

Zimmer Holdings, Inc. Reports Third Quarter 2011 Financial Results

Oct 27, 2011

- -- Net Sales of \$1,031 million for the third quarter represent an increase of 6.9% reported (2.4% constant currency) over the prior year period
- -- Diluted EPS for the third quarter were \$1.01 reported, an increase of 5.2% over the prior year period, and \$1.04 adjusted, an increase of 8.3% over the prior year period
- -- Company utilized \$549 million of cash in the quarter to acquire 10.1 million shares
- -- Company updates full-year sales and adjusted EPS guidance

WARSAW, Ind., Oct. 27, 2011 /PRNewswire/ -- Zimmer Holdings, Inc. (NYSE and SIX: ZMH) today reported financial results for the quarter ended September 30, 2011. The Company reported third quarter net sales of \$1,031 million, an increase of 6.9% reported and 2.4% constant currency over the third quarter of 2010. Diluted earnings per share for the quarter were \$1.01 reported and \$1.04 adjusted, an increase of 8.3% adjusted over the prior year period.

"Zimmer delivered against our financial commitments in the third quarter with consistent results in both revenues and earnings," said David Dvorak, Zimmer President and CEO. "Progress in the commercialization of new products supported a strong performance in many international markets. Through this progress and ongoing financial discipline, we continue to deliver value to stockholders."

Net earnings for the third quarter were \$191.5 million on a reported basis and \$197.2 million on an adjusted basis, an increase of 2.4% adjusted over the prior year period. Operating cash flow for the third quarter was \$350.6 million.

During the quarter, the Company utilized \$549 million of cash, supported by \$375 million of borrowings, to acquire 10.1 million shares. At the end of the third quarter, \$299 million of share repurchase authorization remained available under the current program, which expires on December 31, 2013.

Guidance

The Company updated its full-year revenue and adjusted earnings per share guidance for 2011. Full-year revenues for 2011 are now expected to increase between 2.3% and 2.7% on a constant currency basis from 2010. The Company estimates that foreign currency translation will increase revenues by approximately 2.5% for the full year 2011, resulting in reported revenue growth between 4.8% and 5.2%. This compares with prior revenue guidance of 2.5% to 3.5% constant currency and 5.5% to 6.5% reported growth over prior year. Full-year 2011 diluted earnings per share are now projected to be in a range of \$4.40 to \$4.45 on a reported basis and \$4.75 to \$4.80 on an adjusted basis, which represents a narrowing toward the top end of prior adjusted earnings guidance.

Conference Call

The Company will conduct its third quarter 2011 investor conference call today, October 27, 2011, at 8:00 a.m. Eastern Time. The live audio webcast can be accessed via Zimmer's Investor Relations website at http://investor.zimmer.com. It will be archived for replay following the conference.

Individuals who wish to dial into the conference call may do so at (888) 878-3901. International callers should dial (706) 634-9520. A digital recording will be available two hours after the completion of the conference call from October 27, 2011, to November 10, 2011. To access the recording, US/Canada callers should dial (800) 585-8367, or for International callers, dial (706) 645-9291, and enter the conference ID 12302169.

Sales Tables

The following tables provide sales results by geographic segment and product category, as well as the percentage change compared to the prior year quarter and nine months on both a reported and constant currency basis.

NET SALES - THREE MONTHS ENDED SEPTEMBER 30, 2011 (in millions, unaudited)

| | | Net | Reported | Constant Currency |
|----------------------------|----------|-------------|----------|----------------------|
| | <u>S</u> | <u>ales</u> | % Growth | % Growth |
| Geographic Segments | | | | |
| Americas | \$ | 582 | -% | (1)% |
| Europe | | 252 | 17 | 7 |
| Asia Pacific | | 197 | 19 | 7 |
| Total | • | 1,031 | 7 | 2 |

