

RTI INTERNATIONAL METALS INC

Form 10-Q

November 03, 2006

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **001-14437**

**RTI INTERNATIONAL METALS, INC.**  
(Exact name of registrant as specified in its charter)

**Ohio**  
(State or other jurisdiction of  
incorporation or organization)

**52-2115953**  
(I.R.S. Employer  
Identification No.)

**1000 Warren Avenue, Niles, Ohio**  
(Address of principal executive offices)

**44446**  
(Zip Code)

Registrant's telephone number, including area code:  
**(330) 544-7700**

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check One):  
Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

**Yes  No**

Number of shares of the Corporation's common stock ( Common Stock ) outstanding as of October 20, 2006 was 22,851,950.

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**RTI INTERNATIONAL METALS, INC., AND SUBSIDIARIES**

As used in this report, the terms RTI, Company, Registrant, we, our and us mean RTI International Metals, Inc. and its predecessors and consolidated subsidiaries, taken as a whole, unless the context indicates otherwise.

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**Table of Contents****PART 1 FINANCIAL STATEMENTS****Item 1. Financial Statements.****RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES****Consolidated Statements of Operations  
(Unaudited)****(In thousands, except share and per share amounts)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Net sales	\$ 128,855	\$ 80,324	\$ 361,601	\$ 247,056
Cost and expenses:				
Cost of sales	81,112	53,681	242,442	170,249
Selling, general and administrative expenses	13,262	12,714	43,394	34,103
Research, technical and product development expenses	288	392	1,133	1,175
Operating income	34,193	13,537	74,632	41,529
Other (expense) income	(71)	66	182	499
Interest income, net	691	269	1,593	659
Income from continuing operations before income taxes	34,813	13,872	76,407	42,687
Provision for income taxes	11,766	5,246	27,491	15,133
Income from continuing operations	23,047	8,626	48,916	27,554
Income from discontinued operations, net of tax provision		36		87
Net income	\$ 23,047	\$ 8,662	\$ 48,916	\$ 27,641
Basic earnings per share:				
Continuing operations	\$ 1.02	\$ 0.38	\$ 2.16	\$ 1.24
Discontinued operations				
Net income	\$ 1.02	\$ 0.38	\$ 2.16	\$ 1.24
Diluted earnings per share:				
Continuing operations	\$ 1.00	\$ 0.38	\$ 2.12	\$ 1.22
Discontinued operations				

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Net income	\$	1.00	\$	0.38	\$	2.12	\$	1.22
Weighted-average shares outstanding:								
Basic		22,689,413		22,526,194		22,628,874		22,251,556
Diluted		23,017,546		22,944,670		23,036,645		22,692,283

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

**Table of Contents****RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES****Consolidated Balance Sheets****(Unaudited)****(In thousands, except share and per share amounts)**

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 76,346	\$ 53,353
Investments		2,410
Receivables, less allowance for doubtful accounts of \$2,358 and \$1,604	75,958	54,212
Inventories, net	237,535	223,394
Deferred income taxes	3,804	3,778
Other current assets	5,415	7,407
Total current assets	399,058	344,554
Property, plant and equipment, net	90,941	80,056
Goodwill	49,129	48,646
Other intangible assets, net	16,475	16,581
Deferred income taxes	5,490	5,451
Intangible pension asset	4,076	4,076
Other noncurrent assets	955	2,387
Total assets	\$ 566,124	\$ 501,751
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
Current liabilities:		
Accounts payable	\$ 28,822	\$ 25,620
Accrued wages and other employee costs	13,151	10,953
Billings in excess of costs and estimated earnings	11,639	13,352
Income taxes payable	6,476	3,367
Deferred income taxes	3	3
Other accrued liabilities	8,486	8,589
Total current liabilities	68,577	61,884
Accrued postretirement benefit cost	21,408	21,070
Accrued pension cost	25,431	25,595
Deferred income taxes	6,269	6,516
Other noncurrent liabilities	6,805	7,034
Total liabilities	128,490	122,099
Shareholders' equity:		

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Common stock, \$0.01 par value; 50,000,000 shares authorized; 23,330,193 and 23,131,378 shares issued; 22,851,950 and 22,687,306 shares outstanding	233	231
Additional paid-in capital	284,693	278,690
Deferred compensation		(3,078)
Treasury stock, at cost; 478,243 and 444,072 shares	(5,285)	(4,389)
Accumulated other comprehensive loss	(24,233)	(25,112)
Retained earnings	182,226	133,310
Total shareholders' equity	437,634	379,652
Total liabilities and shareholders' equity	\$ 566,124	\$ 501,751

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

**Table of Contents****RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows  
(Unaudited)****(In thousands)**

	<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
<b><u>OPERATING ACTIVITIES:</u></b>		
Net income	\$ 48,916	\$ 27,641
Net income from discontinued operations		(87)
Net income from continuing operations	48,916	27,554
Adjustment for non-cash items included in net income:		
Depreciation and amortization	10,596	9,739
Stock-based compensation and other	3,668	881
Excess tax benefits from stock-based compensation activity	(2,933)	3,812
Loss (gain) on sale of property, plant and equipment	95	(4)
Other	360	(590)
Changes in assets and liabilities:		
Receivables	(20,426)	(10,001)
Inventories	(13,903)	(75,166)
Accounts payable	2,198	11,067
Deferred taxes and income taxes payable	6,122	(6,292)
Billings in excess of costs and estimated earnings	(1,695)	7,593
Other current liabilities	1,271	4,461
Other assets and liabilities	3,186	(3,639)
Cash provided (used) by continuing operating activities	37,455	(30,585)
Cash provided by discontinued operating activities		79
Cash provided (used) by operating activities	37,455	(30,506)
<b><u>INVESTING ACTIVITIES:</u></b>		
Acquisitions, net of cash acquired, and other investing		(290)
Proceeds from disposal of property, plant and equipment	102	5
Proceeds from sale of investments	2,410	
Capital expenditures	(20,935)	(7,640)
Cash used by investing activities	(18,423)	(7,925)
<b><u>FINANCING ACTIVITIES:</u></b>		
Proceeds from exercise of employee stock options	2,124	13,387
Excess tax benefits from stock-based compensation activity	2,933	
Purchase of common stock held in treasury	(896)	(483)

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Cash provided by financing activities	4,161	12,904
Effect of exchange rate changes on cash and cash equivalents	(200)	474
Increase (decrease) in cash and cash equivalents	22,993	(25,053)
Cash and cash equivalents at beginning of period	53,353	62,701
Cash and cash equivalents at end of period	\$ 76,346	\$ 37,648

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

**Table of Contents****RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES****Consolidated Statement of Shareholders' Equity  
(Unaudited)****(In thousands, except share amounts)**

	Shares of Common Stock Outstanding	Common Stock	Additional Paid-in Capital	Deferred Compensation	Treasury Stock	Retained Earnings	Other Comp Income/ (Loss)	Total	Compreh Incom
December 31,	22,687,306	\$ 231	\$ 278,690	\$ (3,078)	\$ (4,389)	\$ 133,310	\$ (25,112)	\$ 379,652	
ued for directors tion	5,904								
ued for restricted rd plans	46,860	1						1	
tion expense d			3,668					3,668	
Stock purchased at	(19,871)				(896)			(896)	
from exercise of options	146,051	1	2,123					2,124	
of restricted stock	(14,300)								
its from d compensation			3,290					3,290	
R reclassification			(3,078)	3,078					
e nt to excess pension						48,916		48,916	\$ 48,9
) urrency translation							103 776	103 776	1 7
nsive income									\$ 49,7
September 30,	22,851,950	\$ 233	\$ 284,693	\$	\$ (5,285)	\$ 182,226	\$ (24,233)	\$ 437,634	

(a) Charge to minimum pension liability adjustment for the nine months ended September 30, 2006 is net of tax benefits of \$64.

*The accompanying notes are an integral part of these Consolidated Financial Statements.*



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**RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES**

**Condensed Notes to Consolidated Financial Statements  
(Unaudited)**

**(In thousands, except share and per share amounts, unless otherwise indicated)**

**Note 1 BASIS OF PRESENTATION:**

The accompanying unaudited consolidated financial statements of RTI International Metals, Inc. and its subsidiaries (the Company or RTI ) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. In the opinion of management, these financial statements contain all of the adjustments, of a normal and recurring nature considered necessary to state fairly the results for the interim periods presented. The results for the interim periods are not necessarily indicative of the results to be expected for the year.

The balance sheet at December 31, 2005 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. Although the Company believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these financial statements be read in conjunction with accounting policies and notes to consolidated financial statements included in the Company's 2005 Annual Report on Form 10-K.

**Note 2 ORGANIZATION:**

The Company is a leading U.S. producer of titanium mill products and fabricated metal components for the global market. The Company is a successor to entities that have been operating in the titanium industry since 1951. The Company first became publicly traded on the New York Stock Exchange in 1990 under the name RMI Titanium Co., and was reorganized into a holding company structure on October 1, 1998 under the symbol RTI. The Company conducts business in two segments: the Titanium Group and the Fabrication & Distribution Group ( F&D ). The Titanium Group melts and produces a complete range of titanium mill products, which are further processed by its customers for use in a variety of aerospace, defense and industrial applications. The Titanium Group also produces ferro titanium alloys for steel-making customers and processes and distributes titanium powder. The F&D Group is comprised of companies that fabricate, machine, assemble and distribute titanium and other specialty metal parts and components. Its products, many of which are engineered parts and assemblies, serve aerospace, defense, oil and gas, power generation, and chemical process industries, as well as a number of other industrial and consumer markets.

**Note 3 STOCK-BASED COMPENSATION:**

***Accounting for Stock-Based Compensation***

Prior to January 1, 2006, the Company accounted for stock-based compensation cost under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ( APB 25 ) and related Interpretations and had elected the disclosure-only alternative under the provisions of Statement of Financial Accounting Standards ( SFAS ) 123, Accounting for Stock-Based Compensation as amended by SFAS 148, for stock options awarded by the Company. For restricted stock awards, the Company had been recording

deferred stock-based compensation cost based on the intrinsic value of the Common Stock on the date of the award and amortizing the compensation over the vesting period of each individual award. For stock option awards, compensation cost was not recognized in the Consolidated Statement of Operations prior to January 1, 2006 as all options granted had an exercise price equal to the market value of the underlying Common Stock on the date of grant.

