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, 2012

Commission File Number 001-16407

zimmer

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 or a non-accelerated filer. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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 25, 2012, 173,502,118 shares of the registrant's $.01 par value common stock were outstanding.

ZIMMER HOLDINGS, INC.

INDEX TO FORM 10-Q

September 30, 2012

		Page
	Part I — Financial Information	
Item 1.	Financial Statements	
	Condensed Consolidated Statements of Earnings for the Three and Nine Months Ended September 30, 2012 and 2011	3
	Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2012 and 2011	4
	Condensed Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011	5
	Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and 2011	6
	Notes to Interim Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	32
Item 4.	Controls and Procedures	32
	Part II — Other Information	
	There is no information required to be reported under any items except those indicated below.	
Item 1.	Legal Proceedings	34
Item 1A.	Risk Factors	34
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	35
Item 5.	Other Information	35
Item 6.	Exhibits	36
Signatures		37

Part I — Financial Information

Item 1. *Financial Statements*

ZIMMER HOLDINGS, INC. AND SUBSIDIARIES

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net Sales	$1,025.5	$1,031.5	$3,291.2	$3,284.5
Cost of products sold	255.7	251.9	826.3	818.8
Gross Profit	769.8	779.6	2,464.9	2,465.7
Research and development	53.5	61.0	170.3	173.5
Selling, general and administrative	430.0	444.0	1,346.6	1,372.3
Certain claims	—	—	—	50.0
Special items (Note 2)	36.9	8.0	101.1	47.0
Operating expenses	520.4	513.0	1,618.0	1,642.8
Operating Profit	249.4	266.6	846.9	822.9
Interest income	3.8	1.3	10.7	6.6
Interest expense	(18.3)	(13.0)	(54.0)	(39.1)
Earnings before income taxes	234.9	254.9	803.6	790.4
Provision for income taxes	57.2	63.7	203.0	186.5
Net earnings	177.7	191.2	600.6	603.9
Less: Net loss attributable to noncontrolling interest	(0.4)	(0.3)	(1.6)	(0.3)
Net Earnings of Zimmer Holdings, Inc.	$ 178.1	$ 191.5	$ 602.2	$ 604.2
Earnings Per Common Share				
Basic	$ 1.02	$ 1.02	$ 3.43	$ 3.17
Diluted	$ 1.02	$ 1.01	$ 3.41	$ 3.15
Weighted Average Common Shares Outstanding				
Basic	174.1	187.7	175.6	190.6
Diluted	175.3	188.8	176.7	191.8
Cash Dividends Declared Per Common Share	$ 0.18	$ —	$ 0.36	$ —

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

ZIMMER HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net earnings	$177.7	$ 191.2	$600.6	$603.9
Other Comprehensive Income:				
Foreign currency cumulative translation adjustments	67.2	(108.1)	20.1	61.5
Unrealized cash flow hedge gains/(losses), net of tax	(35.9)	21.6	(11.7)	(36.6)
Reclassification adjustments on foreign currency hedges, net of tax	0.1	8.5	2.3	21.7
Unrealized gains on securities, net of tax	0.3	(0.4)	0.6	0.1
Adjustments to prior service cost and unrecognized actuarial assumptions, net of tax	4.0	1.0	28.5	2.4
Total Other Comprehensive Gain/(Loss)	35.7	(77.4)	39.8	49.1
Comprehensive Income	213.4	113.8	640.4	653.0
Comprehensive loss attributable to the noncontrolling interest	(0.3)	(0.3)	(1.7)	(0.3)
Comprehensive Income Attributable to Zimmer Holdings, Inc.	$213.7	$ 114.1	$642.1	$653.3

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

ZIMMER HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 801.5	$ 768.3
Short-term investments	687.4	455.5
Accounts receivable, less allowance for doubtful accounts	874.9	838.8
Inventories	994.1	929.8
Prepaid expenses and other current assets	72.3	73.7
Deferred income taxes	201.7	210.5
Total Current Assets	3,631.9	3,276.6
Property, plant and equipment, net	1,185.6	1,207.3
Goodwill	2,648.6	2,626.0
Intangible assets, net	760.5	798.5
Other assets	557.5	606.9
Total Assets	$ 8,784.1	$ 8,515.3
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 141.1	$ 143.3
Income taxes	43.0	8.6
Short-term debt	0.3	143.3
Other current liabilities	571.1	571.9
Total Current Liabilities	755.5	867.1
Other long-term liabilities	463.6	557.4
Long-term debt	1,734.1	1,576.0
Total Liabilities	2,953.2	3,000.5
Commitments and Contingencies (Note 13)		
Stockholders' Equity:		
Zimmer Holdings, Inc. Stockholders' Equity:		
Common stock, $0.01 par value, one billion shares authorized, 256.9 million shares issued in 2012 (255.9 million in 2011)	2.6	2.5
Paid-in capital	3,482.3	3,399.2
Retained earnings	6,966.3	6,426.8
Accumulated other comprehensive income	311.2	271.4
Treasury stock, 83.4 million shares (77.9 million shares in 2011)	(4,937.4)	(4,592.7)
Total Zimmer Holdings, Inc. stockholders' equity	5,825.0	5,507.2
Noncontrolling interest	5.9	7.6
Total Stockholders' Equity	5,830.9	5,514.8
Total Liabilities and Stockholders' Equity	$ 8,784.1	$ 8,515.3

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

ZIMMER HOLDINGS, INC. AND SUBSIDIARIES

CONSENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions, unaudited)

	For the Nine Months Ended September 30,	
	2012	**2011**
Cash flows provided by (used in) operating activities:		
Net earnings	$ 600.6	$ 603.9
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	272.9	265.6
Share-based compensation	41.7	46.1
Income tax benefit from stock option exercises	10.0	10.6
Excess income tax benefit from stock option exercises	(2.3)	(4.0)
Inventory step-up	2.5	9.6
Changes in operating assets and liabilities, net of effect of acquisitions:		
Income taxes	29.7	6.8
Receivables	(34.2)	(39.7)
Inventories	(53.3)	(27.7)
Accounts payable and accrued expenses	4.0	(41.3)
Other assets and liabilities	(87.7)	(46.1)
Net cash provided by operating activities	783.9	783.8
Cash flows provided by (used in) investing activities:		
Additions to instruments	(104.7)	(128.9)
Additions to other property, plant and equipment	(71.4)	(67.8)
Purchases of investments	(801.7)	(403.8)
Sales of investments	667.1	225.0
Investments in other assets	(56.8)	(35.6)
Net cash used in investing activities	(367.5)	(411.1)
Cash flows provided by (used in) financing activities:		
Net proceeds (payments) under revolving credit facilities	(149.9)	375.2
Proceeds from term loans	147.3	—
Dividends paid to stockholders	(63.2)	—
Proceeds from employee stock compensation plans	34.1	34.0
Excess income tax benefit from stock option exercises	2.3	4.0
Debt issuance costs	(3.3)	—
Repurchase of common stock	(345.7)	(906.5)
Net cash used in financing activities	(378.4)	(493.3)
Effect of exchange rates on cash and cash equivalents	(4.8)	4.7
Increase (decrease) in cash and cash equivalents	33.2	(115.9)
Cash and cash equivalents, beginning of year	768.3	668.9
Cash and cash equivalents, end of period	$ 801.5	$ 553.0

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

ZIMMER HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED 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 2011 Annual Report on Form 10-K filed by Zimmer Holdings, Inc. The condensed consolidated financial statements for the majority of our international subsidiaries are for periods that ended on September 25, 2012 and 2011. For these international subsidiaries, the three month results included in these condensed consolidated financial statements are for the period of June 26 through September 25 and the nine month results included in these condensed consolidated financial statements are for the period of December 26 through September 25 or the period of January 1 to September 25.

In our opinion, the accompanying unaudited condensed 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, 2011 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 (GAAP). Results for interim periods should not be considered indicative of results for the full year. Certain amounts in the 2011 condensed consolidated financial statements have been reclassified to conform to the 2012 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

Special Items — We recognize expenses resulting directly from our business combinations, employee termination benefits, certain contract terminations, consulting and professional fees and asset impairment charges connected with global restructuring and operational excellence initiatives, and other items as "Special items" in our condensed consolidated statement of earnings. "Special items" included (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Impairment/loss on disposal of assets	$ 0.3	$0.3	$ 0.7	$ 3.2
Consulting and professional fees	25.6	3.2	63.1	11.6
Employee severance and retention	1.8	1.1	6.2	20.9
Dedicated project personnel	3.9	0.7	10.5	1.6
Distributor acquisitions	—	0.5	0.4	1.6
Certain litigation matters	3.3	—	13.2	0.1
Contract terminations	2.0	1.8	4.6	4.5
Contingent consideration adjustments	(2.0)	—	(2.8)	—
Accelerated software amortization	1.5	—	3.0	—
Other	0.5	0.4	2.2	3.5
Special items	$36.9	$8.0	$101.1	$47.0

In the first nine months of 2012, we announced our plans to outsource our Warsaw, Indiana distribution center to a third party service provider at a national transportation hub, among other organizational changes. We also have plans to close operations at two of our smaller manufacturing facilities. Approximately 300 positions were or will be affected by these actions.

In the first nine months of 2011, we terminated employees as part of a reduction of management layers, expansion of management spans of control, and changes in our organizational structure. Approximately 500 employees from across the globe were affected by these actions.

As a result of these actions, we incurred expenses related to severance benefits, share-based compensation acceleration and other employee termination-related costs. The vast majority of these termination benefits were provided in accordance with our existing policies or local government regulations and are considered ongoing benefits. These costs were accrued when they became probable and estimable and were recorded as part of other current liabilities. The majority of these costs have been paid or will be paid in the year they were accrued.

In the second quarter of 2012, we approved a plan to replace certain software. As a result, the estimated economic useful life of the existing software was decreased to represent the period of time expected to implement replacement software. As a result, the amortization from the shortened life of this software is substantially higher than the previous amortization being recognized. We have recognized the incremental amortization caused by the shorter life in "Special items".

Recent Accounting Pronouncements — In 2011, the Financial Accounting Standards Board issued an accounting standard update (ASU) requiring companies to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and of comprehensive income. This requirement became effective for us January 1, 2012. The ASU changes the presentation, but not the accounting requirements, of other comprehensive income and therefore had no effect on our financial position, results of operations or cash flows.

There are no other 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. Inventories

	September 30, 2012	December 31, 2011
	(in millions)	
Finished goods	$794.9	$743.0
Work in progress	56.9	47.8
Raw materials	142.3	139.0
Inventories	$994.1	$929.8

4. Property, Plant and Equipment

	September 30, 2012	December 31, 2011
	(in millions)	
Land	$ 22.3	$ 22.3
Buildings and equipment	1,225.9	1,196.8
Capitalized software costs	224.7	208.4
Instruments	1,582.4	1,509.2
Construction in progress	102.1	76.4
	3,157.4	3,013.1
Accumulated depreciation	(1,971.8)	(1,805.8)
Property, plant and equipment, net	$ 1,185.6	$ 1,207.3

5. Investments

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair value
As of September 30, 2012				
Corporate debt securities	$338.2	$0.4	$(0.1)	$338.5
U.S. government and agency debt securities	215.3	—	—	215.3
Foreign government debt securities	2.8	—	—	2.8
Commercial paper	139.6	0.1	—	139.7
Certificates of deposit	105.3	0.1	—	105.4
Total short and long-term investments	$801.2	$0.6	$(0.1)	$801.7
As of December 31, 2011				
Corporate debt securities	$324.8	$0.2	$(0.3)	$324.7
U.S. government and agency debt securities	177.1	0.1	—	177.2
Municipal bonds	1.0	—	—	1.0
Foreign government debt securities	6.8	—	—	6.8
Commercial paper	74.5	—	—	74.5
Certificates of deposit	88.5	—	—	88.5
Total short and long-term investments	$672.7	$0.3	$(0.3)	$672.7

Unrealized gains and losses on these investments are recorded in accumulated other comprehensive income in our condensed 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 (in millions):

	September 30, 2012		December 31, 2011	
	Fair Value	Unrealized Losses	Fair value	Unrealized Losses
Corporate debt securities	$85.9	$(0.1)	$164.5	$(0.3)

All securities in the table above have been in an unrealized loss position for less than twelve months. A total of 39 securities were in an unrealized loss position as of September 30, 2012.