Product Categories
Reconstructive

| Americas | 422 | (2) | (2) |
|--------------------|-----|-----|-----|
| Europe | 199 | 17 | 7 |
| Asia Pacific | 147 | 21 | 8 |
| Total | 768 | 6 | 1 |
| Knees | | | |
| Americas | 253 | (4) | (4) |
| Europe | 90 | 16 | 7 |
| Asia Pacific | 74 | 19 | 7 |
| Total | 417 | 3 | - |
| Hips | | | |
| Americas | 142 | - | - |
| Europe | 103 | 18 | 6 |
| Asia Pacific | 70 | 23 | 11 |
| Total | 315 | 10 | 4 |
| Extremities | 36 | 7 | 4 |
| Dental | 55 | 12 | 9 |
| Trauma | 69 | 19 | 14 |
| Spine | 55 | (2) | (5) |
| Surgical and other | 84 | 8 | 4 |

NET SALES - NINE MONTHS ENDED SEPTEMBER 30, 2011 (in millions, unaudited)

| | Net | Reported | Constant Currency |
|----------------------------|--------------|----------|----------------------|
| | <u>Sales</u> | % Growth | % Growth |
| Geographic Segments | | | |
| Americas | \$ 1,820 | 1% | -% |
| Europe | 876 | 13 | 5 |
| Asia Pacific | 588 | 18 | 7 |
| Total | 3,284 | 6 | 3 |
| Product Categories | | | |

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| Reconstructive | | | |
|--------------------|-------|-----|-----|
| Americas | 1,337 | (1) | (1) |
| Europe | 694 | 11 | 4 |
| Asia Pacific | 436 | 18 | 6 |
| Total | 2,467 | 5 | 1 |
| Knees | | | |
| Americas | 797 | (4) | (4) |
| Europe | 335 | 13 | 6 |
| Asia Pacific | 218 | 15 | 3 |
| Total | 1,350 | 3 | (1) |
| Hips | | | |
| Americas | 448 | 2 | 2 |
| Europe | 340 | 10 | 2 |
| Asia Pacific | 210 | 21 | 9 |
| Total | 998 | 8 | 3 |
| Extremities | 119 | 9 | 6 |
| Dental | 185 | 18 | 15 |
| Trauma | 208 | 18 | 14 |
| Spine | 168 | (3) | (6) |
| Surgical and other | 256 | 10 | 6 |

About the Company

Founded in 1927 and headquartered in Warsaw, Indiana, Zimmer designs, develops, manufactures and markets orthopaedic reconstructive, spinal and trauma devices, dental implants, and related surgical products. Zimmer has operations in more than 25 countries around the world and sells products in more than 100 countries. Zimmer's 2010 sales were approximately \$4.2 billion. The Company is supported by the efforts of more than 8,000 employees worldwide.

Website Information

We routinely post important information for investors on our website, www.zimmer.com, in the "Investor Relations" section. We intend to use this website as a means of disclosing material, non-

public information and for complying with our disclosure obligations under Regulation FD. Accordingly, investors should monitor the Investor Relations section of our website, in addition to following our press releases, SEC filings, public conference calls, presentations and webcasts. The information contained on, or that may be accessed through, our website is not incorporated by reference into, and is not a part of, this document.

Note on Non-GAAP Financial Measures

As used in this press release, the term "adjusted" refers to operating performance measures that exclude inventory step-up, the provision for certain *Durom*® Acetabular Component product claims, special items and certain tax adjustments. Included in special items are acquisition and integration costs as well as employee termination benefits, certain contract terminations and asset impairment charges connected with global restructuring and transformation initiatives. The term "constant currency" refers to any financial measure that excludes the effect of changes in foreign currency exchange rates. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measure are included in this press release.