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**RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES**

**Condensed Notes to Consolidated Financial Statements  
(Unaudited)**

**(In thousands, except share and per share amounts, unless otherwise indicated)**

Effective January 1, 2006, the Company adopted SFAS 123R, Share-Based Payment, using the modified-prospective-transition method. Under that transition method, compensation cost recognized during the nine months ended September 30, 2006 includes: (a) compensation cost for all share-based payment arrangements granted, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payment arrangements granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Results for prior periods do not require adjustment under the modified-prospective-transition method.

As the Company had previously elected the disclosure-only provisions of SFAS 123, the adoption of SFAS 123R had a significant impact on our results of operations and cash flows. The Company's income before income taxes for the three and nine months ended September 30, 2006 were \$190 and \$2,384 lower, respectively. The Company's net income for the three and nine months ended September 30, 2006 were \$119 and \$1,502 lower, respectively. In addition, the Company's basic and diluted earnings per share were \$0.01 and \$0.07 lower for the three and nine months ended September 30, 2006, respectively, as a result of the adoption. Compensation cost was \$623 and \$3,668 for the three and nine months ended September 30, 2006 under the provisions of SFAS 123R and the Company expects stock-based compensation to be approximately \$4.3 million for the year ending December 31, 2006. Additional impacts of SFAS 123R are dependent upon levels of share-based awards granted on future dates. SFAS 123R also eliminates the presentation of the contra-equity account, Deferred Compensation, from the face of the Consolidated Balance Sheets and the Statement of Shareholders' Equity which was previously acceptable under APB 25. This resulted in a reclassification of \$3,078 to Additional Paid-in Capital at January 1, 2006. The cumulative effect of the adoption of SFAS 123R at January 1, 2006, related to estimates for forfeitures, did not have a material effect on the Company's operating income, income before income taxes, income from continuing operations, net income or basic and diluted earnings per share.

Prior to the adoption of SFAS 123R, the Company presented all tax benefits of deductions resulting from the exercise of stock options and vesting of restricted stock awards as operating cash inflows in the Consolidated Statements of Cash Flows. SFAS 123R requires the cash flows resulting from the windfall tax benefits resulting from tax deductions in excess of the compensation cost recognized (excess tax benefits) to be classified as financing cash inflows for periods subsequent to adoption. As a result of adoption, operating cash flows were \$2,933 lower for the nine months ended September 30, 2006. Also, financing cash flows were \$2,933 higher for the nine months ended September 30, 2006. While the Company cannot accurately estimate what those amounts will be in the future (as they depend on, among other things, when employees exercise stock options), the amount of operating cash inflows recognized for such tax deductions were \$4,592 for the year ended December 31, 2005.

Prior to the adoption of SFAS 123R, the Company applied a straight-line vesting approach to recognizing compensation cost for restricted stock awards with graded vesting. For stock option awards with graded vesting, the Company had applied a graded vesting approach in recognizing pro forma compensation cost. Under the provisions of SFAS 123R, an accounting policy decision is required to select one method for all stock-based compensation awards. The Company has elected to recognize compensation cost for all awards under the graded vesting approach for all awards granted subsequent to adoption. For awards granted prior to adoption, the Company must continue to use the vesting method previously established.

Prior to the adoption of SFAS 123R, the Company amortized the expense associated with retirement eligible employees over the explicit vesting period of the award and upon actual retirement would accelerate the remaining expense. SFAS 123R, however, requires the immediate recognition of compensation cost at the grant date of an award for retirement eligible employees. Also, for employees approaching retirement eligibility, amortization of compensation cost is to be recognized over the period from the grant date through the retirement eligibility date. For awards granted prior to the adoption of SFAS 123R, the Company will continue to recognize compensation cost for retirement eligible employees over the explicit vesting period and accelerate any remaining unrecognized

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(Unaudited)****(In thousands, except share and per share amounts, unless otherwise indicated)**

compensation cost when an employee retires. For awards granted or modified after the adoption SFAS 123R, compensation expense for retirement eligible employees will be recognized over a period to the date the employee first becomes eligible for retirement. In the event an employee is retirement eligible at the date of grant of an award then the related compensation cost would be immediately recognized. Had the Company applied the provisions of SFAS 123R related to retirement eligible employees for the nine months ended September, 2005, additional compensation cost of \$1,105 would have been incurred. No additional compensation costs would have been incurred for the three months ended September 30, 2005.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock options granted in periods prior to the adoption of SFAS 123R. For purposes of this pro forma disclosure, the value of the options was estimated using a Black-Scholes option-pricing model and amortized to expense over the stock options vesting periods using the graded vesting method.

	<b>Three Months Ended September 30, 2005</b>	<b>Nine Months Ended September 30, 2005</b>
Net income, as reported	\$ 8,662	\$ 27,641
Add: Stock-based compensation expense included in reported net income, net of related tax effects	217	554
Deduct: Total stock-based compensation expense determined under the fair value method for all awards, net of related tax effects	(367)	(1,003)
Pro forma net income	\$ 8,512	\$ 27,192
Earnings per share:		
Basic - as reported	\$ 0.38	\$ 1.24
Basic - pro forma	\$ 0.38	\$ 1.22
Diluted - as reported	\$ 0.38	\$ 1.22
Diluted - pro forma	\$ 0.37	\$ 1.20

Total compensation expense recognized in the Consolidated Statements of Operations for stock-based compensation arrangements was \$623 and \$345 for the three months ended September 30, 2006 and 2005, respectively. The total income tax benefit recognized in the Consolidated Statements of Operations for stock-based compensation arrangements was \$231 and \$128 for the three months ended September 30, 2006 and 2005, respectively.

Total compensation expense recognized in the Consolidated Statements of Operations for stock-based compensation arrangements was \$3,668 and \$881 for the nine months ended September 30, 2006 and 2005, respectively. The total income tax benefit recognized in the Consolidated Statements of Operations for stock-based compensation arrangements was \$1,357 and \$327 for the nine months ended September 30, 2006 and 2005, respectively. There was no compensation cost capitalized in inventory or fixed assets for the nine months ended September 30, 2006 or 2005.

***Stock Options and Restricted Stock Award Plans***

The 2004 Stock Plan ( 2004 Plan ), which was approved by a vote of the Company's shareholders at the 2004 Annual Meeting of Shareholders, replaced its predecessors, the 1995 Stock Plan ( 1995 Plan ) and the 2002 Non-Employee Director Stock Option Plan ( 2002 Plan ).

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(Unaudited)****(In thousands, except share and per share amounts, unless otherwise indicated)**

The 2004 Plan limits the number of shares available for issuance to 2,500,000 (plus any shares covered by stock options already outstanding under the 1995 Plan and 2002 Plan that expire or are terminated without being exercised and any shares delivered in connection with the exercise of any outstanding awards under the 1995 Plan and 2002 Plan) during its ten-year term and limits the number of shares available for grants of restricted stock to 1,250,000. The plan expires after ten years and requires that the exercise price of stock options, stock appreciation rights and other similar instruments awarded under the plan is not less than the fair market value of the Company's stock on the date of the grant award.

The restricted stock awards vest with graded vesting over a period of one to five years. Restricted stock awarded under the 2004 Plan and its predecessors entitle the holder to all the rights of Common Stock ownership except that the shares may not be sold, transferred, pledged, exchanged, or otherwise disposed of during the forfeiture period. Certain stock option and restricted stock awards provide for accelerated vesting if there is a change in control.

The fair value of stock options granted under the 2004 Plan and its predecessors was estimated at the date of grant using the Black-Scholes option-pricing model based upon the assumptions noted in the following table. The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The risk-free rate for periods over the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore an expected dividend yield of zero is used. The expected life of options granted represents the period of time that options granted are expected to be outstanding. Expected volatilities are based on historical volatility of the Company's Common Stock. Forfeiture estimates are based upon historical forfeiture rates. The following are assumptions that were used to estimate the fair value of the options granted in 2006 and 2005.

	2006	2005
Risk-free interest rate	4.37%	4.00%
Expected dividend yield	0.00%	0.00%
Expected lives (in years)	5.0	6.0
Expected volatility	40.00%	45.00%

A summary of stock option activity under the 2004 plan as of September 30, 2006, and changes during the nine months then ended are presented below:

Stock Options	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual	Aggregate Intrinsic Value
---------------	--------	---	--	---------------------------------

			<b>Term (Years)</b>		
Outstanding at December 31, 2005	601,969	\$	15.04		
Granted	71,300		45.09		
Forfeited	(11,189)		22.43		
Expired	(2,599)		12.36		
Exercised	(146,051)		14.54		
Outstanding at September 30, 2006	513,430	\$	19.25	6.50	\$ 12,493
Exercisable at September 30, 2006	330,187	\$	13.84	5.43	\$ 9,821

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(Unaudited)****(In thousands, except share and per share amounts, unless otherwise indicated)**

The weighted-average grant-date fair value of stock options granted during the nine months ended September 30, 2006 and 2005 was \$18.81 and \$11.17, respectively. The weighted-average grant-date fair value of stock options granted during the three months ended September 30, 2005 was \$17.05. There were no stock options granted during the three months ended September 30, 2006. The total intrinsic value of stock options exercised during the three months ended September 30, 2006 and 2005 was \$59 and \$3,721, respectively. The total intrinsic value of stock options exercised during the nine months ended September 30, 2006 and 2005 was \$6,517 and \$10,852, respectively. As of September 30, 2006, total unrecognized compensation cost related to nonvested stock option awards granted was \$782. That cost is expected to be recognized over a weighted-average period of approximately 8 months.