The unrealized losses on our investments in corporate debt securities were caused by increases in interest yields resulting from changes in the global credit markets. We believe the unrealized losses associated with our available-for-sale securities as of September 30, 2012 are temporary because we do not intend to sell these investments, and we do not believe 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 are as follows (in millions):

	September 30, 2012	
	Amortized Cost	Fair Value
Due in one year or less	$687.0	$687.4
Due after one year through two years	114.2	114.3
Total	$801.2	$801.7

6. Debt

Our debt consisted of the following (in millions):

	September 30, 2012	December 31, 2011
Short-term debt		
Credit facility	$ —	$ 143.0
Other short-term debt	0.3	0.3
Total short-term debt	$ 0.3	$ 143.3
Long-term debt		
Senior Notes due 2014	$ 250.0	$ 250.0
Senior Notes due 2019	500.0	500.0
Senior Notes due 2021	300.0	300.0
Senior Notes due 2039	500.0	500.0
Term loan	150.3	—
Debt discount	(1.8)	(1.8)
Adjustment related to interest rate swaps	35.6	27.8
Total long-term debt	$1,734.1	$1,576.0

In May 2012, we entered into a new five year $1,350 million revolving, multi-currency, senior unsecured credit facility maturing May 9, 2017 (Senior Credit Facility). The Senior Credit Facility replaced a previous credit facility with similar terms that was due to mature on November 30, 2012.

Borrowings of 11.7 billion Japanese Yen outstanding under the previous credit facility were converted to the Senior Credit Facility. On May 24, 2012, we refinanced these borrowings by entering into a separate term loan agreement with one of the lenders under the Senior Credit Facility (Term Loan) for 11.7 billion Japanese Yen and we repaid the outstanding borrowings under the Senior Credit Facility.

The Term Loan will mature on May 31, 2016. Borrowings under the Term Loan bear interest at a fixed rate of 0.61 percent per annum until maturity.

The estimated fair value of our Senior Notes as of September 30, 2012, based on quoted prices for the specific securities from transactions in over-the-counter markets (Level 2), was $1,761.1 million. The estimated fair value of the Term Loan as of September 30, 2012, based upon publicly available market yield curves and the terms of the debt (Level 2), was $149.8 million.

7. Fair Value Measurement of Assets and Liabilities

The following assets and liabilities are recorded at fair value on a recurring basis (in millions):

Description	Recorded Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	As of September 30, 2012	Fair Value Measurements at Reporting Date Using:		
Assets				
Available-for-sale securities				
Corporate debt securities	$338.5	$—	$338.5	$—
U.S. government and agency debt securities	215.3	—	215.3	—
Foreign government debt securities	2.8	—	2.8	—
Commercial paper	139.7	—	139.7	—
Certificates of deposit	105.4	—	105.4	—
Total available-for-sale securities	801.7	—	801.7	—
Derivatives, current and long-term				
Foreign currency forward contracts and options	9.6	—	9.6	—
Interest rate swaps	35.6	—	35.6	—
	$846.9	$—	$846.9	$—
Liabilities				
Derivatives, current and long-term				
Foreign currency forward contracts and options	$ 24.4	$—	$ 24.4	$—

Description	As of December 31, 2011			
		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	$324.7	$—	$324.7	$—
U.S. government and agency debt securities	177.2	—	177.2	—
Municipal bonds	1.0	—	1.0	—
Foreign government debt securities	6.8	—	6.8	—
Commercial paper	74.5	—	74.5	—
Certificates of deposit	88.5	—	88.5	—
Total available-for-sale securities	672.7	—	672.7	—
Derivatives, current and long-term				
Foreign currency forward contracts and options	18.3	—	18.3	—
Interest rate swaps	27.8	—	27.8	—
	$718.8	$—	$718.8	$—
Liabilities				
Derivatives, current and long-term				
Foreign currency forward contracts and options	$ 25.2	$—	$ 25.2	$—
Cross -currency interest rate swaps	8.2	—	8.2	—
	$ 33.4	$—	$ 33.4	$—

We value our available-for-sale securities using a market approach based on broker prices for identical assets in over-the-counter markets and we perform ongoing assessments of counterparty credit risk.

We value our foreign currency forward contracts and foreign currency options using a market approach based on foreign currency exchange rates obtained from active markets and we perform ongoing assessments of counterparty credit risk.

We value our interest rate swaps using a market approach based on publicly available market yield curves and the terms of our swaps and we perform ongoing assessments of counterparty credit risk.

We valued our cross-currency interest rate swaps using a market approach based upon publicly available market yield curves, foreign currency exchange rates obtained from active markets and the terms of our swaps. We also performed ongoing assessments of counterparty credit risk.

8. Derivative Instruments and Hedging Activities

We are exposed to certain market risks relating to our ongoing business operations, including foreign currency exchange rate 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 risks that we manage through the use of derivative instruments are interest rate risk and foreign currency exchange rate risk.

Interest Rate Risk

Derivatives Designated as Fair Value Hedges

We use interest rate derivative instruments to manage our exposure to interest rate movements by converting fixed-rate debt into variable-rate debt. Under these agreements, we agree to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. The objective of the instruments is to more closely align interest expense with interest income received on cash and cash equivalents. These derivative instruments are designated as fair value hedges under GAAP. Changes in the fair value of the derivative instrument are recorded in current earnings and are offset by gains or losses on the underlying debt instrument.

We have multiple nine-year fixed-to-variable interest rate swap agreements with a total notional amount of $250 million. These interest rate swap agreements were designated as fair value hedges of the fixed interest rate obligation of our 2019 Notes. We receive a fixed interest rate of 4.625 percent and pay variable interest equal to the three-month LIBOR plus an average of 133 basis points on these interest rate swap agreements.

Foreign Currency Exchange Rate 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.

Derivatives Designated as Cash Flow Hedges

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 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 immediately reported in cost of products sold.

For forward contracts and options outstanding at September 30, 2012, 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 2012 through March 2014. As of September 30, 2012, the notional amounts of outstanding forward contracts and options entered into with third parties to purchase U.S. Dollars were $1,488.3 million. As of September 30, 2012, the notional amounts of outstanding forward contracts and options entered into with third parties to purchase Swiss Francs were $278.5 million.

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 $1.2 billion to $1.7 billion per quarter.

Foreign Currency Exchange and Interest Rate Risk

Derivatives Designated as Cash Flow Hedges

In 2011, our subsidiary in Japan, with a functional currency of Japanese Yen, borrowed variable-rate debt of $143.0 million denominated in U.S. Dollars under our previous credit facility. To manage the foreign currency exchange risk associated with remeasuring the debt to Japanese Yen and the interest rate risk associated with the variable-rate debt, we entered into multiple cross-currency interest rate swap agreements with a total notional amount of 11,798 million Japanese Yen. We designated these swaps as cash flow hedges of the foreign currency exchange and interest rate risks. The effective portion of changes in fair value of the cross-currency interest rate swaps was temporarily recorded in other comprehensive income and then recognized in interest expense when the hedged item affected net earnings. The cross-currency interest rate swap agreements matured in the first quarter of 2012 and we paid off the subsidiary's U.S. Dollar debt with Japanese Yen debt borrowed under our previous credit facility.

Income Statement Presentation

Derivatives Designated as Fair Value Hedges

Derivative instruments designated as fair value hedges had the following effects on our condensed consolidated statements of earnings (in millions):

		Gain on Instrument				Loss on Hedged Item			
		Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivative Instrument	Location on Statement of Earnings	2012	2011	2012	2011	2012	2011	2012	2011
Interest rate swaps	Interest expense	$2.7	$21.2	$7.8	$25.2	$(2.7)	$(21.2)	$(7.8)	$(25.2)

We had no ineffective fair value hedging instruments during the three or nine month periods ended September 30, 2012 and 2011.

Derivatives Designated as Cash Flow Hedges

Derivative instruments designated as cash flow hedges had the following effects, before taxes, on other comprehensive income (OCI) and net earnings on our condensed consolidated statements of earnings, condensed consolidated statements of comprehensive income and condensed consolidated balance sheets (in millions):

	Amount of Gain / (Loss) Recognized in OCI					Amount of Gain / (Loss) Reclassified from OCI			
	Three Months Ended September 30,		Nine Months Ended September 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
Derivative Instrument	2012	2011	2012	2011	Location on Statement of Earnings	2012	2011	2012	2011
Foreign exchange forward contracts	$(46.1)	$31.8	$(14.3)	$(42.3)	Cost of products sold	$(1.6)	$ (7.0)	$(9.4)	$(24.4)
Foreign exchange options	(0.3)	(2.2)	(1.4)	1.5	Cost of products sold	(0.3)	—	(0.4)	—
Cross-currency interest rate swaps	—	—	—	0.2	Interest expense	—	(7.9)	—	(11.4)
	$(46.4)	$29.6	$(15.7)	$(40.6)		$(1.9)	$(14.9)	$(9.8)	$(35.8)

The net amount recognized in earnings during the three and nine month periods ended September 30, 2012 and 2011 due to ineffectiveness and amounts excluded from the assessment of hedge effectiveness was not significant.

The fair value of outstanding derivative instruments designated as cash flow hedges and recorded on the balance sheet at September 30, 2012, together with settled derivatives where the hedged item has not yet affected earnings, was a net unrealized loss of $25.7 million, or $19.6 million after taxes, which is deferred in accumulated other comprehensive income. Of the net unrealized loss, $14.1 million, or $8.3 million after taxes, is expected to be reclassified to earnings over the next twelve months.

Derivatives Not Designated as Hedging Instruments

The following gains/(losses) from these derivative instruments were recognized on our condensed consolidated statements of earnings (in millions):

Derivative Instrument	Location on Statement of Earnings	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Foreign exchange forward contracts	Cost of products sold	$(9.8)	$9.7	$(1.2)	$(4.0)

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.

Balance Sheet Presentation

As of September 30, 2012 and December 31, 2011, all derivative instruments designated as fair value hedges and cash flow hedges are recorded at fair value on the balance sheet. On our condensed consolidated balance sheets, 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 is as follows (in millions):

	September 30, 2012		December 31, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Asset Derivatives				
Foreign exchange forward contracts	Other current assets	$20.6	Other current assets	$24.9
Foreign exchange options	Other current assets	0.6	Other current assets	1.4
Foreign exchange forward contracts	Other assets	8.1	Other assets	14.5
Foreign exchange options	Other assets	—	Other assets	1.0
Interest rate swaps	Other assets	35.6	Other assets	27.8
Total asset derivatives		$64.9		$69.6
Liability Derivatives				
Foreign exchange forward contracts	Other current liabilities	$31.1	Other current liabilities	$35.6
Cross -currency interest rate swaps	Other current liabilities	—	Other current liabilities	8.2
Foreign exchange forward contracts	Other long-term liabilities	13.0	Other long-term liabilities	13.1
Total liability derivatives		$44.1		$56.9

9. Income Taxes

We operate on a global basis and are subject to numerous and complex tax laws and regulations. Our income tax filings are regularly under audit in multiple federal, state and foreign jurisdictions. Income tax audits may require an extended period of time to reach resolution and may result in significant income tax adjustments when interpretation of tax laws or allocation of company profits is disputed. In the three and nine month periods ended September 30, 2011, we resolved tax matters in multiple jurisdictions resulting in a reduction in both the net amount of tax liability for unrecognized tax benefits and income tax expense. The net amount of tax liability for unrecognized tax benefits may change within 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. Currently, we cannot reasonably estimate the amount by which our unrecognized tax benefits will change.

During the second quarter of 2011, the IRS concluded their examination of our U.S. federal returns for years 2005 through 2007 and issued income tax assessments reallocating profits between certain of our U.S. and foreign subsidiaries. We believe that we have followed applicable U.S. tax laws and are vigorously defending our income tax positions. The ultimate resolution of this matter is uncertain and could have a material impact on our income tax expense, results of operations, and cash flows for future periods. Our U.S. federal returns for years 2008 and 2009 are currently under IRS examination.

In the three and nine month periods ended September 30, 2012, our effective tax rates were 24.3 percent and 25.3 percent, respectively. Our effective tax rates were lower than the U.S. statutory income tax rate of 35 percent primarily due to income earned in foreign locations with lower tax rates.