Zimmer Safe Harbor Statement

This press release contains forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 based on current expectations, estimates, forecasts and projections about the orthopaedics industry, management's beliefs and assumptions made by management. Forward-looking statements may be identified by the use of forward-looking terms such as "may," "will," "expects," "believes," "anticipates," "plans," "estimates," "projects," "assumes," "guides," "targets," "forecasts," and "seeks" or the negative of such terms or other variations on such terms or comparable terminology. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that could cause actual outcomes and results to differ materially. These risks and uncertainties include, but are not limited to, our compliance with the Corporate Integrity Agreement through 2012; the success of our quality and operational improvement initiatives; the outcome of the investigation by the U.S. government into Foreign Corrupt Practices Act matters announced in October 2007; price and product competition; 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; shifts in the product category or regional sales mix of our products and services; supply and prices of raw materials and products; control of costs and expenses; our ability to obtain and maintain adequate intellectual property protection; our ability to successfully integrate acquired businesses; our ability to form and implement alliances; challenges relating to changes in and compliance with governmental laws and regulations affecting our U.S. and international businesses, including regulations of the U.S. Food and Drug Administration and foreign government regulators; changes in tax obligations arising from tax reform measures or examinations

by tax authorities; product liability and intellectual property litigation losses; the impact of health care reform measures in the U.S. including the impact of the new excise tax on medical devices, reductions in reimbursement levels from third-party payors and cost-containment efforts of health care purchasing organizations; our ability to retain the independent agents and distributors who market our products; and changes in general industry and market conditions, including domestic and international growth rates and general domestic and international economic conditions, including interest rate and currency exchange rate fluctuations. For a further list and description of such risks and uncertainties, see our periodic reports filed with the U.S. Securities and Exchange Commission. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be set forth in our periodic reports. Readers of this document are cautioned not to place undue reliance on these forward-looking statements, since, 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 contained in this document.

ZIMMER HOLDINGS, INC. CONSOLIDATED STATEMENTS OF EARNINGS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011 and 2010 (in millions, except per share amounts, unaudited)

| | 2011 | <u>2010</u> | % Inc/(Dec) |
|--|--------------|--------------|-------------------|
| Net Sales | \$ 1,031.5 | \$ 965.0 | 7% |
| Cost of products sold | <u>251.9</u> | <u>219.1</u> | 15 |
| Gross Profit | <u>779.6</u> | <u>745.9</u> | 5 |
| Research and development | 61.0 | 57.3 | 7 |
| Selling, general and administrative | 444.0 | 412.0 | 8 |
| Certain claims | - | - | - |
| Special items | 8.0 | <u>5.0</u> | 63 |
| Operating expenses | <u>513.0</u> | <u>474.3</u> | 8 |
| Operating Profit | 266.6 | 271.6 | (2) |
| Interest expense, net | <u>11.7</u> | 14.2 | (17) |
| Earnings before income taxes | 254.9 | 257.4 | (1) |
| Provision for income taxes | 63.7 | <u>66.3</u> | (4) |
| Net earnings | 191.2 | 191.1 | - |
| Less: Net loss attributable to noncontrolling interest | <u>(0.3)</u> | _= | 100 |
| Net Earnings of Zimmer Holdings, Inc. | \$ 191.5 | \$ 191.1 | - Page 6 of 16 |

| Earnings | Per | Common | Share |
|-----------------|-----|--------|-------|
|-----------------|-----|--------|-------|

| Basic | \$ 1.02 | \$ 0.96 | 6 |
|--|------------|---------|---|
| Diluted | \$ 1.01 | \$ 0.96 | 5 |
| | | | |
| Weighted Average Common Shares Outstanding | | | |
| Basic | 187.7 | 198.7 | |
| Diluted | 188.8 | 199.7 | |
| | | | |

Certain amounts in the 2010 consolidated statement of earnings have been reclassified to conform

to the 2011 presentation.