The fair value of the nonvested restricted stock awards was calculated using the market value of Common Stock on the date of issuance. The weighted-average grant-date fair value of restricted stock awards granted during the three months ended September 30, 2005 was \$34.90. There were no restricted stock awards granted during the three months ended September 30, 2006. The weighted-average grant-date fair value of restricted stock awards granted during the nine months ended September 30, 2006 and 2005 was \$46.91 and \$22.45, respectively.

A summary of the status of the Company's nonvested restricted stock as of September 30, 2006, and the changes during the nine months then ended, are presented below:

<b>Nonvested Restricted Stock Awards</b>	<b>Shares</b>	<b>Weighted-Average Grant-Date Fair Value per Share</b>
Nonvested at December 31, 2005	199,636	\$ 16.49
Granted	52,764	46.91
Vested	(77,246)	16.38
Forfeited	(14,300)	17.15
Nonvested at September 30, 2006	160,854	26.46

As of September 30, 2006, total unrecognized compensation cost related to nonvested restricted stock awards granted was \$2,402. That cost is expected to be recognized over a weighted-average period of 1.1 years. The total fair value of restricted stock awards vested during the nine months ended September 30, 2006 and 2005 was \$3,659 and \$1,579, respectively.

Cash received from stock option exercises under all share-based payment arrangements for the nine months ended September 30, 2006 and 2005 was \$2,124 and \$13,387, respectively. Cash used to settle equity instruments granted under all share-based arrangements for the nine months ended September 30, 2006 and 2005 was \$896 and \$483,

respectively. The actual tax benefit realized for the tax deductions resulting from stock option exercises and vesting of restricted stock awards for share-based payment arrangements totaled \$3,290 and \$3,812 for the nine months ended September 30, 2006 and 2005, respectively. The Company has elected to adopt the transition method described in SFAS 123R-3 for determining the windfall tax benefits related to share-based payment awards.

**Note 4 INCOME TAXES:**

For the nine months ended September 30, 2006, the annual effective rate applied to ordinary income was 37.4%, compared to a rate of 37.0% for the nine months ended September 30, 2005. The rate for both periods differs from the federal statutory rate of 35.0% principally due to state taxes.

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**RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES**

**Condensed Notes to Consolidated Financial Statements  
(Unaudited)**

**(In thousands, except share and per share amounts, unless otherwise indicated)**

Management evaluates the estimated annual effective income tax rate on a quarterly basis based on current and forecasted business levels and activities, including the mix of domestic and foreign results, and enacted tax laws. To the extent that management determines that their annual effective tax rate will vary from the previous quarter's effective rate, the income tax provision is adjusted.

Inclusive of discrete items, the Company recognized a provision for income taxes of \$11,766, or 33.8% of pre-tax income, and \$5,246, or 37.8% of pre-tax income, for federal, state, and foreign income taxes for the three months ended September 30, 2006 and 2005, respectively. The decrease in the rate for the three months ended September 30, 2006 compared to the three months ended September 30, 2005 was primarily attributable to the impact of the beneficial effects of the tax provision to return differences for federal and foreign returns filed during the three months ended September 30, 2006.

Inclusive of discrete items, the Company recognized a provision for income taxes of \$27,491 or 36.0% of pre-tax income, and \$15,133 or 35.5% of pre-tax income, for federal, state, and foreign income taxes for the nine months ended September 30, 2006 and 2005, respectively. The rate for the nine months ended September 30, 2005 was favorably impacted by a change in Ohio tax law and a change in the Company's Ohio income tax status. The rate for the nine months ended September 30, 2006 was favorably impacted by the beneficial effects of the tax provision to return differences for federal and foreign returns filed during the period.

**Note 5 EARNINGS PER SHARE:**

Earnings per share amounts for each period are presented in accordance with SFAS 128, Earnings Per Share, which requires the presentation of basic and diluted earnings per share. Basic earnings per share was computed by dividing net income by the weighted-average number of shares of Common Stock outstanding for each respective period. Diluted earnings per share was calculated by dividing net income by the weighted-average of all potentially dilutive shares of Common Stock that were outstanding during the periods presented.

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(Unaudited)****(In thousands, except share and per share amounts, unless otherwise indicated)**

Actual weighted-average shares of Common Stock outstanding used in the calculation of basic and diluted earnings per share for the three and nine months were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Numerator:				
Income from continuing operations	\$ 23,047	\$ 8,626	\$ 48,916	\$ 27,554
Income from discontinued operations, net of tax provision		36		87
Net income	\$ 23,047	\$ 8,662	\$ 48,916	\$ 27,641
Denominator:				
Basic weighted-average shares outstanding	22,689,413	22,526,194	22,628,874	22,251,556
Effect of diluted securities	328,133	418,476	407,771	440,727
Diluted weighted-average shares outstanding	23,017,546	22,944,670	23,036,645	22,692,283
Basic earnings per share:				
Continuing operations	\$ 1.02	\$ 0.38	\$ 2.16	\$ 1.24
Discontinued operations				
Net income	\$ 1.02	\$ 0.38	\$ 2.16	\$ 1.24
Diluted earnings per share:				
Continuing operations	\$ 1.00	\$ 0.38	\$ 2.12	\$ 1.22
Discontinued operations				
Net income	\$ 1.00	\$ 0.38	\$ 2.12	\$ 1.22

Options to purchase 70,100 shares of Common Stock at an average price of \$45.09 have been excluded from the calculation of diluted earnings per share because the exercise price of the options exceeded the weighted-average market price of the Company's Common Stock for the three months ended September 30, 2006. There were no options to purchase shares of Common Stock excluded from the calculation of earnings per share for the three months ended

September 30, 2005.

Options to purchase 107,852 shares of Common Stock at an average price of \$25.56 have been excluded from the calculation of diluted earnings per share because the exercise price of the options exceeded the weighted-average market price of the Company's Common Stock for the nine months ended September 30, 2005. There were no options to purchase shares of Common Stock excluded from the calculation of earnings per share for the nine months ended September 30, 2006.

**Note 6 INVENTORIES:**

Inventories are valued at cost as determined by the last-in, first-out ( LIFO ) method for approximately 55.1% and 57.4% of the Company's inventories at September 30, 2006 and December 31, 2005, respectively. The remaining inventories are valued at cost determined by a combination of the first-in, first-out ( FIFO ) and

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weighted-average cost methods. Inventory costs generally include materials, labor and manufacturing overhead (including depreciation). When market conditions indicate an excess of carrying cost over market value, a lower-of-cost-or-market provision is recorded. Inventories consisted of the following:

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
Raw materials and supplies	\$ 72,387	\$ 66,533
Work-in-process and finished goods	211,053	195,870
Less: LIFO reserve	(45,905)	(39,009)
Inventories, net	\$ 237,535	\$ 223,394

**Note 7 GOODWILL AND OTHER INTANGIBLE ASSETS:**

Under SFAS No. 142 Goodwill and Intangible Assets, goodwill is subject to at least an annual assessment for impairment by applying a fair value based test. Absent any events throughout the year which would indicate an impairment, the Company performs annual impairment testing during the fourth quarter. There have been no impairments to date. In the case of goodwill and long-lived assets, if future product demand or market conditions reduce management's expectation of future cash flows from these assets, a write-down of the carrying value of goodwill or long-lived assets may be required.

***Goodwill***

The carrying amount of goodwill attributable to each segment at December 31, 2005 and September 30, 2006 was as follows:

	<b>December 31, 2005</b>	<b>Translation Adjustment</b>	<b>September 30, 2006</b>
Titanium Group	\$ 2,591	\$	\$ 2,591
Fabrication & Distribution Group	46,055	483	46,538
Total goodwill	\$ 48,646	\$ 483	\$ 49,129

***Intangibles***

Intangible assets consist of customer relationships as a result of our acquisition of Claro Precision, Inc in 2004. These intangible assets, which were valued at fair value with the assistance of outside experts, are being amortized over 20 years. In the event that demand or market conditions change and the expected future cash flows associated with these assets is reduced, a write-down or acceleration of the amortization period may be required.

The carrying amount of intangible assets attributable to each segment at December 31, 2005 and September 30, 2006 was as follows:

	<b>December 31, 2005</b>	<b>Amortization</b>	<b>Translation Adjustment</b>	<b>September 30, 2006</b>
Titanium Group	\$	\$	\$	\$
Fabrication & Distribution Group	16,581	(603)	497	16,475
Total intangible assets	\$ 16,581	\$ (603)	\$ 497	\$ 16,475

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**RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES**

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**Note 8 BILLINGS IN EXCESS OF COSTS AND ESTIMATED EARNINGS:**

The Company reported a liability for billings in excess of costs and estimated earnings of \$11,639 as of September 30, 2006 and \$13,352 as of December 31, 2005. These amounts primarily represent payments, received in advance from energy market customers on long-term orders, which the Company has not recognized as revenues.

**Note 9 OTHER (EXPENSE) INCOME:**

Other (expense) income for the three months ended September 30, 2006 and 2005 was \$(71) and \$66 respectively. Other (expense) income for the nine months ended September 30, 2006 and 2005 was \$182 and \$499, respectively. Foreign exchange gains from international operations are included in other (expense) income.

**Note 10 EMPLOYEE BENEFIT PLANS:**

The Company provides defined benefit pension plans for certain of its salaried and represented workforce. Benefits for its salaried participants are generally based on participant's years of service and compensation. Benefits for represented pension participants are generally determined based on an amount for years of service. Other Company employees participate in 401(k) plans whereby the Company may provide a match of employee contributions. The policy of the Company with respect to its defined benefit plans is to contribute at least the minimum amounts required by applicable laws and regulations.

On August 17, 2006, President Bush signed the Pension Protection Act of 2006 into law. The Company is currently evaluating the effects of this new legislation.

During the nine months ended September 30, 2006, a voluntary contribution of \$2.9 million was made to the defined benefit pension plans. The Company may contribute additional amounts during 2006 if the Company determines this to be appropriate.