10. 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 foreign 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 our U.S. and foreign defined benefit retirement plans are as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Service cost	$ 6.2	$ 7.4	$ 19.1	$ 21.5
Interest cost	4.6	5.2	14.2	15.4
Expected return on plan assets	(8.2)	(8.1)	(24.7)	(23.9)
Settlement	—	—	0.7	—
Amortization of prior service cost	(1.3)	(0.3)	(2.7)	(0.7)
Amortization of unrecognized actuarial loss	3.2	1.9	9.9	5.6
Net periodic benefit cost	$ 4.5	$ 6.1	$ 16.5	$ 17.9

We contributed $52.5 million during the nine month period ended September 30, 2012 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 2012. We contributed $11.3 million to our foreign-based defined benefit plans in the nine month period ended September 30, 2012 and expect to contribute $3.8 million to these foreign-based plans during the remainder of 2012.

In March 2012, we amended our U.S. defined benefit pension plan which led us to remeasure our plan assets and obligations. Accordingly, the resulting remeasurement was reflected in our condensed consolidated statements of earnings, condensed consolidated statements of comprehensive income and condensed consolidated balance sheets.

11. 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,	
	2012	2011	2012	2011
Weighted average shares outstanding for basic net earnings per share	174.1	187.7	175.6	190.6
Effect of dilutive stock options and other equity awards	1.2	1.1	1.1	1.2
Weighted average shares outstanding for diluted net earnings per share	175.3	188.8	176.7	191.8

During the three and nine month periods ended September 30, 2012, an average of 11.9 million options and 12.3 million options, respectively, to purchase shares of common stock were not included in the computation of diluted earnings per share because 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, 2011, an average of 13.8 million options and 12.7 million options, respectively, were not included in the computation.

In the three month period ended September 30, 2012, we repurchased 1.5 million shares of our common stock at an average price of $62.61 per share for a total cash outlay of $97.6 million, including commissions. In the nine month period ended September 30, 2012, we repurchased 5.5 million shares of our common stock at an average price of $62.29 per share for a total cash outlay of $345.7 million, including commissions. As of September 30, 2012, approximately $1,154.3 million remained authorized under a $1.5 billion repurchase program, which will expire on December 31, 2014.

12. Segment Information

We design, develop, manufacture and market orthopaedic reconstructive implants, biologics, 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 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 U.S. 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 reportable segment performance based upon segment operating profit exclusive of operating expenses pertaining to share-based payment expense, inventory step-up, "Certain claims," goodwill impairment, "Special items," and global operations and corporate functions. Global operations and corporate functions include research, development engineering, medical education, brand management, corporate legal, finance, and human resource functions, U.S., Puerto Rico and Ireland-based manufacturing operations and logistics and intangible asset amortization resulting from business combination accounting. 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,	
	2012	2011	2012	2011
Americas	$ 583.5	$ 582.1	$ 291.0	$ 293.2
Europe	245.6	252.5	65.5	75.0
Asia Pacific	196.4	196.9	75.3	69.2
Total	$1,025.5	$1,031.5		
Share-based compensation			(13.9)	(14.4)
Inventory step-up			(0.5)	(1.8)
Special items			(36.9)	(8.0)
Global operations and corporate functions			(131.1)	(146.6)
Operating profit			$ 249.4	$ 266.6

	Net Sales		Operating Profit	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Americas	$1,832.2	$1,820.4	$ 927.8	$ 906.6
Europe	851.6	876.4	254.7	289.6
Asia Pacific	607.4	587.7	232.0	216.2
Total	$3,291.2	$3,284.5		
Share-based compensation			(41.7)	(46.1)
Inventory step-up			(2.5)	(9.6)
Certain claims			—	(50.0)
Special items			(101.1)	(47.0)
Global operations and corporate functions			(422.3)	(436.8)
Operating profit			$ 846.9	$ 822.9

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Reconstructive				
Knees	$ 407.4	$ 416.7	$1,338.7	$1,349.8
Hips	308.5	315.6	993.0	997.9
Extremities	39.7	36.0	127.0	119.6
	755.6	768.3	2,458.7	2,467.3
Dental	54.7	55.1	176.4	184.6
Trauma	74.5	69.3	223.9	208.5
Spine	49.8	55.2	155.4	168.5
Surgical and other	90.9	83.6	276.8	255.6
Total	$1,025.5	$1,031.5	$3,291.2	$3,284.5

13. Commitments and Contingencies

Other than as described below or in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2012 and June 30, 2012, there have been no significant developments relating to the information previously reported in Note 19 to our Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2011.

On a quarterly and annual basis, we review relevant information with respect to loss contingencies and update our accruals, disclosures and estimates of reasonably possible losses or ranges of loss based on such reviews. We establish liabilities for loss contingencies when a loss is known or considered probable and the amount of the loss can be reasonably estimated. For matters where a loss is believed to be reasonably possible, but not probable, no accrual has been made.

Litigation

Durom® Cup-related claims: On July 22, 2008, we temporarily suspended marketing and distribution of the *Durom* Acetabular Component (*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.

Since 2008, we have accrued estimated losses of $388.2 million for *Durom* Cup-related claims. With respect to the periods covered by this report, our estimate of our total liability for these claims as of September 30, 2012 remains consistent with our prior estimate, and, accordingly, we did not record any expense during the three and nine month periods ended September 30, 2012. During the three and nine month periods ended September 30, 2011, we recognized $1.2 million and $4.2 million, respectively, of expense in SG&A and $50.0 million of expense in "Certain claims" in the nine month period. Our estimate as of September 30, 2012 of the remaining liability for all *Durom* Cup-related claims is $229.7 million, of which $50.0 million is classified as short-term in "Other current liabilities" and $179.7 million is classified as long-term in "Other long-term liabilities" on our condensed consolidated balance sheet.

Our understanding of clinical outcomes with the *Durom* Cup continues to evolve. We rely on significant estimates in determining the provisions for *Durom* Cup-related claims, including the number of claims that we will receive and the average amount we will pay per claim. The actual number of claims that we receive and the amount we pay per claim may differ from our estimates. Among other factors, since our understanding of the clinical outcomes is still evolving, we cannot reasonably estimate the possible loss or range of loss that may result from *Durom* Cup-related claims in excess of the estimated losses we have accrued.

Margo and Daniel Polett v. Zimmer, Inc. et al.: On August 20, 2008, the Poletts filed an action against us and an unrelated third party, Public Communications, Inc. (PCI), in the Court of Common Pleas, Philadelphia, Pennsylvania seeking an unspecified amount of damages for injuries and loss of consortium allegedly suffered by Mrs. Polett and her spouse, respectively. The complaint alleged that defendants were negligent in connection with Mrs. Polett's participation in a promotional video featuring one of our knee products. The case was tried in November 2010 and the jury returned a verdict in favor of plaintiffs. The jury awarded $27.6 million in compensatory damages and apportioned fault 30 percent to plaintiffs, 34 percent to us and 36 percent to PCI. Under applicable law, we may be liable for any portion of the damages apportioned to PCI that it does not pay. On December 2, 2010, we and PCI filed a Motion for Post-Trial Relief seeking a judgment notwithstanding the verdict, a new trial or a remittitur. On June 10, 2011, the trial court entered an order denying our Motion for Post-Trial Relief and affirming the jury verdict in full and entered judgment for $20.3 million against us and PCI. On June 29, 2011, we filed a Notice of Appeal to the Superior Court of Pennsylvania and posted a bond for the verdict amount plus interest. Oral argument before the appellate court in Philadelphia, Pennsylvania was held on March 13, 2012. A ruling has not yet been issued. We have not accrued an estimated loss related to this matter. Although we believe we have strong grounds to reverse the jury's verdict, the ultimate resolution of this matter is uncertain. We could in the future be required to record a charge to our consolidated statement of earnings that could have a material adverse effect on our results of operations in any particular period.

NexGen® Knee System claims: Following a wide-spread advertising campaign conducted by certain law firms beginning in 2010, a number of product liability lawsuits have been filed against us in various jurisdictions. The majority of the cases are currently pending in a federal Multidistrict Litigation in the Northern District of

Illinois. Other cases are pending in other state and federal courts, and additional lawsuits may be filed. As of September 30, 2012, discovery in these lawsuits was underway and no trial dates had been set. We have not accrued an estimated loss relating to these lawsuits. Although we intend to vigorously defend these lawsuits, their ultimate resolution is uncertain.

Plumbers and Pipefitters Local Union 719 Pension Fund v. Zimmer Holdings, Inc., et al: In August 2008, a complaint was filed in the U.S. District Court for the Southern District of Indiana 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. In December 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 in February 2009. In December 2009, the District Court granted defendants' motion to dismiss, without prejudice. In January 2010, the plaintiff filed a motion for leave to amend the consolidated complaint. In January 2011, the District Court denied the plaintiff's motion for leave to amend the consolidated complaint and dismissed the case. In February 2011, the plaintiff filed a notice of appeal to the U.S. Court of Appeals for the Seventh Circuit. The appellate court heard oral argument in the appeal in October 2011. On May 21, 2012, the Seventh Circuit affirmed the District Court's dismissal of the case. The plaintiffs' deadline to challenge the Seventh Circuit's decision has passed, and the case is now closed.

Intellectual Property-Related Claims

Royalty arrangements: We are involved in certain ongoing contractual and other disputes pertaining to certain royalty arrangements. We intend to defend ourselves vigorously against these claims. These matters are in varying stages of dispute resolution processes. In the three month period ended September 30, 2012, we accrued losses related to one of these matters. With respect to the other matters, we cannot reasonably estimate the possible loss, if any, we may incur. An adverse result in any of these matters could have an adverse effect on our results of operations in any particular period.

Government Investigations

FCPA investigation: 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. In the course of continuing dialogues with the agencies, we have voluntarily disclosed information to the SEC and DOJ relating to sales of our products by independent distributors in two South American countries. In the first quarter of 2011, we received a subpoena from the SEC seeking documents and other records pertaining to our business activities in substantially all countries in the Asia Pacific region where we operate. We have been responding to the subpoena and reporting to the government concerning our reviews in certain countries in the Asia Pacific region. We cannot currently predict the outcome of this investigation. If the result of the investigation is that we are found to be in violation of the FCPA, we could face significant monetary penalties or be required to take other remedial actions.

Regulatory Matters

In September 2012, we received a warning letter from the U.S. Food and Drug Administration (FDA) citing concerns relating to certain manufacturing and validation processes pertaining to *Trilogy*® Acetabular System products manufactured at our Ponce, Puerto Rico manufacturing facility. We have provided detailed responses to the FDA as to our corrective actions and will continue to work expeditiously to address the issues identified by the FDA. Until the violations are corrected, we may be subject to additional regulatory action by the FDA, including seizure, injunction and/or civil monetary penalties. Additionally, requests for Certificates to Foreign Governments related to products manufactured at the Ponce facility may not be granted and premarket approval applications for Class III devices to which the Quality System regulation deviations are reasonably related will not be approved until the violations have been corrected.

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

The following discussion and analysis should be read in conjunction with the condensed consolidated financial statements and corresponding notes included elsewhere in this Form 10-Q. Certain percentages presented in this 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 2011 condensed consolidated financial statements have been reclassified to conform to the 2012 presentation.

Overview

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, 2012 and our expected results for the remainder of 2012.

Demand (Volume and Mix) Trends

Increased volume and changes in the mix of product sales contributed 5 percentage points of year-over-year sales growth during the three month period ended September 30, 2012, which is 2 percentage points better than the three month period ended September 30, 2011, and 1 percentage point better than the three month period ended June 30, 2012.

Consistent with our expectations, procedure volumes in the broader musculoskeletal market remained relatively stable in the third quarter of 2012 relative to the second quarter of 2012. We believe long-term indicators 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 *Prolong*® and *Vivacit-E*® Highly Crosslinked Polyethylene, *Trabecular Metal*™ Technology products, high-flex knees, porous hip stems and the introduction of patient specific devices, is expected to continue to positively affect sales growth.

Pricing Trends

Global selling prices had a negative effect of 2 percent on year-over-year sales growth during the three month period ended September 30, 2012, which is 1 percentage point worse than the three month period ended September 30, 2011, and consistent with the three month period ended June 30, 2012. We continue to see pricing pressure from governmental healthcare cost containment efforts and from local hospitals and health systems. Selling prices in the Americas and Asia Pacific had a negative effect of 3 percent on sales growth in those operating segments during the three month period ended September 30, 2012. Europe selling prices had a negative effect of 1 percent on sales growth in that operating segment during the three month period ended September 30, 2012. In addition, effective April 2012, a biennial price adjustment went into effect in Japan which will negatively affect pricing for the remainder of the year. The Japan downward price adjustment was greater than we had anticipated coming into the year. We estimate for the year that selling prices will continue to have a negative effect of approximately 2 percent.