ZIMMER HOLDINGS, INC. CONSOLIDATED STATEMENTS OF EARNINGS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 and 2010 (in millions, except per share amounts, unaudited)

| | <u>2011</u> | <u>2010</u> | <u>% Inc/(Dec)</u> |
|--|----------------|----------------|--------------------|
| Net Sales | \$ 3,284.5 | \$ 3,085.5 | 6% |
| Cost of products sold | <u>818.8</u> | 738.1 | 11 |
| Gross Profit | <u>2,465.7</u> | <u>2,347.4</u> | 5 |
| Research and development | 173.6 | 162.0 | 7 |
| Selling, general and administrative | 1,372.2 | 1,297.5 | 6 |
| Certain claims | 50.0 | 75.0 | (33) |
| Special items | <u>47.0</u> | <u>19.1</u> | 147 |
| Operating expenses | <u>1,642.8</u> | <u>1,553.6</u> | 6 |
| Operating Profit | 822.9 | 793.8 | 4 |
| Interest expense, net | <u>32.5</u> | <u>43.1</u> | (24) |
| Earnings before income taxes | 790.4 | 750.7 | 5 |
| Provision for income taxes | <u>186.5</u> | <u>188.7</u> | (1) |
| Net earnings | 603.9 | 562.0 | 7 |
| Less: Net loss attributable to noncontrolling interest | <u>(0.3)</u> | | 100 |
| Net Earnings of Zimmer Holdings, Inc. | \$ 604.2 | \$ 562.0 | 8 |
| | | | Page 7 of |

| Earnings | Per | Common | Share |
|-----------------|-----|--------|-------|
|-----------------|-----|--------|-------|

| Basic | \$ 3.17 | \$ 2.79 | 14 |
|--|------------|------------|----|
| Diluted | \$ 3.15 | \$ 2.78 | 13 |
| | | | |
| Weighted Average Common Shares Outstanding | | | |
| Basic | 190.6 | 201.2 | |
| Diluted | 191.8 | 202.3 | |

Certain amounts in the 2010 consolidated statement of earnings have been reclassified to conform

to the 2011 presentation.

ZIMMER HOLDINGS, INC. CONDENSED CONSOLIDATED BALANCE SHEETS (in millions, unaudited)

| | Sep | otember 30, 2011 | December 31, <u>2010</u> |
|--------------------------------------|-----|---------------------|--------------------------|
| Assets | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ | 553.0 | \$ 668.9 |
| Short-term investments | | 424.9 | 265.1 |
| Receivables, net | | 827.9 | 775.9 |
| Inventories, net | | 968.4 | 936.4 |
| Other current assets | | 299.1 | <u>363.4</u> |
| Total current assets | | 3,073.3 | 3,009.7 |
| Property, plant and equipment, net | | 1,210.3 | 1,213.8 |
| Goodwill | | 2,634.3 | 2,580.8 |
| Intangible assets, net | | 794.7 | 827.1 |
| Other assets | | 486.2 | <u>368.5</u> |
| Total Assets | \$ | 8,198.8 | \$ 7,999.9 |
| Liabilities and Shareholders' Equity | | | |
| Current liabilities | \$ | 674.6 | \$ 702.5 |
| Other long-term liabilities | | 372.0 | 384.0 |

| Long-term debt | 1,543.5 | 1,142.1 |
|--|----------------|----------------|
| Shareholders' equity | <u>5,608.7</u> | <u>5,771.3</u> |
| Total Liabilities and Shareholders' Equity\$ | 8,198.8\$ | 7,999.9 |

ZIMMER HOLDINGS, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 and 2010 (in millions, unaudited)