The cost of the Company's retiree health care plans ( Other Postretirement Benefits ) is capped at predetermined out-of-pocket spending limits. Retiree health care is available to participants in the defined benefit pension plans. Benefit payments are made from Company assets and are not funded.

The defined benefit pension plan disclosure below includes the Company's four qualified pension plans, and two non-qualified pension plans. Components of net periodic pension and other postretirement benefit cost for the three and nine months ended September 30 for those salaried and hourly covered employees were as follows:

<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
<b>Three Months Ended September 30,</b>	<b>Nine Months Ended September 30,</b>	<b>Three Months Ended September 30,</b>	<b>Nine Months Ended September 30,</b>

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	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Service cost	\$ 509	\$ 550	\$ 1,527	\$ 1,650	\$ 112	\$ 96	\$ 336	\$ 288
Interest cost	1,619	1,592	4,857	4,776	397	410	1,192	1,230
Expected return on plan assets	(2,014)	(1,922)	(6,043)	(5,766)				
Amortization of prior service cost	208	160	624	480	44	44	131	132
Amortization of unrealized gains and losses	621	510	1,863	1,530	96	93	289	279
Net periodic benefit cost	\$ 943	\$ 890	\$ 2,828	\$ 2,670	\$ 649	\$ 643	\$ 1,948	\$ 1,929

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**Note 11 COMMITMENTS AND CONTINGENCIES:**

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. In our opinion, the ultimate liability, if any, resulting from these matters will have no significant impact on our consolidated financial statements. Given the critical nature of many of the aerospace end uses for the Company's products, including specifically their use in critical rotating parts of gas turbine engines, the Company maintains aircraft products liability insurance of \$350 million, which includes grounding liability.

***Environmental Matters***

The Company is subject to environmental laws and regulations as well as various health and safety laws and regulations that are subject to frequent modifications and revisions. During the nine months ended September 30, 2006, the Company paid \$2,278 against previously recorded liabilities for environmental remediation, compliance, and related services. While the costs of compliance for these matters have not had a material adverse impact on the Company in the past, it is impossible to accurately predict the ultimate effect these changing laws and regulations may have on the Company in the future. The Company continues to evaluate its obligation for environmental related costs on a quarterly basis and make adjustments in accordance with provisions of Statement of Position 96-1, Environmental Remediation Liabilities and SFAS 5, Accounting for Contingencies.

Given the status of the proceedings at certain of these sites, and the evolving nature of environmental laws, regulations, and remediation techniques, the Company's ultimate obligation for investigative and remediation costs cannot be predicted. It is the Company's policy to recognize environmental costs in the financial statements when an obligation becomes probable and a reasonable estimate of exposure can be determined. When a single estimate cannot be reasonably made, but a range can be reasonably estimated, the Company accrues the amount it determines to be the most likely amount within that range.

At September 30, 2006 and December 31, 2005, the amounts accrued for future environmental-related costs were \$3,451 and \$5,638, respectively. Of the total amount accrued at September 30, 2006, \$1,341 is expected to be paid out within one year and is included in other accrued liabilities on the balance sheet. The remaining \$2,109 is recorded in other noncurrent liabilities.

Based on available information, RTI believes that its share of possible environmental-related costs is in a range from \$2,293 to \$6,802 in the aggregate. The Company has included \$485 and \$771 in current and noncurrent assets, respectively, for expected contributions from third parties. These third parties include prior owners of RTI property and prior customers of RTI that have agreed to partially reimburse the Company for certain environmental-related costs. The Company has been receiving contributions from such third parties for a number of years as partial reimbursement for costs incurred by the Company.

As these proceedings continue toward final resolution, amounts in excess of those already provided may be necessary to discharge the Company from its obligations for these sites.

*Active Investigative or Cleanup Sites.* The Company is involved in investigative or cleanup projects at certain waste disposal sites, including those discussed below.

*Ashtabula River.* The Ashtabula River Partnership ( ARP ), a group of public and private entities including, among others, the Company, the Environmental Protection Agency ( EPA ), the Ohio EPA, and the U.S. Army Corps of Engineers was formed to bring about the navigational dredging and environmental restoration of the river. In December 2005, the EPA announced it was funding fifty percent of the upstream portion of the project using Great Lakes Legacy Act funds. Ohio EPA signed an agreement to contribute the \$7 million previously pledged. The Ashtabula River Cooperating Group II ( ARCG II ), a group of companies including RTI s subsidiary, RMI Titanium Company, which collectively agreed on a cost allocation, has agreed to fund the remaining share of the

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**RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES**

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work. Current cost estimates for the project range from approximately \$50 to \$60 million. The remaining downstream portion of the project is expected to be funded under the Water Resources Development Act. In addition, the ARCG II, and others, have received a notice of claim for Natural Resource Damages to the River and the amount of that claim remains to be negotiated with the Natural Resource Trustees. For the nine months ended September 30, 2006, the Company paid \$2,134 in remediation for this project.

*Former Ashtabula Extrusion Plant.* The Company's former extrusion plant in Ashtabula, Ohio was used to extrude uranium under a contract with the Department of Energy (DOE) from 1962 through 1990. In accordance with that agreement, the DOE retained responsibility for the cleanup of the facility when it was no longer needed for processing government material. Processing ceased in 1990, and in 1993 RTI was chosen as the prime contractor for the remediation and restoration of the site by the DOE. In December 2003 the DOE terminated the contract. In September 2005, the DOE entered into an agreement with a third party to complete the site remediation, which is expected to be complete by the end of 2006. In December 2005, the DOE paid the Company a settlement sufficient to cover all expenses incurred by the Company as a result of the contract termination. As license holder and owner of the site, RTI remains present at the site to act as regulatory liaison with the third party remediation contractor. There have been no significant updates to this project during the nine months ended September 30, 2006.

*Reserve Environmental Services Landfill.* In 1998, the Company and eight others entered into a Settlement Agreement regarding a closed landfill near Ashtabula, Ohio known as Reserve Environmental Services (RES). In 2004, the EPA issued a consent decree to RES and it appears final design will occur in 2006 and remediation will be completed in 2006 and 2007. There have been no significant updates to this project during the nine months ended September 30, 2006.

***Other Legal Matters***

The Company is also the subject of, or a party to, a number of other pending or threatened legal actions involving a variety of matters incidental to its business. The Company is of the opinion that the ultimate resolution of these matters will not have a significant impact on the results of the operations, cash flows or the financial position of the Company.

**Note 12 LONG-TERM DEBT:**

On July 25, 2006, the Company entered into the second amendment to its existing credit agreement dated April 2, 2002 which was previously amended on September 4, 2004. The amendment was entered into to allow the Company to obtain financing for its capital expansion efforts at its Montreal, Quebec location outside of the credit agreement.

The substantive terms and conditions of the amended agreement remain unchanged and provide for \$90 million of standby credit through May 31, 2008. The Company has the option to increase the available credit to \$100 million with the addition of another bank, without the approval of the existing bank group.

Under the terms of the facility, we, at our option, will be able to borrow at (a) a base rate (which is the higher of PNC Bank's prime rate or the Federal Funds Effective Rate plus 0.5% per annum), or (b) LIBOR plus a spread (ranging

from 1.0% to 2.25%) determined by the ratio of our consolidated total indebtedness to consolidated earnings before interest, taxes, depreciation and amortization. The credit agreement contains restrictions, among others, on the minimum cash flow required, and the maximum leverage ratio permitted. At September 30, 2006, there was approximately \$1.3 million of standby letters of credit outstanding under the facility, we were in compliance with all covenants, and had a borrowing capacity equal to \$88.7 million.

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On August 3, 2006, the Company entered into an interest-free loan agreement which allows for borrowings of up to \$5.175 million Canadian dollars. At September 30, 2006 exchange rates, this agreement allows for borrowings of up to \$4.6 million U.S. dollars. The Company anticipates utilizing all availability associated with this credit facility over the next twelve months. This loan was obtained through an affiliate of the Canadian government and is to be used for new equipment related to the capital expansion efforts at the Company's Montreal, Quebec facility. Under the terms of the loan, principal will be repaid in sixty equal, monthly and consecutive payments beginning twenty-four months following the first disbursement of the loan. The Company had no borrowings outstanding as of September 30, 2006.

**Note 13 SEGMENT REPORTING:**

The Company's reportable segments are the Titanium Group and the Fabrication & Distribution Group.

The Titanium Group manufactures and sells a wide range of titanium mill products to a customer base consisting primarily of manufacturing and fabrication companies in the aerospace and nonaerospace markets. Titanium mill products consist of basic mill shapes such as ingot, slab, bloom, billet, bar, plate and sheet. Titanium mill products are sold primarily to customers such as metal fabricators, forge shops and, to a lesser extent, metal distribution companies. Titanium mill products are usually raw or starting material for these customers, who then form, fabricate or further process mill products into finished or semi-finished components or parts.

The Fabrication & Distribution Group is engaged primarily in the fabrication of titanium, specialty metals and steel products, including pipe and engineered tubular products, for use in the oil and gas and geo-thermal energy industries; hot and superplastically formed parts; and cut, forged, extruded and rolled shapes for aerospace and nonaerospace applications. This segment also provides warehousing, distribution, finishing, cut-to-size and just-in-time delivery services of titanium, steel and other metal products.

Intersegment sales are accounted for at prices which are generally established by reference to similar transactions with unaffiliated customers. Reportable segments are measured based on segment operating income after an allocation of certain corporate items such as general corporate overhead and expenses. Assets of general corporate activities include unallocated cash and deferred taxes.

