provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are effective.

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) that occurred during the quarter ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II — Other Information

Item 1. *Legal Proceedings*

Information pertaining to legal proceedings can be found in Note 14 to the interim consolidated financial statements included in Part I of this report.

Item 1A. *Risk Factors*

Except as set forth in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, there have been no material changes from the risk factors disclosed in Part I — Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

The following table summarizes repurchases of common stock settled during the three month period ended September 30, 2010:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*	Approximate Dollar Value of Shares that May Yet Be Purchased Under Plans or Programs
July 2010	1,187,793	$54.13	54,016,739	$1,467,891,451
August 2010	3,023,000	53.36	57,039,739	1,306,584,171
September 2010	—	—	57,039,739	1,306,584,171
Total	4,210,793	$53.58	57,039,739	$1,306,584,171

* Includes repurchases made under expired programs as well as the current program authorizing $1.5 billion of repurchases through December 31, 2013.

Item 5. *Other Information*

During the three month period ended September 30, 2010, the Audit Committee of our Board of Directors was not asked to, and did not, approve the engagement of PricewaterhouseCoopers LLP, our independent registered public accounting firm, to perform any non-audit services. This disclosure is made pursuant to Section 10A(i)(2) of the Securities Exchange Act of 1934, as added by Section 202 of the Sarbanes-Oxley Act of 2002.

Item 6. *Exhibits*

The following exhibits are filed or furnished as part of this report:

31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 of the Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 of the Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*

* Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ZIMMER HOLDINGS, INC.
(Registrant)

Date: November 3, 2010

By: /s/ James T. Crines
James T. Crines
Executive Vice President, Finance and Chief Financial Officer

Date: November 3, 2010

By: /s/ Derek M. Davis
Derek M. Davis
Vice President, Finance and Corporate Controller and Chief Accounting Officer