Foreign Currency Exchange Rates

For the three month period ended September 30, 2012, foreign currency exchange rates resulted in a 4 percent decline in sales. If foreign currency exchange rates remain consistent with September 30, 2012 rates, we estimate that a stronger U.S. dollar versus foreign currency exchange rates will have a negative effect in 2012 of approximately 2 percent on sales. We address currency risk through regular operating and financing activities and through the use of forward contracts and foreign currency options solely to manage foreign currency volatility and risk. Changes to foreign currency exchange rates affect sales growth, but due to offsetting gains/losses on hedge contracts and options, which are recorded in cost of products sold, the effect on net earnings in the near term is expected to be minimal.

2012 Outlook

We estimate our sales will be flat in 2012 compared to 2011. This assumes knee and hip procedures will grow in low single digits with modest global economic growth and relatively stable employment. As discussed previously, we expect pricing to have a negative effect on sales growth of approximately 2 percent, and foreign currency exchange rates to have a negative effect on sales growth of 2 percent based upon September 30, 2012 rates.

Assuming currency rates remain at September 30, 2012 levels, we expect our gross margin to be approximately 75 percent of sales in 2012. This takes into account the cost pressures we have experienced from lower than planned manufacturing volumes, as well as anticipated losses from foreign currency hedges. However, if currency rates remain at September 30, 2012 levels, the hedge losses we recognize in 2012 will be less than the hedge losses recognized in 2011. We expect to continue making investments in research and development (R&D) in the range of 5 to 6 percent of sales. For the full year, selling, general and administrative expense (SG&A) as a percent of sales is expected to be approximately 40 percent as we realize operational efficiencies from global restructuring and operational excellence initiatives and further leverage revenue growth.

We expect to incur approximately $125 million of expenses in 2012 related to certain restructuring and operational excellence initiatives. The programs are targeted at streamlining the organization and business processes. They are expected to be mostly completed in 2012. We also expect to incur approximately $10 million for certain acquisition, integration and other costs. We expect to recognize the majority of these $135 million of expenses in "Special items" on our statement of earnings. The gross margin and SG&A percentages discussed above do not include these expenses.

Assuming variable rates remain at September 30, 2012 levels, we expect interest expense, net of interest income, to be approximately $60 million in 2012, which is higher than 2011 primarily due to the $550 million offering of senior notes we completed in November 2011.

THIRD QUARTER RESULTS OF OPERATIONS

Net Sales by Operating Segment

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

	Three Months Ended September 30,					
	2012	2011	% Inc (Dec)	Volume/ Mix	Price	Foreign Exchange
Americas	$ 583.5	$ 582.1	—%	3%	(3)%	—%
Europe	245.6	252.5	(3)	9	(1)	(11)
Asia Pacific	196.4	196.9	—	5	(3)	(2)
Total	$1,025.5	$1,031.5	(1)	5	(2)	(4)

	Nine Months Ended September 30,					
	2012	2011	% Inc (Dec)	Volume/ Mix	Price	Foreign Exchange
Americas	$1,832.2	$1,820.4	1%	4%	(3)%	—%
Europe	851.6	876.4	(3)	6	(1)	(8)
Asia Pacific	607.4	587.7	3	5	(2)	—
Total	$3,291.2	$3,284.5	—	4	(2)	(2)

"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 table presents net sales by product category and the components of the percentage changes (dollars in millions):

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	% Inc (Dec)	Volume/ Mix	Price	Foreign Exchange
Reconstructive						
Knees	$ 407.4	$ 416.7	(2)%	4%	(3)%	(3)%
Hips	308.5	315.6	(2)	5	(3)	(4)
Extremities	39.7	36.0	10	13	(1)	(2)
	755.6	768.3	(2)	5	(3)	(4)
Dental	54.7	55.1	(1)	—	3	(4)
Trauma	74.5	69.3	8	12	(1)	(3)
Spine	49.8	55.2	(10)	(3)	(4)	(3)
Surgical and other	90.9	83.6	9	11	—	(2)
Total	$1,025.5	$1,031.5	(1)	5	(2)	(4)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011	% Inc (Dec)	Volume/ Mix	Price	Foreign Exchange
Reconstructive						
Knees	$1,338.7	$1,349.8	(1)%	4%	(3)%	(2)%
Hips	993.0	997.9	—	5	(3)	(2)
Extremities	127.0	119.6	6	9	(1)	(2)
	2,458.7	2,467.3	—	5	(3)	(2)
Dental	176.4	184.6	(4)	(3)	1	(2)
Trauma	223.9	208.5	7	10	(1)	(2)
Spine	155.4	168.5	(8)	(2)	(4)	(2)
Surgical and other	276.8	255.6	8	9	—	(1)
Total	$3,291.2	$3,284.5	—	4	(2)	(2)

The following table presents net sales by product category by region (dollars in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	% Inc (Dec)	2012	2011	% Inc (Dec)
Reconstructive						
Knees						
Americas	$ 243.7	$ 252.7	(4)%	$ 786.8	$ 797.0	(1)%
Europe	88.4	89.9	(2)	323.4	335.0	(3)
Asia Pacific	75.3	74.1	2	228.5	217.8	5
Hips						
Americas	145.4	142.2	2	451.1	448.2	1
Europe	95.7	103.5	(8)	325.6	339.5	(4)
Asia Pacific	67.4	69.9	(4)	216.3	210.2	3
Extremities						
Americas	30.6	27.5	11	98.1	91.8	7
Europe	6.5	6.0	9	21.1	19.7	7
Asia Pacific	2.6	2.5	2	7.8	8.1	(4)
	755.6	768.3	(2)	2,458.7	2,467.3	—
Dental						
Americas	33.6	32.8	3	103.7	101.1	3
Europe	15.9	15.8	1	57.1	61.5	(7)
Asia Pacific	5.2	6.5	(19)	15.6	22.0	(29)
Trauma						
Americas	39.0	36.6	7	113.7	108.7	5
Europe	16.3	14.6	12	49.3	44.6	11
Asia Pacific	19.2	18.1	6	60.9	55.2	10
Spine						
Americas	33.7	37.6	(10)	105.7	113.7	(7)
Europe	10.5	11.8	(11)	35.6	40.0	(11)
Asia Pacific	5.6	5.8	(3)	14.1	14.8	(4)
Surgical and other						
Americas	57.5	52.7	9	173.1	159.9	8
Europe	12.3	10.9	12	39.5	36.1	9
Asia Pacific	21.1	20.0	5	64.2	59.6	8
Total	$1,025.5	$1,031.5	(1)	$3,291.2	$3,284.5	—

Sales Overview

Our international segments continued to deliver solid sales results in the third quarter, despite the impact of the biennial price reductions in Japan, which became effective in April 2012. However, our Americas performance still fell short of our goal of growing all three of our geographic segments at or above market rates. Our ongoing commercial excellence efforts, however, are focused on improving the performance of certain territories in the U.S. to the level of the many other territories that continue to perform well and are growing above market. These efforts, coupled with the strength of our current and upcoming new product introductions, give us confidence that we will accelerate our Americas revenue growth rate in the coming quarters.

Knees

Knee sales declined by 2 percent and 1 percent in the three and nine month periods ended September 30, 2012, respectively, when compared to the same prior year periods. Changes in foreign currency exchange rates negatively affected knee sales in the three and nine month periods ended September 30, 2012 by 3 percent and 2 percent, respectively. Volume/mix growth continued to be stable with prior quarters while pricing pressure remains.

The *NexGen*® Complete Knee Solution product line, including *Gender Solutions*® Knee Femoral Implants, the *NexGen* LPS-Flex Knee and the *NexGen* CR-Flex Knee, led knee sales. In addition, sales of our knee revision systems and *Zimmer*® Patient Specific Instruments exhibited growth. In Europe, changes in foreign currency exchange rates negatively affected knee sales in the three and nine month periods ended September 30, 2012 by 11 percent and 7 percent, respectively. In Asia Pacific, changes in foreign currency exchange rates negatively affected knee sales in the three and nine month periods ended September 30, 2012 by 2 percent and 1 percent, respectively.

Hips

Hip sales declined by 2 percent in the three month period and were flat in the nine month period ended September 30, 2012, when compared to the same prior year periods. Changes in foreign currency exchange rates negatively affected hip sales in the three and nine month periods ended September 30, 2012 by 4 percent and 2 percent, respectively. Sales were driven primarily by the *Zimmer*® M/L Taper Stem and the *Zimmer* M/L Taper Stem with *Kinectiv* Technology, and our *Continuum*® Acetabular System, *Trilogy*® IT Acetabular System and *Allofit*® IT *Alloclassic*® Acetabular System.

Also leading hip stem sales were the *CLS*® *Spotorno*® Stem from the *CLS* Hip System and the *Alloclassic Zweymüller*® Hip Stem. In addition, sales of 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, *Fitmore*® Hip Stems and *Vivacit-E*® Highly Crosslinked Polyethylene Liners. In Europe, changes in foreign currency exchange rates negatively affected hip sales in the three and nine month periods ended September 30, 2012 by 11 percent and 8 percent, respectively. In Asia Pacific, changes in foreign currency exchange rates affected hip sales in the three and nine month periods ended September 30, 2012 by negative 2 percent and positive 1 percent, respectively.

Extremities

Extremities sales increased by 10 percent and 6 percent in the three and nine month periods ended September 30, 2012, respectively, when compared to the same prior year periods. The *Zimmer Trabecular Metal* Reverse Shoulder System led extremities sales. Reverse shoulder procedures continue to gain popularity as a solution for patients with rotator cuff damage.

Dental

Dental sales declined by 1 percent and 4 percent in the three and nine month periods ended September 30, 2012, respectively, when compared to the same prior year periods. While Americas sales increased 3 percent in both periods, the overall performance of our dental franchise was impacted by several factors, including softening in certain international markets and timing of inventory purchases at our stocking distributors. Americas sales growth in the three month period ended September 30, 2012 was aided by the acquisition of a small Brazilian dental company. Sales were led by the *Tapered Screw-Vent*® Implant System. In addition, sales of our recently released *Zimmer Trabecular Metal* Dental implant positively affected sales.

Trauma

Trauma sales increased 8 percent and 7 percent in the three and nine month periods ended September 30, 2012, respectively, when compared to the same prior year periods. The *Zimmer Natural Nail*® System continued to increase sales significantly. In addition to the *Zimmer Natural Nail* System, the *Zimmer*® Periarticular Locking Plates System led trauma sales, while sales of the *Zimmer*® Universal Locking System also made a strong contribution.

Spine

Spine sales decreased 10 percent and 8 percent in the three and nine month periods ended September 30, 2012, respectively, when compared to the same prior year periods. Each of our geographic segments experienced

[1] Registered trademark of CeramTec GmbH

sales declines. This product category continues to face challenges related to utilization, pricing pressure and payor approvals. Solid sales of the *PathFinder NXT*® and *Sequoia*® Pedicle Screw Systems and *Trabecular Metal* Technology products partly offset a decline in sales of the *Dynesys*® Dynamic Stabilization System and other products.

Surgical and other

Surgical and other sales increased 9 percent and 8 percent in the three and nine month periods ended September 30, 2012, respectively, when compared to the same prior year periods. Surgical and other sales were led by *PALACOS*®[2] Bone Cement and tourniquet products. Our wound debridement products, powered instruments and *DeNovo*® NT Natural Tissue Graft also made a strong contribution to sales results, as did our January 2012 acquisition of Synvasive Technology, Inc. (Synvasive). The Synvasive acquisition enhanced our product portfolio through the addition of the *STABLECUT*® surgical saw blades, as well as the *eLIBRA*® Dynamic Knee Balancing System™ for soft tissue balancing.

Expenses as a Percent of Net Sales

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Inc (Dec)	2012	2011	Inc (Dec)
Cost of products sold	24.9%	24.4%	0.5	25.1%	24.9%	0.2
Research and development	5.2	5.9	(0.7)	5.2	5.3	(0.1)
Selling, general and administrative	41.9	43.0	(1.1)	40.9	41.8	(0.9)
Certain claims	—	—	0.0	—	1.5	(1.5)
Special items	3.6	0.8	2.8	3.1	1.4	1.7
Operating profit	24.3	25.8	(1.5)	25.7	25.1	0.6

Cost of Products Sold

The increase in cost of products sold as a percentage of net sales for the three month period ended September 30, 2012 compared to the same prior year period is primarily due to lower average selling prices and higher excess and obsolete inventory charges. These were partially offset by lower foreign currency hedge losses recorded in the current year period. Under our hedging program, the effective portion of derivatives that qualify as hedges of future cash flows is temporarily recorded in other comprehensive income and then recognized in cost of products sold when the hedged item affects earnings.