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A summary of financial information by reportable segment is as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Net sales:</b>				
Titanium Group	\$ 53,853	\$ 30,155	\$ 154,040	\$ 92,978
Intersegment sales	40,789	23,296	105,647	66,346
Total Titanium Group net sales	94,642	53,451	259,687	159,324
Fabrication & Distribution Group	75,002	50,169	207,561	154,078
Intersegment sales	1,290	1,714	4,600	3,754
Total Fabrication & Distribution Group net sales	76,292	51,883	212,161	157,832
Eliminations	42,079	25,010	110,247	70,100
Total consolidated net sales	\$ 128,855	\$ 80,324	\$ 361,601	\$ 247,056
<b>Operating income:</b>				
Titanium Group before corporate allocations	\$ 26,066	\$ 13,292	\$ 59,714	\$ 34,829
Corporate allocations	(1,657)	(2,372)	(6,474)	(5,153)
Total Titanium Group operating income	24,409	10,920	53,240	29,676
Fabrication & Distribution Group before corporate allocations	13,507	6,399	33,883	21,765
Corporate allocations	(3,723)	(3,782)	(12,491)	(9,912)
Total Fabrication & Distribution Group operating income	9,784	2,617	21,392	11,853
Total consolidated operating income	\$ 34,193	\$ 13,537	\$ 74,632	\$ 41,529
<b>Income from continuing operations before income taxes:</b>				
Titanium Group	\$ 24,809	\$ 11,070	\$ 54,235	\$ 30,284
Fabrication & Distribution Group	10,004	2,802	22,172	12,403
Total consolidated income from continuing operations before income taxes	\$ 34,813	\$ 13,872	\$ 76,407	\$ 42,687

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
<b>Assets:</b>		
Titanium Group	\$ 228,642	\$ 230,477
Fabrication & Distribution Group	270,946	231,658
General corporate assets	66,536	39,616
Total consolidated assets	\$ 566,124	\$ 501,751

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(Unaudited)****(In thousands, except share and per share amounts, unless otherwise indicated)****Note 14 DISCONTINUED OPERATIONS:**

The Company's financial statements were impacted by the discontinuance of two business units during 2005. These businesses have been accounted for in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Accordingly, any operating results of these businesses are presented in the Company's Consolidated Statements of Operations as discontinued operations, net of tax, and all footnotes have been reclassified.

In December 2005, the Company declared its operations located in Ashtabula, Ohio operating under the name of RMI Environmental Services ( RMIES ) and Earthline Technologies ( Earthline ) as discontinued operations. Both operations had been reported within the Titanium reportable segment. The operating results of both business units for the three and nine months ended September 30, 2005, as summarized below have been reclassified and are presented as discontinued operations:

	<b>Three Months Ended September 30, 2005</b>	<b>Nine Months Ended September 30, 2005</b>
Net sales	\$ 843	\$ 2,638
Income before income taxes	58	140
Provision for income taxes	(22)	(53)
Net income from discontinued operations	\$ 36	\$ 87

**Note 15 NEW ACCOUNTING STANDARDS:**

In December 2004, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 151 Inventory Costs ( SFAS 151 ). The Company adopted SFAS 151 on a prospective basis as of January 1, 2006. SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling cost, and wasted material. SFAS 151 requires that those items if abnormal be recognized as expenses in the period incurred. SFAS 151 requires the allocation of fixed production overheads to the costs of conversion based upon the normal capacity of the production facilities. The adoption of this Statement did not have a material effect on the Company's financial condition, results of operations or cash flows.

In July 2006, the FASB issued Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109 . FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. FIN 48 is effective in the first quarter of 2007. The Company is currently evaluating the impact of this statement.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ( SFAS 158 ). SFAS 158 requires employers to recognize the obligations associated with the funded status of a benefit plan in their statement of financial position. The provisions of SFAS 158 are effective as of the end of the fiscal year ending December 31, 2006. The Company is currently evaluating the impact of the provisions of SFAS 158.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective for the fiscal year beginning January 1, 2008. The Company is currently evaluating the impact of the provisions of SFAS 157.

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

**Forward-Looking Statements**

The following discussion should be read in connection with the information contained in the Consolidated Financial Statements and Notes to Consolidated Financial Statements. The following information contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, and is subject to the safe harbor created by that Act. Such forward-looking statements may be identified by their use of words like expects, anticipates, intends, projects, or other words of similar meaning. Forward-looking statements are based on expectations and assumptions regarding future events. In addition to factors discussed throughout this quarterly report, the following factors and risks should also be considered, including, without limitation:

- statements regarding the future availability and prices of raw materials,
- competition in the titanium industry,
- demand for the Company's products,
- the historic cyclicity of the titanium and aerospace industries,
- increased defense spending,
- the success of new market development,
- long-term supply agreements,
- legislative challenges to the Specialty Metals Clause of the Berry Amendment,
- global economic activities,
- the successful completion of our expansion projects,
- the Company's order backlog and the conversion of that backlog into revenue, and
- other statements contained herein that are not historical facts.

Because such forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These and other risk factors are set forth in this, as well as in other filings with the Securities and Exchange Commission (SEC) over the last 12 months, copies of which are available from the SEC or may be obtained upon request from the Company.

**Overview**

RTI International Metals, Inc. (the Company, RTI, we, us, or our) is a leading U.S. producer of titanium mill products and fabricated metal parts for the global market.

We recognized income from continuing operations for the three months ended September 30, 2006 of \$23.0 million, or \$1.00 per diluted share, on sales of \$128.9 million, compared with income from continuing operations of \$8.6 million or \$0.38 per diluted share, on sales of \$80.3 million for the three months ended September 30, 2005. We recognized income from continuing operations for the nine months ended September 30, 2006 of \$48.9 million, or \$2.12 per diluted share, on sales of \$361.6 million, compared with income from continuing operations of \$27.6 million or \$1.22 per diluted share, on sales of \$247.1 million for the nine months ended September 30, 2005. Our increased sales and profitability as compared to the same period in the prior year was driven primarily by the continued strong demand from the aerospace market for our titanium products across both of our operating segments.

### **Discontinued Operations**

Our historical financial statements were impacted by the discontinuance of two business units during 2005. These businesses have been accounted for in accordance with Statement of Financial Accounting Standards

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( SFAS ) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Accordingly, any operating results of these businesses are presented in our Consolidated Statements of Operations as discontinued operations, net of tax, and all footnotes have been reclassified. The operating results of these two business units included net sales of \$0.8 and \$2.6 million and net income of \$36 and \$87 thousand in the three and nine months ended September 30, 2005, respectively. As these business units were discontinued in 2005, there was no impact to our operating results for the three and nine months ended September 30, 2006.

**Results of Operations**

We conduct business in two reportable segments: the Titanium Group and the Fabrication & Distribution Group ( F&D ). The Titanium Group melts and produces a complete range of titanium mill products, which are further processed by its customers for use in a variety of aerospace and industrial applications. The F&D Group is comprised of companies that fabricate, machine, assemble and distribute titanium and other specialty metal parts and components. Its products, many of which are engineered parts and assemblies, serve aerospace, oil and gas, power generation, and chemical process industries, as well as a number of other industrial and consumer markets.

**Three Months Ended September 30, 2006 Compared To Three Months Ended September 30, 2005**

*Net Sales.* Net sales for our reportable segments, excluding intersegment sales, for the three months ended September 30, 2006 and 2005 are summarized in the following table:

<i>(In millions)</i>	<b>Three Months Ended</b>		<b>\$ Increase/</b>	<b>% Increase/</b>
	<b>September 30, 2006</b>	<b>Name</b>		
Number of Options Granted				
Grant Date Fair Value of Options Granted				
Number of Shares of Restricted Stock Granted				
Grant Date Fair Value of Restricted Stock Granted				

Robert J. Palmisano

145,128

\$  
1,155,050

55,715

\$  
1,186,887

Lance A. Berry

20,838

164,567

8,003

168,910

Daniel J. Garen

65,489

448,837

5,951

126,007

Pascal E.R. Girin

184,500

1,517,310

—

—

William L. Griffin, Jr.

22,042

174,076

8,465

178,663

Our Compensation Committee estimates that we provide our executive officers with equity compensation of approximately 34% to 60% of overall compensation.

Inducement Stock Option Grants. In light of the challenges we faced attracting a new CEO and other senior executives, including, among other things, the operational challenges described above under “Significant Factors Impacting Executive Compensation,” our size relative to competitors, the location of our corporate headquarters and the competitive marketplace for talented and experienced senior executives, we recognized a need for competitive pay packages that included meaningful equity

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grants. Between September 2011 and November 2012, we hired Messrs. Palmisano, Garen, Girin and Lightman, and Ms. Tracy, who we refer to collectively, as the new executives. Consistent with our general compensation practices and objectives, we granted inducement stock options to the new executives as set forth in the table below.

Name	Date	Number of Shares	Exercise Price
Robert J. Palmisano, President and Chief Executive Officer	9/17/2011	610,000	\$ 16.03
Daniel J. Garen, Senior Vice President and Chief Compliance Officer	1/30/2012	50,000	\$ 17.35
Pascal E.R. Girin, Executive Vice President and Chief Operating Officer	11/26/2012	184,500	\$ 21.24
James A. Lightman, Senior Vice President and General Counsel	12/29/2011	65,000	\$ 16.23
Julie D. Tracy, Senior Vice President, Chief Communications Officer	10/17/2011	30,000	\$ 18.33
New executives as a group		939,500	

In light of the challenges we faced and the results we achieved, we believe the compensation paid to the new executives, including the inducement stock option grants, was reasonable, competitive and in the best interest of our stockholders.

**Other Elements of Compensation and Perquisites.** In order to attract and retain employees while paying market levels of compensation, we provide our executive officers the following benefits and perks.

**Medical Insurance.** We provide to each executive officer and the executive officer's spouse and children such health, dental, and vision insurance coverage as we may from time to time make available to our other employees. We pay a portion of the premiums for this insurance for all employees.

**Life and Disability Insurance.** We provide to each executive officer such life and/or disability insurance, as we, in our sole discretion, may from time to time make available to our other executive employees of the same level of employment.

**Housing Allowance & Relocation Costs.** In order to attract and retain management talent, we provide relocation benefits, including a housing allowance, to certain executive officers upon their employment with us. The allowance is intended to partially defray the additional cost of housing while the employee relocates as well as actual expenses related to the sale and purchase of a home, household moving expenses and similar related items. We provide the same relocation benefits to all senior management employees. We gross up certain of these relocation benefits because such benefits result in taxable income to relocating executive officers.