| | <u>2011</u> | <u>2010</u> |
|---|----------------|----------------|
| Cash flows provided by (used in) operating activities | | |
| Net earnings | \$ 603.93 | \$ 562.0 |
| Depreciation and amortization | • | 249.5 |
| Share-based compensation | 46.1 | 45.4 |
| Income tax benefits from employee stock compensation plans | 10.6 | 3.4 |
| Excess income tax benefits from employee stock compensation plans | (4.0) | (1.1) |
| Inventory step-up | 9.6 | 1.3 |
| Changes in operating assets and liabilities, net of acquired assets and liabilities | | |
| Income taxes | 6.8 | (69.3) |
| Receivables | (39.7) | (13.1) |
| Inventories | (27.7) | 6.9 |
| Accounts payable and accrued expenses | (41.3) | (9.1) |
| Other assets and liabilities | <u>(46.1)</u> | 76.6 |
| Net cash provided by operating activities | 783.8 | <u>852.5</u> |
| Cash flows provided by (used in) investing activities | | |
| Additions to instruments | (128.9) | (133.1) |
| Additions to other property, plant and equipment | (67.8) | (40.6) |
| Purchases of investments | (403.8) | (100.6) |
| Sales of investments | 225.0 | 56.5 |
| Investments in other assets | <u>(35.6)</u> | <u>(17.6)</u> |
| Net cash used in investing activities | <u>(411.1)</u> | <u>(235.4)</u> |
| Cash flows provided by (used in) financing activities | | |
| Net proceeds under revolving credit facilities | 375.2 | - |
| Proceeds from employee stock compensation plans | 34.0 | 12.9 |

| Excess income tax benefits from employee stock compensation plans | 4.0 1.1 |
|---|---------------------------|
| Repurchase of common stock | (906.5) (404.6) |
| Net cash used in financing activities | (493.3) (390.6) |
| Effect of exchange rates on cash and cash equivalents | <u>4.7</u> <u>0.4</u> |
| Increase (decrease) in cash and cash equivalents | (115.9) 226.9 |
| Cash and cash equivalents, beginning of period | <u>668.9</u> <u>691.7</u> |
| Cash and cash equivalents, end of period | \$ 553.0\$ 918.6 |

ZIMMER HOLDINGS, INC. NET SALES BY GEOGRAPHIC SEGMENT FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 and 2010 (in millions, unaudited)

| | Three Months Ended September | | | Nine Months | <u>s Ended Sept</u> | <u>ember</u> | |
|-----------------|------------------------------|--------------|--------------|-------------|---------------------|--------------|--------------|
| | <u>30,</u> | | | <u>30,</u> | | | |
| | <u>201</u> | <u> 1</u> | <u>2010</u> | % Inc | <u>2011</u> | <u>2010</u> | <u>% Inc</u> |
| Americas | \$ | 582.1 | \$ 583.2 | -% | \$ 1,820.4 | \$ 1,808.2 | 1% |
| Europe | | 252.5 | 215.8 | 17 | 876.4 | 778.4 | 13 |
| Asia Pacific | | <u>196.9</u> | <u>166.0</u> | 19 | <u>587.7</u> | 498.9 | 18 |
| Total | \$ 1 | 1,031.5 | \$ 965.0 | 7 | \$ 3,284.5 | \$ 3,085.5 | 6 |

ZIMMER HOLDINGS, INC. NET SALES BY PRODUCT CATEGORY FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 and 2010 (in millions, unaudited)

| | Three Months Ended September | | | Nine Months Ended September | | | |
|----------------|------------------------------|------------|-------------|-----------------------------|-------------|-------------|--------------------|
| | <u>30</u> , | | | <u>30,</u> | | | |
| | <u>2</u> | <u>011</u> | <u>2010</u> | <u>% Inc/(Dec)</u> | <u>2011</u> | <u>2010</u> | <u>% Inc/(Dec)</u> |
| Reconstructive | | | | | | | |
| Knees | \$ | 416.7 | \$ 402.9 | 3% | \$ 1,349.8 | \$ 1,316.2 | 3% |
| Hips | | 315.6 | 287.3 | 10 | 997.9 | 920.1 | 8 |