The nine month period ended September 30, 2012 experienced similar year-over-year trends as the three month period discussed above.

Operating Expenses

R&D expenses and R&D as a percent of sales have decreased when compared to the same prior year periods. R&D spending benefitted from operational efficiencies, as well as a natural decline related to certain large projects that are approaching full commercialization, including *Persona*™, The Personalized Knee System, and the *Trabecular Metal* Total Ankle. We expect R&D spending in 2012 to be between 5 and 6 percent of sales for the full year.

SG&A has decreased in dollar terms and as a percent of sales when compared to the same prior year periods. SG&A as a percent of sales has decreased 110 basis points relative to the same prior year period, reflecting disciplined discretionary spending and the effect of our operational excellence initiatives, which have lowered expenses such as salaries, wages and benefits.

In the nine month period ended September 30, 2012, SG&A in dollar terms decreased due to lower advertising and product liability costs. Such lower expenses were partially offset by increased bad debt and

[2] Registered trademark of Heraeus Kulzer GmbH

intangible amortization expenses as well as increased legal costs. SG&A as a percent of sales has decreased 90 basis points relative to the same prior year period, reflecting disciplined discretionary spending and the effect of our operational excellence initiatives.

"Certain claims" expense is a provision for estimated liabilities to *Durom* Cup patients undergoing revision surgeries. A provision of $50.0 million was recorded during the three month period ended June 30, 2011. For more information regarding these claims, see Note 13 to the condensed consolidated financial statements.

"Special items" for the three and nine month periods ended September 30, 2012 increased from the same prior year periods. We continue to implement our operational excellence programs and have incurred costs related to consulting and professional fees and dedicated personnel costs for those programs, as well as other costs. Additionally, severance costs were recognized as we announced our plans to transition our Warsaw, Indiana distribution center to an outsourced partner at a national transportation hub, among other organizational changes. We also recognized charges related to certain litigation matters.

"Special items" in 2011 was largely composed of employee severance and termination-related expenses resulting from a reduction in management layers, expansion of management spans of control, and changes in our organizational structure. "Special items" also included expenses relating to integration of business acquisitions and fixed asset impairments. See Note 2 to the condensed consolidated financial statements for more information regarding "Special items" charges.

Interest Income, Interest Expense, Income Taxes and Net Earnings

Interest expense for the three and nine month periods ended September 30, 2012 increased primarily due to the $550 million offering of senior notes we completed in November 2011. Interest income has increased due to higher balances of cash and cash equivalents and short-term and long-term investments upon which interest income is being earned.

The effective tax rate on earnings before income taxes decreased to 24.3 percent in the three month period ended September 30, 2012, compared to 25.0 percent in the same prior year period and increased to 25.3 percent in the nine month period ended September 30, 2012, compared to 23.6 percent in the same prior year period. When comparing the three month period change, the mix of earnings by jurisdiction, especially as it relates to jurisdictions where "Special items" were incurred, lowered the rate. In the nine month period change, the effective tax rate in 2011 was positively affected by the favorable resolution of certain tax matters and the tax effect of the "Certain claims" provision. Without such favorable effects in 2012, the rate has increased due to the mix of earnings by jurisdiction. We anticipate that the outcome of various federal, state and foreign audits as well as the expiration of certain statutes of limitations could potentially impact our effective tax rate in future quarters. Currently, we cannot reasonably estimate the impact of these items on our financial results.

Net earnings of Zimmer Holdings, Inc. decreased 7 percent to $178.1 million for the three month period ended September 30, 2012, compared to $191.5 million in the same prior year period. Net earnings slightly decreased to $602.2 million for the nine month period ended September 30, 2012, compared to $604.2 million in the same prior year period. The declines in net earnings were due to the changes in revenues and expenses discussed above. For the three month period ended September 30, 2012, basic earnings per share were flat and diluted earnings per share increased 1 percent compared to the same prior year period. For the nine month period ended September 30, 2012, basic and diluted earnings per share both increased 8 percent compared to the same prior year period. The disproportional change in earnings per share as compared with net earnings is attributed to the effect of 2012 and 2011 share repurchases.

Non-GAAP operating performance measures

We use non-GAAP financial measures to evaluate our operating performance that differ from financial measures determined in accordance with GAAP. Our non-GAAP financial measures exclude the impact of inventory step-up charges, "Certain claims", "Special items," and the taxes on those items and other certain tax adjustments. We use this information internally and believe it is helpful to investors because it allows more meaningful period-to-period comparisons of our ongoing operating results, it helps to perform trend analysis and to better identify operating trends that may otherwise be masked or distorted by these types of items, and it provides a higher degree of transparency of certain items. Certain of these non-GAAP financial measures are used as metrics for our incentive compensation programs.

Our non-GAAP adjusted net earnings for the three and nine month periods ended September 30, 2012 were $202.1 million and $669.0 million, respectively, compared to $197.2 million and $660.6 million in the same prior year periods, respectively. Our non-GAAP adjusted diluted earnings per share for the three and nine month periods ended September 30, 2012 were $1.15 and $3.79, respectively, compared to $1.04 and $3.44 in the same prior year periods, respectively.

The following are reconciliations from our GAAP net earnings and diluted earnings per share to our non-GAAP adjusted net earnings and non-GAAP adjusted diluted earnings per share.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2012**	**2011**	**2012**	**2011**
Net Earnings of Zimmer Holdings, Inc.	$178.1	$191.5	$602.2	$604.2
Inventory step-up	0.5	1.8	2.5	9.6
Certain claims	—	—	—	50.0
Special items	36.9	8.0	101.1	47.0
Taxes on inventory step-up, certain claims and special items and tax adjustments related to resolution of certain tax matters*	(13.4)	(4.1)	(36.8)	(50.2)
Adjusted Net Earnings	$202.1	$197.2	$669.0	$660.6

* The tax effect is calculated based upon the statutory rates for the jurisdictions where the items were incurred.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Diluted EPS	$ 1.02	$ 1.01	$ 3.41	$ 3.15
Inventory step-up	—	0.01	0.01	0.05
Certain claims	—	—	—	0.26
Special items	0.21	0.04	0.58	0.24
Taxes on inventory step-up, certain claims and special items and tax adjustments related to resolution of certain tax matters*	(0.08)	(0.02)	(0.21)	(0.26)
Adjusted Diluted EPS	$ 1.15	$ 1.04	$ 3.79	$ 3.44

* The tax effect is calculated based upon the statutory rates for the jurisdictions where the items were incurred.

Healthcare Reform in the U.S.

We continue to assess the impact that federal healthcare reform will have on our business. Federal healthcare reform includes a 2.3 percent excise tax on a majority of our U.S. sales that is scheduled to be implemented in 2013. Pursuant to the tax regulations, the excise tax is imposed on the first sale in the U.S. by the manufacturer, producer or importer of a medical device to either a third party or an affiliated distribution entity. We distribute a majority of our musculoskeletal products through an affiliated distribution entity. Under U.S. GAAP, excise taxes incurred to get inventory to its current location can be included in the cost of the inventory. Accordingly, a majority of the excise tax will be capitalized in inventory and the expense will be deferred until that inventory is sold on a first-in-first-out basis. Therefore, while we will start paying the tax in January 2013, it won’t significantly increase our cost of products sold expense in our consolidated statement of earnings until later in the year.

We do not expect to be able to offset the full impact of the tax on net earnings through higher pricing on our products or through higher sales volumes resulting from the expansion of health insurance coverage. However, we do expect to offset the tax with cost savings from our operational excellence initiatives.

Liquidity and Capital Resources

Cash flows provided by operating activities were $783.9 million for the nine month period ended September 30, 2012, compared to $783.8 million in the same prior year period. The principal source of cash from operating activities was net earnings. Non-cash items included in net earnings accounted for another $317.1 million of operating cash. All other items of operating cash flows reflect a use of $133.8 million of cash, compared to a use of $141.4 million in the same 2011 period. Favorable operating cash flows in the 2012 period included the timing of tax payments and trade accounts payable, which were offset by increased product liability payments.

At September 30, 2012, we had 72 days of sales outstanding in trade accounts receivable, which is the same as June 30, 2012 and an increase of 1 day compared to September 30, 2011. Over the past few years, our days of sales outstanding have increased due to the economic environment in our Europe operating segment, but now appear to be stabilizing. At September 30, 2012, we had 350 days of inventory on hand, which is an increase of 44 days compared to June 30, 2012 and an increase of 2 days from September 30, 2011. The third quarter increase over the second quarter reflects the pattern of seasonality in our reconstructive business.

Cash flows used in investing activities were $367.5 million for the nine month period ended September 30, 2012, compared to $411.1 million in the same prior year period. Additions to instruments decreased in the 2012 period compared to the 2011 period as the 2011 period reflected purchases for significant product launches, such as our *Continuum* Acetabular System. Spending on other property, plant and equipment has increased slightly in the 2012 period relative to the 2011 period, reflecting cash outlays necessary to complete new product-related investments and replace older machinery and equipment. We invest some of our cash and cash equivalents in highly-rated debt securities. The purchases and any sales or maturities of these investments are reflected as cash flows from investing activities. The timing of these investments can vary from quarter to quarter depending on the maturity of the debt securities and other cash and cash equivalent needs. Investments in other assets increased in the 2012 period compared to the 2011 period primarily related to the acquisition of Synvasive and other smaller acquisitions.

Cash flows used in financing activities were $378.4 million for the nine month period ended September 30, 2012, compared to $493.3 million in the same 2011 period. In the 2012 period, we returned cash to stockholders in the form of cash dividends of $63.2 million and share repurchases of $345.7 million as compared to share repurchases of $906.5 million in the 2011 period. In the 2011 period, we borrowed against our senior unsecured credit facility to help fund some of those repurchases.

In August 2012, our Board of Directors declared a dividend of $0.18 per share, resulting in $31.2 million to be paid in October 2012. We expect to continue paying cash dividends on a quarterly basis; however, future dividends are subject to approval of the Board of Directors and may be adjusted for reasons the Board deems appropriate, such as changes in market conditions or business needs.

We have four tranches of senior notes outstanding: $250 million aggregate principal amount of 1.4 percent notes due November 30, 2014, $500 million aggregate principal amount of 4.625 percent notes due November 30, 2019, $300 million aggregate principal amount of 3.375 percent notes due November 30, 2021 and $500 million aggregate principal amount of 5.75 percent notes due November 30, 2039. Interest on each series 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 a redemption price equal to the greater of 1) 100 percent of the principal amount of the notes being redeemed; or 2) the sum of the present values of the remaining scheduled payments of principal and interest (not including any portion of such payments of interest accrued as of the date of redemption), discounted to the date of redemption on a semi-annual basis at the Treasury Rate (as defined in the debt agreement), plus 15 basis points in the case of the 2014 notes, 20 basis points in the case of the 2019 and 2021 notes, and 25 basis points in the case of the 2039 notes. We will also pay the accrued and unpaid interest on the senior notes to the redemption date.

In May 2012 we entered into a new five year $1,350 million revolving, multi-currency, Senior Credit Facility maturing May 9, 2017. The Senior Credit Facility replaced a previous credit facility with similar terms that was due to mature on November 30, 2012. For more information on the Senior Credit Facility, the agreement can be found as an exhibit to our June 30, 2012 Form 10-Q.

Borrowings of 11.7 billion Japanese Yen outstanding under the previous credit facility were converted to the Senior Credit Facility. On May 24, 2012, we refinanced these borrowings by entering into a separate Term Loan agreement with one of the lenders under the Senior Credit Facility for 11.7 billion Japanese Yen and we repaid the outstanding borrowings under the Senior Credit Facility. As of September 30, 2012, there were no outstanding borrowings under the Senior Credit Facility.

The Term Loan will mature on May 31, 2016. Borrowings under the Term Loan bear interest at a fixed rate of 0.61 percent per annum until maturity. For more information on the Term Loan, the agreement can be found as an exhibit to our June 30, 2012 Form 10-Q.

We also have available uncommitted credit facilities totaling $79.5 million.