**Defined Contribution Plan.** We, and our designated affiliates, offer a Section 401(k) Savings/Retirement Plan (401(k) Plan), a tax-qualified retirement plan, to our eligible employees. Our 401(k) Plan permits eligible employees to defer from 1% to 100% of their annual eligible compensation, subject to certain limitations imposed by the Code. The employees' elective deferrals are immediately vested and non-forfeitable in the 401(k) Plan. We currently match up to 4% of our employee's contributions to the 401(k) Plan.

**Stock Purchase Plan.** Our 2002 Employee Stock Purchase Plan (ESPP), which qualifies under Section 423 of the Code, permits participants to purchase our common stock on favorable terms. ESPP participants are granted a purchase right to acquire shares of common stock at a price that is 85% of the stock price on either the first day of the plan period or the stock price on the last day of the plan period, whichever is lower. The purchase dates occur on the last business day of June and December of each year. To pay for the shares, each participant may authorize periodic payroll deductions from their cash compensation, subject to certain limitations imposed by the Code. All payroll deductions collected from the participant in a period are automatically applied to the purchase of common stock on that period's purchase date provided the participant remains an eligible employee and has not withdrawn from the ESPP prior to that date. Our ESPP is available only to U.S. employees. Shares of stock purchased pursuant to the

ESPP are generally subject to a holding period lasting between one and one and one-half years after such stock is purchased, during which time the shares may not be sold, exchanged, pledged, hypothecated, or otherwise transferred, except in the case of demonstrated financial emergency.

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Other. We make available certain other perquisites or fringe benefits to certain executive officers, such as travel insurance, airline club dues, professional society dues, reimbursement of financial planning, and insurance.

Severance Benefits. We believe that companies should provide their executive officers with reasonable severance benefits, which should reflect the fact that it may be difficult for them to find comparable employment within a short period of time, that the executive officers will be better able to focus on their respective duties without the worry and uncertainty related to being terminated, and that executive officers' interests should be aligned with our stockholders' interests in connection with a potential change in control. Further, severance benefits help clarify what will happen in the event of our executive officers' termination from employment. To that end, we have entered into amended and restated separation pay agreements with each of Messrs. Berry, Garen and Griffin, effective November 6, 2012, and a separation pay agreement with Mr. Girin, effective November 26, 2012, collectively, the separation pay agreements. The terms of the separation pay agreements each continue until its third anniversary. The terms of each separation pay agreement will be extended automatically for one additional year unless we or the executive officer provide notice of termination of the separation pay agreement. Our employment agreement with Mr. Palmisano also included a provision for separation pay. Under all employment agreements and separation pay agreements, in the event that the executive officer is terminated for cause or the executive officer terminates employment other than for good reason we shall have no obligations other than payment of accrued obligations described below. In the event of an involuntary termination of Messrs. Palmisano, Berry, Garen, Girin or Griffin, we will be obligated to pay a separation payment and accrued obligations and provide benefits to the executive officer as described below pursuant to the separation pay agreements or Mr. Palmisano's employment agreement, as applicable.

Accrued Obligations. Under the separation pay agreements, accrued obligations include (i) any accrued base salary through the date of termination, (ii) any annual cash incentive compensation awards earned but not yet paid, (iii) the value of any accrued vacation, (iv) reimbursement for any unreimbursed business expenses, and, (v) only in the case of an involuntary termination after a change in control or a termination at any time by reason of death, an annual incentive payment at target for the year that includes the date of termination, prorated for the portion of the year that the executive officer was employed. Under Mr. Palmisano's employment agreement, Mr. Palmisano has the right to receive the accrued obligations specified in clauses (i) through (iv) above, his target annual incentive for the year, whether or not termination is made upon a change in control, and a monthly amount equal to the monthly rental payment under a housing lease until its expiration.

Separation Payment upon Involuntary Termination Prior to Change in Control and After the Change in Control Protection Period Expires. The total separation payment for Messrs. Berry, Garen, Girin, and Griffin, prior to a change in control or after the change in control protection period expires, is the amount equal to the sum of (i) the executive's then current annual base salary plus (ii) the executive's then current annual target bonus; provided that if the executive's annual base salary or target bonus has been reduced during the sixty day period prior to the separation, then for purposes of the separation payment calculation, the higher figure will be used. Half of the total separation payment amount will be payable at or within a reasonable time after the date of termination. The remaining half of the total separation payment amount will be payable in installments beginning six months after the date of termination, with a final installment of the balance of the remaining half of the total separation payment to be made on or before March 15 of the calendar year following the year of termination. The total separation payment for Mr. Palmisano is the amount equal to 48 months multiplied by his monthly base salary. The separation payment, as applicable, will be paid to Mr. Palmisano in a lump sum, less all applicable taxes withheld, on the 60th day following the date of termination.

Separation Payment upon Involuntary Termination in Connection with and after a Change in Control. The total separation payment for Messrs. Berry, Garen, Girin, and Griffin, prior to a change in control or after the change in control protection period expires, is the amount equal to two times (2x) the sum of (i) the executive's then current annual base salary plus (ii) the executive's then current annual target bonus; provided that if the executive's annual base salary or target bonus has been reduced during the sixty day period prior to the separation, then for purposes of the separation payment calculation, the higher figure will be used. Half of the total separation payment amount will be

payable at or within a reasonable time after the date of termination. The remaining half of the total separation payment amount will be payable in installments beginning six months after the date of termination, with a final installment of the balance of the remaining half of the total separation payment to be made on or before March 15 of the calendar year following the year of termination. The total separation payment for Mr. Palmisano is the amount equal to 72 months multiplied by his monthly base salary, in the event Mr. Palmisano is terminated in connection with a change in control. The separation payment, as applicable, will be paid to Mr. Palmisano in a lump sum, less all applicable taxes withheld, on the 60th day following the date of termination.

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Benefits upon Involuntary Termination Prior to Change in Control and After the Change in Control Protection Period Expires. Messrs. Berry, Garen, Girin and Griffin pursuant to the terms of their respective separation pay agreements, will also receive benefits that include (i) health and dental coverage under the Consolidated Omnibus Budget Reconciliation Act (COBRA), which we must pay for a period of up to 12 months, (ii) outplacement assistance for a period of 12 months, subject to termination if the executive officer accepts employment with another employer, (iii) financial planning services for a period of 12 months, (iv) payment to continue insurance coverage equal to the annual supplemental executive officer insurance benefit provided to the executive officer prior to the date of termination, and (v) reasonable attorneys' fees and expenses if any such fees or expenses are incurred to enforce the separation pay agreement.

Benefits upon Involuntary Termination in Connection with and after a Change in Control. Messrs. Berry, Garen, Girin and Griffin pursuant to the terms of their respective separation pay agreements, will also receive benefits that include (i) health and dental coverage under the Consolidated Omnibus Budget Reconciliation Act (COBRA), which we must pay for a period of up to 18 months, (ii) outplacement assistance for a period of two years, subject to termination if the executive officer accepts employment with another employer, (iii) financial planning services for a period of two years, (iv) payment to continue insurance coverage equal to twice the annual supplemental executive officer insurance benefit provided to the executive officer prior to the date of termination, and (v) reasonable attorneys' fees and expenses if any such fees or expenses are incurred to enforce the separation pay agreement.

Benefits upon Involuntary Termination for Mr. Palmisano. Mr. Palmisano, whether or not paid in connection with a change in control, is entitled to receive (i) health and dental coverage under the Consolidated Omnibus Budget Reconciliation Act (COBRA), which we must pay for a period of up to 12 months, (ii) outplacement assistance for a period of 12 months, subject to termination if the executive officer accepts employment with another employer, (iii) financial planning services for a period of 12 months, and (iv) reasonable attorneys' fees and expenses if any such fees or expenses are incurred to enforce the separation pay agreement. If Mr. Palmisano has elected to obtain medical insurance personally, then, instead of receiving the COBRA benefits described in clause (i) above, he would continue to receive reimbursement of insurance premiums for a period of 12 months.

Pursuant to the separation pay agreements and the employment agreement with Mr. Palmisano, involuntary termination will occur if we terminate the employment of the executive officer other than for cause, disability, voluntary retirement or death of the executive officer or if the executive officer resigns for good reason. A termination of the executive officer before a change in control by reason of the executive officer's retirement on or after age 65 does not constitute an involuntary termination.

The definition of cause under the separation pay agreements includes (i) willful failure of the executive officer to substantially perform the executive officer's duties that amounts to an intentional and extended neglect of the executive officer's duties, (ii) only prior to a change in control, continued, documented poor performance after giving the executive officer sufficient time to improve, (iii) the determination by our Board of Directors that the executive officer has engaged or is about to engage in conduct materially injurious to us, (iv) the executive officer's conviction or entering of a guilty or no contest plea to a felony charge, or (v) the executive officer's participation in the activities proscribed by the confidentiality, non-solicitation, and non-competition covenants described below or a material breach of any of the other covenants contained in the separation pay agreement. The definition under Mr. Palmisano's employment agreement includes (a) clauses (i) and (iii) through (v) above, (b) the determination by the Board that the executive has engaged in or is about to engage in conduct that is materially inconsistent with our legal and healthcare compliance policies, programs or obligations, and (c) the executive's bar from participation in programs administered by the United States Department of Health and Human Services or the United States Food and Drug Administration or any succeeding agencies.

Prior to a change in control, the definition of good reason under the separation pay agreements includes (i) the assignment to the executive officer of any duties materially inconsistent with the range of duties and responsibilities

appropriate to our senior executive officer, (ii) a material reduction in the executive officer's overall standing and responsibilities, provided however, that no change in reporting relationship resulting from organization realignment due to the addition of a chief operating officer or chief commercial officer shall be excepted, (iii) a material reduction in the executive officer's aggregate annualized compensation and benefits opportunities, (iv) our failure to pay the executive officer any portion of the executive officer's compensation and benefits within 30 days after they become due, (v) the failure by us to obtain an agreement from any our successors requiring such successor to assume and agree to perform our obligations under the separation pay agreement, (vi) the failure by us to provide indemnification and directors and officers insurance protection contemplated by the agreement, (viii) the relocation of

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the executive officer's principal place of employment to a location that is more than 40 miles from the executive officer's prior principal place of employment or (viii) the failure by us to comply with any material provision of the separation pay agreement.