| Extremities | <u>36.0</u> | 33.6 | 7 | <u>119.6</u> | 110.2 | 9 |
|--------------------|--------------|--------------|-----|----------------|----------------|-----|
| | <u>768.3</u> | <u>723.8</u> | 6 | <u>2,467.3</u> | <u>2,346.5</u> | 5 |
| | | | | | | |
| Dental | 55.1 | 49.0 | 12 | 184.6 | 156.6 | 18 |
| Trauma | 69.3 | 58.1 | 19 | 208.5 | 176.3 | 18 |
| Spine | 55.2 | 56.5 | (2) | 168.5 | 174.4 | (3) |
| Surgical and other | 83.6 | <u>77.6</u> | 8 | <u>255.6</u> | 231.7 | 10 |
| Total | \$ 1,031.5 | \$ 965.0 | 7 | \$ 3,284.5 | \$ 3,085.5 | 6 |

ZIMMER HOLDINGS, INC. RECONCILIATION OF REPORTED % GROWTH TO CONSTANT CURRENCY % GROWTH (unaudited)

For the Three Months Ended September 30, 2011

Foreign Constant Reported Exchange Currency

% Growth Impact % Growth

| | <u>% Growth</u> | <u>Impact</u> | <u>% Growth</u> |
|---------------------------|-----------------|---------------|-----------------|
| Geographic Segmer | nts | | |
| Americas | -% | 1% | (1)% |
| Europe | 17 | 10 | 7 |
| Asia Pacific | 19 | 12 | 7 |
| Total | 7 | 5 | 2 |
| Product Categories | | | |
| Reconstructive | | | |
| Americas | (2) | - | (2) |
| Europe | 17 | 10 | 7 |
| Asia Pacific | 21 | 13 | 8 |
| Total | 6 | 5 | 1 |
| | | | |
| Knees | | | |
| Americas | (4) | - | (4) |
| Europe | 16 | 9 | 7 |
| Asia Pacific | 19 | 12 | 7 |
| Total | 3 | 3 | - |

| Hips | | | |
|--------------------|-----|----|-----|
| Americas | - | - | - |
| Europe | 18 | 12 | 6 |
| Asia Pacific | 23 | 12 | 11 |
| Total | 10 | 6 | 4 |
| Extremities | 7 | 3 | 4 |
| Dental | 12 | 3 | 9 |
| Trauma | 19 | 5 | 14 |
| Spine | (2) | 3 | (5) |
| Surgical and other | 8 | 4 | 4 |

ZIMMER HOLDINGS, INC. RECONCILIATION OF REPORTED % GROWTH TO CONSTANT CURRENCY % GROWTH (unaudited)

For the Nine Months Ended September 30, 2011

Foreign Constant Reported Exchange Currency

| | % Growth | <u>Impact</u> | % Growth |
|---------------------------|----------|---------------|----------|
| Geographic Segmen | ts | | |
| Americas | 1% | 1% | -% |
| Europe | 13 | 8 | 5 |
| Asia Pacific | 18 | 11 | 7 |
| Total | 6 | 3 | 3 |
| Product Categories | | | |
| Reconstructive | | | |
| Americas | (1) | - | (1) |
| Europe | 11 | 7 | 4 |
| Asia Pacific | 18 | 12 | 6 |
| Total | 5 | 4 | 1 |

| Americas Europe Asia Pacific Total | (4) 13 15 3 | - 7 12 4 | (4) 6 3 (1) |
|---|----------------------|-------------------|----------------------|
| Hips | | | |
| Americas | 2 | - | 2 |
| Europe | 10 | 8 | 2 |
| Asia Pacific | 21 | 12 | 9 |
| Total | 8 | 5 | 3 |
| Extremities | 9 | 3 | 6 |
| Dental | 18 | 3 | 15 |
| Trauma | 18 | 4 | 14 |
| Spine | (3) | 3 | (6) |
| Surgical and other | 10 | 4 | 6 |

ZIMMER HOLDINGS, INC. Reconciliation of Net Earnings and Adjusted Net Earnings For the Three Months Ended September 30, 2011 and 2010 (in millions, unaudited)

Three Months Ended September 30, 2011 2010 Net Earnings of Zimmer Holdings, Inc. \$ 191.5 \$ 191.1 1.8 Inventory step-up Special items 8.0 5.0 Taxes on inventory step-up and special items and tax adjustments related to resolution of certain tax matters* <u>(4.1)</u> (3.7)\$ 197.2 \$ 192.4 Adjusted Net Earnings

were incurred.