We place our cash and cash equivalents 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.

As of September 30, 2012, we had short-term and long-term investments in debt securities with a fair value of $801.7 million. These investments are in debt securities of many different issuers and therefore we have no significant concentration of risk with a single issuer. All of these debt securities remain highly-rated and therefore we believe the risk of default by the issuers is low.

As of September 30, 2012, $1,490.1 million of our cash and cash equivalents and short-term and long-term investments are held in jurisdictions outside of the U.S. and are expected to be indefinitely reinvested for continued use in foreign operations. Repatriation of these assets to the U.S. would have negative tax consequences. Approximately $1,309.8 million of this amount is denominated in U.S. Dollars and therefore bears no foreign currency translation risk. The balance of these assets is denominated in currencies of the various countries where we operate.

Our concentrations of credit risks with respect to trade accounts receivable is limited due to the large number of customers and their dispersion across a number of geographic areas and by frequent monitoring of the creditworthiness of the customers to whom credit is granted in the normal course of business. Substantially all of our trade receivables are concentrated in the public and private hospital and healthcare industry in the U.S. and internationally or with distributors or dealers who operate in international markets and, accordingly, are exposed to their respective business, economic and country specific variables.

Our ability to collect accounts receivable in some countries depends in part upon the financial stability of these hospital and healthcare sectors and the respective countries' national economic and healthcare systems. Most notably, in Europe healthcare is typically sponsored by the government. Since we sell products to public hospitals in those countries, we are indirectly exposed to government budget constraints. The ongoing financial crisis in the Euro zone impacts the indirect credit exposure we have to those governments through their public hospitals. We have experienced an increasing number of days sales outstanding in some European countries. As of September 30, 2012, in Greece, Italy, Portugal and Spain, countries that have been widely recognized as presenting the highest risk, our gross short-term and long-term trade accounts receivable combined were $206.6 million. With allowances for doubtful accounts of $10.1 million recorded in those countries, the net balance was $196.5 million, representing 24 percent of our total consolidated short-term and long-term trade accounts receivable balance, net. Italy and Spain account for $186.5 million of that net amount. We are actively monitoring the situations in these countries. We maintain contact with these customers on a regular basis. We continue to receive payments, albeit at a slower rate than in the past. We believe our allowance for doubtful accounts is adequate in these countries, as ultimately we believe the governments in these countries will be able to pay. As evidence of this, in Spain we received significant payments in the quarter ended September 30, 2012, to settle certain past due accounts receivable. To the extent the respective governments' ability to fund their public hospital programs deteriorates, we may have to record significant bad debt expenses in the future.

We may use excess cash to repurchase additional common stock under our share repurchase program. As of September 30, 2012, approximately $1,154.3 million remained authorized under a $1.5 billion repurchase program, which will expire on December 31, 2014.

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, as well as return cash to stockholders in the form of dividends and share repurchases. 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

See Note 2 to our condensed consolidated financial statements included in Part I, Item 1 of this report for a discussion of the effect of recent accounting pronouncements on our financial position, results of operations and cash flows.

Critical Accounting Estimates

There were no changes in the nine month period ended September 30, 2012 to the application of critical accounting policies as described in our Annual Report on Form 10-K for the year ended December 31, 2011. As discussed in the prior year Annual Report on Form 10-K, our annual impairment test of goodwill occurs in the fourth quarter every year. In 2011, the estimated fair value of our U.S. Spine reporting unit did not substantially exceed its carrying value. We have other reporting units with goodwill assigned to them. As of the annual impairment test in 2011, the estimated fair values for those reporting units substantially exceeded their carrying values.

Forward-Looking Statements

This quarterly report contains certain statements that are forward-looking statements within the meaning of federal securities laws. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. When used in this report, the words “may,” “will,” “should,” “would,” “could,” “anticipate,” “expect,” “plan,” “seek,” “believe,” “predict,” “estimate,” “potential,” “project,” “target,” “forecast,” “intend,” “strategy,” “future,” “opportunity,” “assume,” “guide” and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that could cause actual results to differ materially from such forward-looking statements. These risks and uncertainties include, but are not limited to:

- the outcome of the investigation by the U.S. government into Foreign Corrupt Practices Act matters announced in October 2007;
- competition;
- pricing pressures;
- the impact of the federal healthcare reform legislation, including the impact of the new excise tax on medical devices;
- reductions in reimbursement levels by third-party payors and cost containment efforts of healthcare purchasing organizations;
- challenges relating to changes in and compliance with governmental laws and regulations affecting our U.S. and international businesses, including regulations of the FDA and foreign government regulators, such as more stringent requirements for regulatory clearance of our products;
- our ability to remediate matters identified in any inspectional observations or warning letters issued by the FDA;
- the success of our quality and operational excellence initiatives;
- changes in tax obligations arising from tax reform measures or examinations by tax authorities;
- changes in general domestic and international economic conditions, including interest rate and currency exchange rate fluctuations;
- changes in general industry and market conditions, including domestic and international growth rates;

- changes in customer demand for our products and services caused by demographic changes or other factors;
- dependence on new product development, technological advances and innovation;
- product liability claims;
- our ability to protect proprietary technology and other intellectual property and claims for infringement of the intellectual property rights of third parties;
- retention of our independent agents and distributors;
- our dependence on a limited number of suppliers for key raw materials and outsourced activities;
- the possible disruptive effect of additional strategic acquisitions and our ability to successfully integrate acquired companies;
- our ability to form and implement strategic alliances;
- the impact of the ongoing financial crisis on countries in the Euro zone on our ability to collect accounts receivable in affected countries;
- changes in prices of raw materials and products and our ability to control costs and expenses; and
- shifts in our product category sales mix or our regional sales mix away from products or geographic regions that generate higher operating margins.

Our Annual Report on Form 10-K for the year ended December 31, 2011 and subsequent Quarterly Reports on Form 10-Q contain discussions of these and other important factors under the heading "Risk Factors" in those reports. You should understand that it is not possible to predict or identify all factors that could cause actual results to differ materially from forward-looking statements. Consequently, you should not consider any list or discussion of such factors to be a complete set of all potential risks or uncertainties.

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 expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-Q, 8-K and 10-K 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, 2011.

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 (Exchange Act)) that are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Because of inherent limitations, disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of disclosure controls and procedures are met.

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. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting

During the quarter ended September 30, 2012, we continued transitioning work to a third-party service provider to outsource certain finance functions that historically have been performed in multiple countries throughout Europe and in the U.S. We also continued centralizing other finance functions that historically have been performed in a decentralized manner. This outsourcing and centralization are part of our ongoing operational excellence initiatives, and we plan to continue transitioning work to the service provider and the centralized finance departments over the course of 2012.

In connection with the outsourcing and centralization of finance functions and the resulting business process changes, we continue to enhance the design and documentation of our internal control processes to ensure suitable controls over our financial reporting. There were no other changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the quarter ended September 30, 2012 that have materially affected, or are 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 13 to the interim condensed consolidated financial statements included in Part I, Item 1 of this report.

Item 1A. *Risk Factors*

Except as set forth below and in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2012 and June 30, 2012, 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, 2011.

The risk factor entitled "If we fail to comply with the terms of the Corporate Integrity Agreement we entered into in September 2007, we may be subject to exclusion from federal healthcare programs" is deleted.

The risk factor entitled "We and our customers are subject to various governmental regulations relating to the manufacturing, labeling and marketing of our products, and we may incur significant expenses to comply with these regulations and develop products compatible with these regulations" is revised as follows:

We are subject to various governmental regulations relating to the manufacturing, labeling and marketing of our products, non-compliance with which could adversely affect our business, financial condition and results of operations.

The medical devices we design, develop, manufacture and market are subject to rigorous regulation by the FDA and numerous other federal, state and foreign governmental authorities. The process of obtaining regulatory approvals to market a medical device can be costly and time consuming and approvals might not be granted for future products on a timely basis, if at all. Delays in receipt of, or failure to obtain, approvals for future products could result in delayed realization of product revenues or in substantial additional costs.

In addition, if we fail to comply with applicable material regulatory requirements, including, for example, the Quality System regulation, recordkeeping regulations, labeling and promotional requirements and adverse event reporting regulations, we may be subject to a range of sanctions including:

- warning letters;
- fines or civil penalties;
- injunctions;
- repairs, replacements or refunds;
- recalls or seizures of products;
- total or partial suspension of production;
- the FDA's refusal to grant future premarket clearances or approvals;
- withdrawals or suspensions of current product applications; and
- criminal prosecution.

In September 2012, we received a warning letter from the FDA citing concerns relating to certain manufacturing and validation processes pertaining to *Trilogy®* Acetabular System products manufactured at our Ponce, Puerto Rico manufacturing facility. We have provided detailed responses to the FDA as to our corrective actions and will continue to work expeditiously to address the issues identified by the FDA. Until the violations are corrected, we may be subject to additional regulatory action by the FDA, including seizure, injunction and/or civil monetary penalties. Additionally, requests for Certificates to Foreign Governments related to products manufactured at the Ponce facility may not be granted and premarket approval applications for Class III devices to which the Quality System regulation deviations are reasonably related will not be approved until the violations have been corrected.

Our products and operations are also often subject to the rules of industrial standards bodies, such as the International Standards Organization. If we fail to adequately address any of these regulations, our business could be harmed.

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, 2012:

	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 2012	—	$ —	81,927,408	$1,251,910,218
August 2012	674,300	59.28	82,601,708	1,211,940,436
September 2012	884,000	65.16	83,485,708	1,154,341,726
Total	1,558,300	$62.61	83,485,708	$1,154,341,726

* Includes repurchases made under expired programs as well as the current program authorizing $1.5 billion of repurchases through December 31, 2014.

Item 5. ***Other Information***

During the three month period ended September 30, 2012, the Audit Committee of our Board of Directors approved the engagement of PricewaterhouseCoopers LLP, our independent registered public accounting firm, to perform certain non-audit services related to certain tax matters. This disclosure is made pursuant to Section 10A(i)(2) of the Exchange Act, as added by Section 202 of the Sarbanes-Oxley Act of 2002.

On August 23, 2012, we announced that American Stock Transfer and Trust Company LLC had been appointed as the transfer agent, registrar and dividend disbursing agent for our common stock. A new specimen common stock certificate is filed as Exhibit 4.1 to this report.

Item 6. ***Exhibits***

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

4.1	Specimen Common Stock Certificate
10.1*	Form of Change in Control Severance Agreement with Joseph A. Cucolo (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed May 5, 2010)
10.2*	Form of Confidentiality, Non-Competition and Non-Solicitation Agreement with Joseph A. Cucolo
10.3*	Form of Indemnification Agreement with Joseph A. Cucolo (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed July 31, 2008)
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

* Management contract or compensatory plan or arrangement

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 6, 2012

By: /s/ James T. Crines

James T. Crines
Executive Vice President, Finance and Chief Financial Officer

Date: November 6, 2012

By: /s/ Derek M. Davis

Derek M. Davis
Vice President, Finance and Corporate Controller and Chief Accounting Officer

Exhibit 4.1

NUMBER

ZC

COMMON STOCK
CUSIP 98956P 10 2
SEE REVERSE FOR CERTAIN DEFINITIONS

SHARES

Zimmer
Holdings, Inc.
INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

THIS CERTIFIES THAT

IS THE OWNER OF

FULLY PAID AND NON-ASSESSABLE SHARES OF THE COMMON STOCK OF

[Corporate Seal]

Zimmer Holdings, Inc. (hereinafter called the "Corporation"), transferable on the books of said Corporation by the holder hereof in person or by duly authorized attorney upon surrender of this Certificate properly endorsed. This Certificate and the shares represented hereby are issued and shall be held subject to all of the provisions of the Certificate of Incorporation of the Corporation, to all of which the holder by acceptance hereof assents. This Certificate is not valid until countersigned by the Transfer Agent and registered by the Registrar.

Witness the seal of said Corporation and the signatures of its duly authorized officers.

Dated

COUNTERSIGNED AND REGISTERED:
AMERICAN STOCK TRANSFER & TRUST COMPANY, LLC
(Brooklyn, NY)
TRANSFER AGENT AND REGISTRAR

/s/ David C. Dvorak	/s/ Chad F. Phipps	BY: /s/ Mark C. Healy
PRESIDENT AND CHIEF EXECUTIVE OFFICER	SENIOR VICE PRESIDENT, GENERAL COUNSEL AND SECRETARY	AUTHORIZED SIGNATURE

Zimmer Holdings, Inc.