The definition of good reason under Mr. Palmisano's employment agreement includes (i) the assignment to the executive officer of any duties materially inconsistent with the range of duties and responsibilities appropriate to our senior executive officer, (ii) a material and adverse change in the executive officer's titles, authority as President and Chief Executive Officer, duties, responsibilities or reporting lines, (iii) a material reduction in the executive officer's aggregate annualized compensation and benefits opportunities, (iv) our failure to pay the executive officer any portion of the executive officer's compensation and benefits within 30 days after they become due, (v) the failure by us to obtain an agreement from any our successors requiring such successor to assume and agree to perform our obligations under the employment agreement, (vi) the failure by us to provide indemnification and directors and officers insurance protection contemplated by the agreement, (vii) the failure to agree on an alternative compensation for equity incentive compensation under certain circumstances, (viii) the relocation of the executive's principal place of employment to a location that is more than 40 miles from the executive officer's principal place of employment immediately prior to such move, and (ix) the failure by us to comply with any material provision in the employment agreement.

Under Mr. Palmisano's employment agreement and the separation pay agreements with Messrs. Berry, Garen, Girin and Griffin, the executive officer makes certain covenants that impose future obligations on the executive officer regarding confidentiality of information, transfer of inventions, nonsolicitation of our employees for a period of 12 to 24 months, and noncompetition with our business for a period of 12 to 24 months. If we determine that a breach of any of these covenants has occurred, then our obligations to make payments or provide benefits shall cease immediately and permanently, and the executive officer shall repay an amount equal to (i) 30% of the payments and benefits previously provided under the employment agreement, with interest, (ii) 90% of the payments and benefits previously provided under the respective separation pay agreement, with interest, as applicable. Upon termination for any reason other than cause, the executive officer must enter into a mutual release of all claims within 45 days after the date of termination before any payments will be made to the executive officer.

If we are required to restate our balance sheet or statement of operations affecting any reporting period that transpires during the term of any employment agreement or separation pay agreement due to our material noncompliance with any financial requirements under securities laws, we may require Messrs. Berry, Garen, Girin and Griffin to reimburse us for any bonus or incentive-based or equity-based compensation received by the executive officer during the term of his respective agreement and any profits realized from the sale of our securities by the executive officer during the term of his respective agreement. If our Board of Directors determines that such a forfeiture is appropriate, we may withhold future amounts owed to the executive officer as compensation, and we may commence legal action to collect such sums as our Board of Directors determine is owed to us.

All payments under the separation pay agreement will be net of applicable tax withholdings. Each of the separation pay agreements contains a provision that limits payment under the separation pay agreement to avoid taxation under Section 4999 of the Code for "parachute payments" within the meaning of Section 280G of the Code.

Additionally, Mr. Palmisano's employment agreement provides that if any severance payments or other payments or benefits deemed made in connection with a future change in control are subject to the "golden parachute" excise tax under Section 4999 of the Internal Revenue Code, the payments will be reduced to one dollar less than the amount that would subject Mr. Palmisano to the excise tax if the reduction results in the executive receiving a greater amount on a net-after tax basis than would be received if he received the payments and benefits and paid the excise tax.

Change in Control Benefits. Our executive officers and other employees have built us into the successful enterprise that we are today, and the Compensation Committee believes that it is important to protect them in the event of a change in control. Further, it is our belief that the interests of stockholders will be best served if the interests of our executive officers are aligned with them, and providing change in control benefits should at least reduce the reluctance of executive officers to pursue potential change in control transactions that may be in the best interests of stockholders. Relative to our overall value, these potential change in control benefits are relatively minor.

Under the terms of Mr. Palmisano's employment agreement and the separation pay agreements with Messrs. Berry, Garen, Girin and Griffin, these change in control benefits are "double trigger," which requires (i) a change in control and (ii) a termination without cause or by an executive officer for good reason within 12 to 24 months of the change in control before the executive officer receives their change in control benefit. If we give notice of termination of the separation pay agreement less than one year after a change in control, then the term of the separation pay agreement will be automatically extended until the later of the one year anniversary that follows such written notice or the second anniversary of the change in control. The change in

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control benefit requires us to pay a separation payment and accrued obligations and provide benefits to the executive officer as described above under the heading Severance Benefits.

Subject to several exceptions, under the separation pay agreements, a change in control occurs if (i) any person or group of persons acquires more than 50% of our capital stock, (ii) any person or group of persons acquires 35% or more of the voting power represented by our capital stock in a 12-month period, (iii) any person or group of persons acquires 40% of our assets in a 12-month period, (iv) a majority of our directors are replaced in any 12-month period by directors whose election is not endorsed by a majority of our directors, or (v) a merger or consolidation occurs pursuant to which 40% of our assets are to be transferred to a different entity.

Subject to several exceptions, under Mr. Palmisano's employment agreement, a change in control occurs if (i) any person or group of persons acquires more than 50% of our capital stock or voting securities, (ii) a reorganization, merger, consolidation or sale of substantially of our assets occurs which results in a change in beneficial ownership of our capital stock and voting securities of more than 40%, (iii) the stockholders approve a complete liquidation or dissolution of us, (iv) a sale of at least 80% of our assets is consummated, or (v) the current directors cease to constitute the majority of the Board of Directors, unless such directors were approved by at least a 2/3rds vote of the then-current directors.

Additionally, upon a change in control, all unexercisable options will immediately vest and become exercisable and all restrictions on restricted stock will lapse. The Compensation Committee believes that these levels of benefits are consistent with the general practice among our peers, although we have not conducted a study to confirm this.

Compensation of Chief Executive Officer. Robert J. Palmisano became our President and Chief Executive Officer effective as of September 17, 2011. We entered into an employment agreement providing Mr. Palmisano with a base salary of \$750,000 per year. During 2012, Mr. Palmisano was paid \$750,000 in base salary. As noted above, in 2012, Mr. Palmisano was eligible for a salary increase and he elected to receive this increase in the form of 1,542 shares of restricted stock and an option to purchase 3,989 shares of common stock with an exercise price of \$18.24 per share, which was the closing price on the trading day immediately prior to the grant date. The restricted stock and the stock option will vest in equal annual installments over a period of two years after the grant date. In addition, Mr. Palmisano earned a cash bonus of \$1,165,669. On May 9, 2012, we granted Mr. Palmisano 54,173 shares of restricted common stock under the Equity Incentive Plan. The grant will vest in equal annual installments over a period of four years after the grant date. In addition, we granted Mr. Palmisano an option to purchase 141,139 shares of common stock under the Equity Incentive Plan on May 9, 2012. The exercise price of the stock option is \$21.39 per share, which was the closing price on the trading day immediately prior to the grant date. The stock option will vest in equal annual installments over a period of four years after the grant date. The Compensation Committee considers the compensation paid to Mr. Palmisano for 2012 reasonable and appropriate under the circumstances.

CEO Succession Plan. In 2009, our Board of Directors adopted a policy that requires our Board of Directors to regularly approve a CEO succession plan. Our Board of Directors reviewed and approved the CEO succession plan, and Robert J. Palmisano was hired as our President and Chief Executive Officer under implementation of such plan.

Executive Officer Stock Ownership Guidelines. In 2009, our Board of Directors adopted Executive Officer Stock Ownership Guidelines, which require our executive officers to acquire and hold shares of common stock equal in value to a multiple of their annual base salary. The CEO must maintain value equal to three times his annual salary, and the remaining executive officers must maintain value equal to twice their annual salary. Qualifying shares include owned shares, unvested restricted stock, unvested restricted stock units, and the value of any vested stock options.

There is a five-year accumulation period beginning on the later of (i) becoming an officer subject to the share ownership guidelines or (ii) July 1, 2010.

Compensation and Risk. We believe that our performance-based compensation and equity programs create appropriate incentives to increase long-term stockholder value. These programs have been designed and administered in a manner that discourages undue risk-taking by employees. Relevant features of these programs include:

• limits on annual incentive and long-term performance awards, thereby defining and capping potential payouts;

• proportionately greater award opportunity derived from the long-term incentive program compared to annual incentive plan, creating a greater focus on sustained company performance over time;

the application of an annual incentive metric that aligns senior management with the balanced objectives of revenues, increasing net income, and generating cash flow;

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• use of three long-term incentive vehicles-restricted stock, restricted stock units and stock options-that vest over a number of years, thereby providing strong incentives for sustained operational and financial performance;

• a long-term incentive program with overlapping vesting periods, such that at any one time up to four separate awards are affected by current year performance, thereby requiring sustained high levels of performance; and

• share ownership guidelines for senior executives, monitored by the Compensation Committee, that ensure alignment with shareholder interests over the long term.

In light of these features of our compensation program, we conclude that the risks arising from our employee compensation policies and practices are not reasonably likely to have a material adverse effect on us.

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## EXECUTIVE COMPENSATION

## Summary Compensation Information

The table below sets forth summary compensation information for each of the last three fiscal years for the individuals serving as our principal executive officer, our principal financial officer, and our three other most highly compensated executive officers who were serving in such capacities on December 31, 2012. We refer to the foregoing individuals collectively as our named executive officers.