^{*} The tax effect is calculated based upon the statutory rates for the jurisdictions where the items

ZIMMER HOLDINGS, INC.

Reconciliation of Net Earnings and Adjusted Net Earnings For the Nine Months Ended September 30, 2011 and 2010 (in millions, unaudited)

Ended September 30,

Nine Months

| | <u>2011</u> | 2010 |
|---|---------------|---------------|
| Net Earnings of Zimmer Holdings, Inc. | \$ 604.2 | \$ 562.0 |
| Inventory step-up | 9.6 | 1.3 |
| Certain claims | 50.0 | 75.0 |
| Special items | 47.0 | 19.1 |
| Taxes on inventory step-up, certain claims and special items | | |
| and tax adjustments related to resolution of certain tax matters* | <u>(50.2)</u> | <u>(36.4)</u> |
| Adjusted Net Earnings | \$ 660.6 | \$ 621.0 |

^{*} The tax effect is calculated based upon the statutory rates for the jurisdictions where the items

were incurred.

ZIMMER HOLDINGS, INC. Reconciliation of Diluted EPS and Adjusted Diluted EPS For the Three Months Ended September 30, 2011 and 2010 (unaudited)

Three Months Ended September 30,_

| | <u>2011</u> | <u>2010</u> |
|---|-------------|---------------|
| Diluted EPS | \$ 1.01 | \$ 0.96 |
| Inventory step-up | 0.01 | - |
| Special items | 0.04 | 0.02 |
| Taxes on inventory step-up and special items and tax | | |
| adjustments related to resolution of certain tax matters* | (0.02) | (0.02) |
| | | Page 14 of 10 |

\$ 1.04

\$ 0.96

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

were incurred.

ZIMMER HOLDINGS, INC. Reconciliation of Diluted EPS and Adjusted Diluted EPS For the Nine Months Ended September 30, 2011 and 2010 (unaudited)

Nine Months

Ended September 30,

| | <u>2011</u> | <u>2010</u> |
|---|---------------|---------------|
| | | |
| Diluted EPS | \$ 3.15 | \$ 2.78 |
| Inventory step-up | 0.05 | 0.01 |
| Certain claims | 0.26 | 0.37 |
| Special items | 0.24 | 0.09 |
| Taxes on inventory step-up, certain claims and special items | | |
| and tax adjustments related to resolution of certain tax matters* | <u>(0.26)</u> | <u>(0.18)</u> |
| Adjusted Diluted EPS | \$ 3.44 | \$ 3.07 |

^{*} The tax effect is calculated based upon the statutory rates for the jurisdictions where the items

were incurred.

ZIMMER HOLDINGS, INC. Reconciliation of 2011 Projected Diluted EPS and Projected Adjusted Diluted EPS (unaudited)

| Projected Year Ended December 31, 2011: | Low | High |
|---|------|------|
| Diluted EPS | | 4.45 |
| Inventory step-up | 0.05 | 0.05 |

| Special items | 0.30 | 0.30 |
|--|---------------|---------------|
| Certain claims | 0.26 | 0.26 |
| Taxes on inventory step-up, certain claims and special items and | | |
| tax adjustments related to resolution of certain tax matters* | <u>(0.26)</u> | <u>(0.26)</u> |
| Adjusted Diluted EPS | \$ 4.75 | \$ 4.80 |

^{*} The tax effect is calculated based upon the statutory rates for the jurisdictions where the items

have or are projected to be incurred.

SOURCE Zimmer Holdings, Inc.