ZIMMER HOLDINGS, INC. WILL FURNISH WITHOUT CHARGE TO EACH STOCKHOLDER WHO SO REQUESTS A STATEMENT OF THE DESIGNATIONS AND THE POWERS, PREFERENCES AND RIGHTS, AND THE QUALIFICATIONS, LIMITATIONS OR RESTRICTIONS THEREOF, OF EACH CLASS OF STOCK OR SERIES THEREOF SET FORTH IN THE CERTIFICATE OF INCORPORATION, WHICH THE CORPORATION IS AUTHORIZED TO ISSUE.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM – as tenants in common
TEN ENT – as tenants by the entireties
JT TEN – as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT — _________Custodian________
(Cust) (Minor)
under Uniform Gifts to Minors Act
____
(State)

Additional abbreviations may also be used though not in the above list.

For Value Received, ______________ *hereby sell, assign and transfer unto*

PLEASE PRINT OR TYPE NAME AND ADDRESS OF ASSIGNEE — PLEASE INSERT TAXPAYER IDENTIFYING NUMBER OF ASSIGNEE

Name

Street — SHARES

City, State and Zip Code

PLEASE PRINT OR TYPE NAME AND ADDRESS OF ASSIGNEE — PLEASE INSERT TAXPAYER IDENTIFYING NUMBER OF ASSIGNEE

Name

Street — SHARES

City, State and Zip Code

PLEASE PRINT OR TYPE NAME AND ADDRESS OF ASSIGNEE — PLEASE INSERT TAXPAYER IDENTIFYING NUMBER OF ASSIGNEE

Name

Street — SHARES

City, State and Zip Code

---

of the Common Stock represented by the within Certificate, and do hereby irrevocably constitute and appoint ________________
Attorney to transfer the said stock on the books of the within-named Corporation with full power of substitution in the premises.
Dated, ______________________________

X____
NOTICE: THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERNATION OR ENLARGEMENT OR ANY CHANGE WHATEVER

SIGNATURE(S) GUARANTEED:

By____
THE SIGNATURE(S) MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15.

Exhibit 10.2

CORPORATE EXECUTIVE CONFIDENTIALITY, NON-COMPETITION AND NON-SOLICITATION AGREEMENT

This Corporate Executive Confidentiality, Non-Competition and Non-Solicitation Agreement ("Agreement") is made by and between Zimmer, Inc., a corporation having its principal headquarters in Warsaw, Indiana, and ("Employee").

Recitals

A. For purposes of this Agreement, the term "Company" means Zimmer, Inc. and/or any or each of its affiliates, parents, or direct or indirect subsidiaries, as well as any successor-in-interest to Zimmer, Inc. and/or to any of its direct or indirect subsidiaries, affiliates, or parents.

B. Employee is employed or has been offered employment by Company in an executive and/or high-level managerial capacity in which Employee will have extensive access to trade secrets and confidential information of Company.

C. Company has offered Employee the grant of certain equity-based awards under an equity incentive plan or program of the Company, contingent upon Employee's entering into this Agreement.

Agreement

NOW, THEREFORE, in consideration of the foregoing recitals, the promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Company and Employee agree to be legally bound as follows:

1. **Acknowledgements**. Employee acknowledges that Company is engaged in the highly competitive business of the development, manufacture, distribution, and sale of orthopaedic medical, oral rehabilitation, spine and/or trauma devices, products, processes and services, among other products and services, and that Employee serves in an executive and/or high-level managerial capacity for Company and in that capacity Employee has and/or will have access to and will gain knowledge of substantial trade secrets and confidential information of Company.

2. **Non-Disclosure and Ownership of Confidential Information**. Employee acknowledges that Confidential Information is a valuable, special, and unique asset of Company, and solely the property of Company, and agrees to the following:

(a) Confidential Information Defined. The term "Confidential Information" includes, but is not limited to, any and all of Company's trade secrets, confidential and proprietary information and all other information and data of Company that is not generally known to the public or other third parties who could derive economic value from its use or disclosure. Confidential Information includes, without limitation, confidential business methods and processes, research and development information, business plans and strategies, marketing plans and strategies, information pertaining to current and prospective customers, information pertaining to distributors, pricing information, costing information, non-public financial information, personnel information, and information about current and prospective products or services, whether or not reduced to writing or other tangible medium of expression, including work product created by Employee in rendering services for Company.

(b) Non-Disclosure of Confidential Information. During Employee's employment with Company and thereafter, Employee will not disclose, transfer, or use (or seek to induce others to disclose, transfer, or use) any Confidential Information for any purpose other than i) disclosure to authorized employees and agents of Company who are bound to maintain the confidentiality of the Confidential Information; and/or ii) for authorized purposes during the course of Employee's employment in furtherance of Company's business. Employee's non-disclosure obligations shall continue as long as the Confidential Information remains confidential and shall not apply to information that becomes generally known to the public through no fault or action of Employee.

(c) Protection of Confidential Information. Employee will notify Company in writing of any circumstances which may constitute unauthorized disclosure, transfer, or use of Confidential Information. Employee will use Employee's best efforts to protect Confidential Information from unauthorized disclosure, transfer, or use. Employee will implement and abide by all procedures adopted by Company to prevent unauthorized disclosure, transfer, or use of Confidential Information.

3. **Ownership of Intellectual Property**.

(a) Invention Defined. The term "Invention" includes, but is not limited to ideas, programs, processes, systems, intellectual property, works of authorship, copyrightable materials, discoveries, and/or improvements which Employee discovers, invents, originates, develops, makes, authors, or conceives alone or in conjunction with others during Employee's employment with Company and/or within six (6) months after Employee's employment ends which relate to Company's present or future business. An Invention is covered by this Agreement regardless of whether i) Employee conceived of the Invention in the scope of Employee's employment; ii) the Invention is patentable; or iii) Company takes any action to commercialize or develop the Invention.

(b) Ownership of Inventions. Inventions are solely the property of Company. Employee agrees that by operation of law and/or the effect of this Agreement Employee does not have any rights, title, or interest in any Inventions. Notwithstanding, Employee may be recognized as the inventor of an Invention without retaining any other rights associated therewith.

(c) Disclosure and Assignment of Inventions. Employee hereby assigns to Company all right, title and interest Employee may have in any Inventions that are discovered, invented, originated, developed, made, authored, or conceived by Employee (whether alone or with others) during Employee's employment with Company and/or within six (6) months after Employee's employment ends which relate to Company's present or future business. Employee agrees to: (i) promptly disclose all such Inventions in writing to Company; (ii) keep complete and accurate records of all such Inventions, which records shall be Company property and shall be retained on Company premises; and (iii) execute such documents and do such other acts as may be necessary in the opinion of Company to establish and preserve Company's property rights in all such Inventions. This section shall not apply to any Invention for which no equipment, supplies, facility or trade secret information of Company was used and which was developed entirely on Employee's own time, and (1) which does not relate (a) directly to the business of Company, or (b) to Company's actual or demonstrably anticipated research or development, and (2) which does not result from any work performed by Employee for Company.

(d) Works of Authorship. All written, graphic or recorded material and all other works of authorship fixed in a tangible medium of expression made or created by Employee, solely or jointly with others, during Employee's employment with Company and relating to Company's business, actual or contemplated, shall be the exclusive property of Company (collectively "Works"). Company will have the exclusive right to copyright such Works. Employee agrees that if any Work created while employed by Company, whether or not created at the direction of Company, is copyrightable, such Work will be a "work made for hire," as that term is defined in the copyright laws of the United States. If, for any reason, any copyrightable Works created by Employee are excluded from that definition, Employee hereby assigns and conveys to Company all right, title and interest (including any copyright and renewals) in such Works.

(e) Attribution and Use of Works and Inventions; Waiver of Assertion of "Moral" Rights in Inventions and Works. Employee agrees that Company and its licensees are not required to designate Employee as author, inventor or developer of any Works or Inventions when distributed or otherwise. Employee hereby waives, and agrees not to assert, any "moral" rights in any Inventions and Works. Employee agrees that Company and its licensees shall have sole discretion with regard to how and for what purposes any Inventions or Works are used or distributed.

(f) Employee Cooperation in Establishment of Company Proprietary Rights. Employee will sign documents of assignment, declarations and other documents and take all other actions reasonably required by Company, at Company's expense, to perfect and enforce any of its proprietary rights. In the event Company is unable, for any reason whatsoever, to secure Employee's signature to any lawful or necessary documents required to apply for, prosecute, perfect, or assign any United States or foreign application for Letters Patent, trademark, copyright registration, or other filing to protect any Invention or Work, Employee hereby irrevocably designates and appoints Company and its duly authorized officers and agents as Employee's agent and attorney in fact, to act for and on Employee's behalf, to execute and file any such application, registration or other filing, and to do all other lawfully permitted acts to further the prosecution, issuance or assignment of Letters Patent or other protections on such Inventions, or registrations for trademark or copyright or other protections on such Works, with the same force and effect as if executed by Employee.

4. **Return of Confidential Information and Company Property**. Immediately upon termination of Employee's employment with Company, Employee shall return to Company all of Company's property relating to Company's business, including without limitation all of Company's property which is in the possession, custody, or control of Employee such as Confidential Information, documents, hard copy files, copies of documents and electronic information/files.

5. **Obligations to Other Entities or Persons**. Employee warrants that Employee is not bound by the terms of a confidentiality agreement or any other legal obligation which would either preclude or limit Employee from disclosing or using any of Employee's ideas, inventions, discoveries or other information or otherwise fulfilling Employee's obligations to Company. While employed by Company, Employee shall not disclose or use any confidential information belonging to another entity or other person.

6. **Conflict of Interest and Duty of Loyalty**. During Employee's employment with Company, Employee shall not engage, directly or indirectly, in any activity, employment or business venture, whether or not for remuneration, that i) is competitive with Company's business; ii) deprives or potentially could deprive Company of any business opportunity; iii) conflicts or potentially could conflict with Company's business interests; or iv) is otherwise detrimental to Company, including but not limited to preparations to engage in any of the foregoing activities.

7. **Restrictive Covenants**. Employee agrees to, and covenants to comply with, each of the following separate and divisible restrictions:

(a) Definitions.

(1) "Competing Product" is defined as any product, process or service that is similar to (or would serve as a substitute for) and competitive with any product, process or service that Company is researching, developing, manufacturing, distributing, selling and/or providing at the time of Employee's termination of employment with Company.

(2) "Competing Organization" is defined as any organization that researches, develops, manufactures, markets, distributes and/or sells one or more Competing Products. A Competing Organization is diversified if it operates multiple, independently operating business divisions, units, lines or segments some of which do not research, develop, manufacture, market, distribute and/or sell any Competing Products.

(3) "Prohibited Capacity" is defined as (a) any same or similar capacity to that held by Employee at any time during Employee's last two (2) years of employment with Company; (b) any executive or managerial capacity; or (c) any capacity in which Employee's knowledge of Confidential Information and/or Inventions would render Employee's assistance a competitive advantage to the Competing Organization.

(4) "Restricted Geographic Area" is defined as all countries, territories, and states in which Company is doing business or is selling its products at the time of termination of Employee's employment with Company. Employee acknowledges that this geographic scope is reasonable given Employee's position with Company, the international scope of Company's business; and the fact that Employee could compete with Company from anywhere Company does business.

(5) "Restricted Period" is defined as the date Employee executes this Agreement, continuing through the eighteen (18) months after the Employee's last day of employment with Company unless otherwise extended by Employee's breach of this Agreement. The running time on the Restricted Period shall be suspended during any period in which Employee is in violation of any of the restrictive covenants set forth herein, and all restrictions shall automatically be extended by the period Employee was in violation of any such restrictions.

(6) "Customer" is defined as any person or entity with respect to whom, as of the date of Employee's separation from Company employment or at any time during the two years prior to such separation, Company sold or provided any products and/or services.

(7) "Active Prospect" is defined as any person or entity that Company individually and specifically marketed to and/or held discussions with regarding the distribution and/or sale of any of Company's products, processes or services at any time during the last six (6) months of Employee's employment with Company.

(b) Restrictive Covenants. During the Restricted Period, Employee agrees to be bound by each of the following independent and divisible restrictions:

(1) Covenant Not to Compete.

(A) Employee will not, within the Restricted Geographic Area, be employed by, work for, consult with, provide services to, or lend assistance to any Competing Organization in a Prohibited Capacity.

(B) Employee may be employed by, work for, consult with, provide services to, or lend assistance to a Competing Organization provided that: i) the Competing Organization's business is diversified; ii) the part of the Competing Organization's business with which Employee will be affiliated would not, evaluated on a stand-alone basis, be a Competing Organization; iii) Employee's affiliation with the Competing Organization does not involve any Competing Products; iv) Employee provides Company a written description of Employee's anticipated activities on behalf of the Competing Organization which includes, without limitation, an assurance satisfactory to Company that Employee's affiliation with the Competing Organization does not constitute a Prohibited Capacity; and v) Employee's affiliation with the Competing Organization does not constitute a competitive disadvantage to Company.

(2) Covenant Not to Solicit Customers or Active Prospects. Employee will not i) provide, sell, or market; ii) assist in the provision, selling or marketing of; or iii) attempt to provide, sell or market any Competing Products to any of Company's Customers or Active Prospects located in the Restricted Geographic Area.

(3) Covenant Not to Interfere with Business Relationships. Employee will not, within the Restricted Geographic Area, urge, induce or seek to induce any of Company's independent contractors, subcontractors, distributors, brokers, consultants, sales representatives, customers, vendors, suppliers or any other person or entity with whom Company has a business relationship at the time of Employee's separation from Company employment to terminate its or their relationship with, or representation of, Company or to cancel, withdraw, reduce, limit or in any manner modify any such person's or entity's business with, or representation of, Company.

(4) Covenant Not to Solicit Company Employees. Employee will not, within the Restricted Geographic Area, employ, solicit for employment, or advise any other person or entity to employ or solicit for employment, any individual employed by Company at the time of Employee's separation from Company employment, or otherwise directly or indirectly induce or entice any such employee to leave his/her employment with Company to work for, consult with, provide services to, or lend assistance to any Competing Organization.

(5) Covenant Not to Disparage Company. Employee will not make or publish any disparaging or derogatory statements about Company; about Company's products, processes, or services; or about Company's past, present and future officers, directors, employees, attorneys and agents. Disparaging or derogatory statements include, but are not limited to, negative statements regarding Company's business or other practices; provided, however, nothing herein shall prohibit Employee from providing any information as may be compelled by law or legal process.

8. **Reasonableness of Terms**. Employee acknowledges and agrees that the restrictive covenants contained in this Agreement restrict Employee from engaging in activities for a competitive purpose and are reasonably necessary to protect Company's legitimate interests in Confidential Information, Inventions, and goodwill. Additionally, Employee acknowledges and agrees that the restrictive covenants are reasonable in all respects, including, but not limited to, temporal duration, scope of prohibited activities and geographic area. Employee further acknowledges and agrees that the restrictive covenants set forth in this Agreement will not pose any hardship on Employee and that Employee will reasonably be able to earn an equivalent livelihood without violating any provision of this Agreement.

9. **Non-Competition Period Payments**. To the extent Employee is denied a specific employment position that would otherwise be offered to Employee by a Competing Organization solely because of the restrictive covenant provisions of Section 7 of this Agreement, and provided Employee satisfies all conditions stated herein, then upon expiration of the period of time represented by any severance benefits Employee was offered, Company will make payments to Employee equal to Employee's monthly base pay at the time of Employee's separation from Company employment (exclusive of bonus and other extra compensation and any other employee benefits) for each month of such unemployment through the end of the Restricted Period.

(a) Expiration of Severance Benefits. Severance benefits shall be deemed to have expired at the conclusion of the period of time represented by the total amount of any severance benefits offered to

Employee (even if such offered severance benefits are not actually paid as a result of action or inaction on the part of Employee), including but not limited to basic severance benefits, supplemental severance benefits and severance benefits payable pursuant to a change in control severance agreement to which Employee is a party.

(b) <u>Verification of Eligibility for Non-Competition Period Payments</u>. To qualify for payments under this Section 9, Employee must provide Company detailed written documentation supporting eligibility for payment, including, at a minimum, (a) the name and location of the Competing Organization that would have employed Employee but for the provisions of Section 7 of this Agreement, (b) the title, nature, and detailed job responsibilities of the employment position with the Competing Organization that Employee was denied, (c) the date Employee was denied the employment position, and (d) the name and contact information of a managerial employee at the Competing Organization who has sufficient authority to confirm that Employee was denied this specific employment position with the Competing Organization solely because Employee is subject to the provisions of Section 7 of this Agreement (the "eligibility documentation"). Upon receipt of the eligibility documentation, Company will determine eligibility for payment and, if eligibility is established, payments will commence as of the date of Company's receipt of the eligibility documentation.

(c) <u>Obligation to Pursue Replacement Employment and Verification of Continued Eligibility for Non-Competition Period Payments</u>. Employee is obligated to diligently seek and pursue replacement employment that does not violate Section 7 of this Agreement ("replacement employment") during any period in which Employee seeks and/or accepts payment from Company under this Section 9. After eligibility for non-competition period payments is established, Employee will, on or before the 15^{th} day of each month of eligibility for continued payments, submit to Company a written statement (i) identifying by name and address all prospective employers with whom Employee has applied or inquired about employment; (ii) identifying positions sought with each listed employer and specific actions taken in seeking each position; (iii) describing all other efforts made to obtain replacement employment; and (iv) describing any offers of employment received, including the name of the employer; the nature, title, and compensation terms of the position offered; the actual or anticipated start date if the offer has been accepted; and the reason(s) for declining if the offer was declined.

(d) <u>Effect of Replacement Employment on Non-Competition Period Payments</u>. If Employee is denied a specific employment position with a Competing Organization solely because of the restrictive covenant provisions of Section 7 of this Agreement but obtains replacement employment, and the monthly compensation (including base pay, commissions, incentive compensation, bonuses and other compensation) for the replacement employment is less than Employee's monthly base pay at the time of Employee's separation from employment with Company, Company agrees to pay Employee the difference for each such month through the end of the Restricted Period, again upon expiration of any severance benefits which Employee was offered and provided Employee satisfies all conditions stated herein. Employee shall submit to Company payroll records (as well as any other records reasonably requested by Company) showing all compensation received by Employee from the replacement employment as a condition of Company's payment of Non-Competition Period Payments covering any period of time when Employee is working in replacement employment.

(e) <u>Company's Right To Provide Release of Obligations in Lieu of Non-Competition Period Payments</u>. Notwithstanding any of the foregoing provisions of this Section 9, Company reserves the right to release Employee from Employee's obligations under Section 7 of this Agreement at any time during the Restricted Period, in full or in sufficient part to allow Employee to accept employment that would otherwise be prohibited under this Agreement, at which time Company's payment obligations under this Section 9 shall cease immediately and Employee shall not be entitled to any further such payments or compensation.

10. **Severability, Modification of Restrictions**: The covenants and restrictions in this Agreement are separate and divisible, and to the extent any clause, portion or section of this Agreement is determined to be unenforceable or invalid for any reason, Company and Employee acknowledge and agree that such unenforceability or invalidity shall not affect the enforceability or validity of the remainder of the Agreement. If any particular covenant, provision or clause of this Agreement is determined to be unreasonable or unenforceable for any reason, including, without limitation, temporal duration, scope of prohibited activity, and/or scope of geographic area, Company and Employee acknowledge and agree that such covenant, provision or clause shall automatically be deemed reformed to have the closest effect permitted by applicable law to the original form and shall be given effect and enforced as so reformed to whatever extent would be reasonable and enforceable under applicable law. The parties agree that any court interpreting the provisions of this Agreement shall have the authority, if necessary, to reform any such provision to make it enforceable under applicable law.

11. **Remedies**. Employee acknowledges that a breach or threatened breach by Employee of this Agreement will give rise to irreparable injury to Company and that money damages will not be adequate relief for such injury. Accordingly, Employee agrees that Company shall be entitled to obtain injunctive relief, including, but not limited to, temporary restraining orders, preliminary injunctions and/or permanent injunctions, without having to post any bond or other security, to restrain or prohibit such breach or threatened breach, in addition to any other legal remedies which may be available. In addition to all other relief to which it shall be entitled, Company shall be entitled to cease all payments to which Employee would otherwise be entitled under Section 9 hereto; continue to enforce this Agreement; recover from Employee all payments made under Section 9 to the extent attributable to a time during which Employee was in violation of the covenants for which payment was made; and recover from Employee all litigation costs and attorneys' fees incurred by Company in any action or proceeding relating to this Agreement in which Company prevails in any respect, including, but not limited to, any action or proceeding in which Company seeks enforcement of this Agreement or seeks relief from Employee's violation of this Agreement.

12. **Survival of Obligations.** Employee acknowledges and agrees that Employee's obligations under this Agreement, including, without limitation, Employee's non-disclosure and non-competition obligations, shall survive the termination of Employee's employment with Company, whether such termination is with or without cause and whether it is voluntary or involuntary. Employee acknowledges and agrees that nothing in this Agreement alters the at-will nature of Employee's employment and that either Company or Employee may terminate the employment relationship at any time, with or without cause or notice. Employee further acknowledges and agrees that: (a) Employee's non-disclosure, non-disparagement, non-solicitation and non-competition covenants set forth in Sections 2 and 7 of this Agreement shall be construed as independent covenants and that no breach of any contractual or legal duty by Company shall be held sufficient to excuse or terminate Employee's obligations or to preclude Company from obtaining injunctive relief or other remedies for Employee's violation or threatened violation of such covenants, and (b) the existence of any claim or cause of action by Employee against Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to Company's enforcement of Employee's obligations under Sections 2 and 7 of this Agreement.

13. **Governing Law and Choice of Forum**. This Agreement shall be construed and enforced in accordance with the laws of the State of Indiana, notwithstanding any state's choice-of-law rules to the contrary. The parties agree that any legal action relating to this Agreement shall be commenced and maintained exclusively before any appropriate state court located in Kosciusko County or the United States District Court for the Northern District of Indiana, South Bend Division. The parties hereby submit to the jurisdiction of such courts and waive any right to challenge or otherwise object to personal jurisdiction or venue, in any action commenced or maintained in such courts. Language translations aside, the English version shall govern.

14. **Successors and Assigns**. Company shall have the right to assign this Agreement, and, accordingly, this Agreement shall inure to the benefit of, and may be enforced by, any and all successors and assigns of Company, including without limitation by asset assignment, stock sale, merger, consolidation or other corporate reorganization, and shall be binding on Employee. The services to be provided by Employee to Company are personal to Employee, and Employee shall not have the right to assign Employee's duties under this Agreement.

15. **Modification**. This Agreement may not be amended, supplemented, or modified except by a written document signed by both Employee and a duly authorized officer of Company.

16. **No Waiver**. The failure of Company to insist in any one or more instances upon performance of any provision of this Agreement or to pursue its rights hereunder shall not be construed as a waiver of any such provisions or the relinquishment of any such rights.

17. **Counterparts**. This Agreement may be executed in counterparts, each of which shall be deemed an original, but both of which when taken together will constitute one and the same agreement.

18. **Entire Agreement**. This Agreement, including Recitals, constitutes the entire agreement of the parties with respect to the subjects specifically addressed herein, and supersedes any prior agreements, understandings, or representations, oral or written, on the subjects addressed herein. Notwithstanding the foregoing, to the extent the employee has an existing non-competition, confidentiality, and/or non-solicitation agreement in favor of Company and has breached or violated the terms thereof, Company may continue to enforce its rights and remedies under and pursuant to such existing agreement.

Employee's signature below indicates that Employee has read the entire Agreement, understands what Employee is signing, and is signing the Agreement voluntarily. Employee agrees that Company advised Employee to consult with an attorney prior to signing the Agreement.

"EMPLOYEE"

____
(Employee Signature)

Printed Name: ___________________________

Date: _________________________________

"COMPANY"

By: ___________________________________

Printed Name: ___________________________

Title: _________________________________

Date: _________________________________

EXHIBIT 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David C. Dvorak, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Zimmer Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2012

/s/ David C. Dvorak

David C. Dvorak
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James T. Crines, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Zimmer Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2012

/s/ James T. Crines

James T. Crines
Executive Vice President, Finance and Chief Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Zimmer Holdings, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David C. Dvorak

David C. Dvorak
President and Chief Executive Officer
November 6, 2012

/s/ James T. Crines

James T. Crines
Executive Vice President, Finance and Chief Financial Officer
November 6, 2012