Name and Principal Position	Year	Salary	Bonus	Stock Awards <sup>(1)</sup>	Option Awards <sup>(1)</sup>	Non-Equity Incentive Plan Compensation <sup>(2)</sup>	All Other Compensation <sup>(3)</sup>	Total Compensation <sup>(4)</sup>
Robert J. Palmisano President and Chief Executive Officer	2012	\$750,000	--	1,186,887	\$1,155,050	\$1,165,669	\$217,295	\$4,474,901
	2011	215,909	--	--	3,638,223	250,000	55,945	4,160,077
Lance A. Berry Senior Vice President and Chief Financial Officer	2012	307,417	--	168,910	164,567	287,848	13,004	941,746
	2011	300,900	--	225,680	72,631	54,162	14,191	667,564
	2010	299,425	--	221,248	66,361	55,544	12,032	654,610
Daniel J. Garen Senior Vice President, Chief Compliance Officer	2012	286,515	60,000 <sup>(4)</sup>	126,007	448,837	195,601	38,150	1,155,110
Pascal E.R. Girin Executive Vice President and Chief Operating Officer	2012	51,136	300,000 <sup>(4)</sup>	--	1,517,310	--	--	1,868,446
William L. Griffin, Jr. Senior Vice President and General Manager, BioMimetic Therapeutics	2012	318,300	--	178,663	174,076	214,593	9,945	895,577
	2011	318,300	--	238,731	76,827	57,294	7,775	698,927

- (1) The amounts in the Stock and Option Awards columns represent the grant date fair value of the awards.
- (2) The amounts in the Non-Equity Incentive Plan Compensation column represent amounts earned by each named executive officer under the 2010 Executive Performance Incentive Plan for 2010, 2011 and 2012.
- (3) The amounts in the All Other Compensation column are more fully described in the table under “All Other Compensation - Supplemental.”
- (4) Messrs. Garen and Girin received signing bonuses upon the commencement of their employment. See Compensation Discussion and Analysis above for a complete description of compensation plans pursuant to which the amounts listed under the Summary Compensation Table were paid or awarded and the criteria for such payment.

All stock options and shares of restricted stock vest upon a change in control, as defined in the Equity Incentive Plan, or the inducement stock option grant agreements of Messrs. Garen and Girin, as applicable.

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## All Other Compensation – Supplemental

The table below sets forth other compensation information for each of the last three fiscal years for our named executive officers, which is described below the table.

Name and Principal Position	Year	Defined Contribution Plan	Housing/Car Allowance	Travel Bonus	Financial Planning	Insurance Premiums	Other	Gross Up	Total Other Compensation
Robert J. Palmisano President and Chief Executive Officer	2012	\$ 7,500	\$ 134,092	--	\$ 5,000	--	\$ 52,002 <sup>(1)</sup>	\$ 18,701	\$ 217,295
	2011	5,625	40,363	--	--	--	7,323 <sup>(1)</sup>	2,634	55,945
Lance A. Berry Senior Vice President and Chief Financial Officer	2012	7,500	--	--	4,504	1,000	--	--	13,004
	2011	7,350	--	--	5,841	1,000	--	--	14,191
	2010	7,350	--	3,000	1,682	--	--	--	12,032
Daniel J. Garen Senior Vice President, Chief Compliance Officer	2012	5,813	--	--	--	--	20,550 <sup>(2)</sup>	11,787	38,150
Pascal E.R. Girin Executive Vice President and Chief Operating Officer	2012	--	--	--	--	--	--	--	--
William L. Griffin, Jr. Senior Vice President and General Manager, BioMimetic Therapeutics	2012	7,500	--	--	2,445	--	--	--	9,945
	2011	7,350	--	--	425	--	--	--	7,775

(1) This amount is commuting expenses.

(2) This amount is relocation expenses.

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## Grants of Plan-Based Awards

The table below sets forth information concerning grants of plan based awards in 2012 to our named executive officers.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plans <sup>(1)</sup>			All Other Awards: Number of Shares of Stock	Awards: Number of Securities Underlying Options	Exercise Price of Option Awards <sup>(2)</sup>	Grant Date Fair Value of Stock and Option Awards <sup>(3)</sup>
		Threshold	Target	Maximum				
Robert J. Palmisano	02/13/2012	\$375,000	\$750,000	\$1,500,000	--	--	--	--
	04/16/2012	--	--	--	1,542	--	--	\$28,126
	04/16/2012	--	--	--	--	3,989	18.24	27,914
	05/09/2012	--	--	--	54,173	--	--	1,158,760
	05/09/2012	--	--	--	--	141,139	21.39	1,127,136
Lance A. Berry	02/13/2012	92,225	184,450	368,900	--	--	--	--
	04/16/2012	--	--	--	722	--	--	13,169
	04/16/2012	--	--	--	--	1,867	18.24	13,065
	05/09/2012	--	--	--	7,281	--	--	155,741
	05/09/2012	--	--	--	--	18,971	21.39	151,502
Daniel J. Garen.	01/30/2012	--	--	--	--	50,000	17.35	326,175
	02/13/2012	64,466	128,932	257,864	--	--	--	--
	04/16/2012	--	--	--	408	--	--	7,442
	04/16/2012	--	--	--	--	1,046	18.24	7,320
	05/09/2012	--	--	--	5,543	--	--	118,565
	05/09/2012	--	--	--	--	14,443	21.39	115,342
Pascal E.R. Girin	11/26/2016	--	--	--	--	184,500	21.24	1,517,310
William L. Griffin, Jr.	02/13/2012	71,618	143,235	286,470	--	--	--	--
	04/16/2012	--	--	--	763	--	--	13,917
	04/16/2012	--	--	--	--	1,975	18.24	13,821
	05/09/2012	--	--	--	7,702	--	--	164,746
	05/09/2012	--	--	--	--	20,067	21.39	160,255

Estimated Future Payouts Under Non-Equity Incentive Plans represent the threshold, target, and maximum amounts that could be earned under the Bonus Plan at targets established for each level. Each named executive officer had a target incentive amount that could be earned if we met the targets established. Until the threshold performance is obtained, no incentive is earned. If the maximum performance had been achieved, the named executive officers would have received 200% of their target bonus amount.

(2) The exercise price of each stock option granted to our named executive officers is equal to the fair market value, within the meaning of the Equity Incentive Plan and the applicable Inducement Stock Option Grant Agreements of the underlying shares of common stock on the grant date, calculated as the closing price on the trading day

immediately prior to the grant date. The closing market price on the trading day immediately prior to the grant date was \$17.35 on January 27, 2012, \$18.24 on April 13, 2012, \$21.39 on May 8, 2012 and \$21.24 on November 23, 2012.

The grant date fair value is computed in accordance with FASB ASC Topic 718. For Stock Awards, which consist of restricted stock, the grant date fair value per share is equal to the closing price of our stock on the date of grant. (3) See note 14 to our Audited Financial Statements contained in our Annual Report on Form 10-K for a discussion of assumptions used to determine fair value of Option Awards.

See Compensation Discussion and Analysis above for a complete description. All stock options granted to the named executive officers were granted under the Equity Incentive Plan, except for Mr. Garen's stock options granted on January 30, 2012 and Mr. Girin's stock options, each of which were made pursuant to an inducement stock option award agreement. The Compensation Committee, which administers the Equity Incentive Plan, has general authority to accelerate, extend, or otherwise

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modify the benefits under the stock options in certain circumstances, subject to limitations of the plan. The Compensation Committee has no present intention to exercise that authority with respect to these stock options.

All the shares of restricted stock were granted under our Equity Incentive Plan.

All stock options and shares of restricted stock vest upon a change in control, as defined in the Equity Incentive Plan or the applicable inducement stock option grant agreements of Messrs. Garen and Girin. All stock options and restricted shares granted to our named executive officers in 2012 vest in equal annual installments over a period of four years after the grant date.

## Outstanding Equity Awards

The table below sets forth information regarding the outstanding equity awards held by our named executive officers at December 31, 2012. The stock options and restricted stock awards shown below vested or will vest in equal annual installments over a period of four years after the grant date.

Name	Grant Date of Award	Option Awards				Stock Awards	
		Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price	Option Expiration Date	Number of Shares of Stock that Have Not Vested	Market Value of Shares of Stock that Have Not Vested <sup>(1)</sup>
Robert J. Palmisano	09/17/2011	203,334	406,666	\$ 16.03	09/17/2021	--	--
	04/16/2012	--	3,989	18.24	04/16/2022	1,542	32,367
	05/09/2012	--	141,139	21.39	05/09/2022	54,173	1,137,091
Lance A. Berry	10/23/2003	15,450	--	27.30	10/23/2013	--	--
	03/25/2004	40,000	--	30.11	03/25/2014	--	--
	04/04/2005	50,000	--	23.39	04/04/2015	--	--
	04/04/2006	7,501	--	19.52	04/04/2016	--	--
	05/14/2008	10,000	--	29.19	05/14/2018	--	--
	05/13/2009	4,783	1,595	15.47	05/13/2019	4,464	93,699
	12/11/2009	--	--	--	--	2,500	52,475
	05/13/2010	4,673	4,674	18.37	05/13/2020	6,022	126,402
	05/11/2011	3,038	9,115	15.50	05/11/2021	10,920	229,211
	04/16/2012	--	1,867	18.24	04/16/2022	722	15,155
05/09/2012	--	18,971	21.39	05/09/2022	7,281	152,828	
Daniel J. Garen	01/30/2012	--	50,000	17.35	01/30/2022	--	--
	04/16/2012	--	1,046	18.24	04/16/2022	408	8,564
	05/09/2012	--	14,443	21.39	05/09/2022	5,543	116,348
Pascal E.R. Girin	11/26/2012	--	184,500	21.24	11/26/2022	--	--
William L. Griffin, Jr.	07/22/2008	100,000	--	29.88	07/22/2018	--	--

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05/13/2009	8,858	2,953	15.47	05/13/2019	8,636	181,270
05/13/2010	4,943	4,943	18.37	05/13/2020	6,369	133,685
05/11/2011	3,213	9,642	15.50	05/11/2021	11,552	242,476
04/16/2012	--	1,975	18.24	04/16/2022	763	16,015
05/09/2012	--	20,067	21.39	05/09/2022	7,702	161,665

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Calculated as the market value on December 31, 2012, which is deemed to have been \$20.99 per share, the closing (1) sale price of our common stock reported for transactions effected on the Nasdaq Global Select Market on December 31, 2012.

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## Option Exercises and Stock Vested During 2012

The following table provides information on vesting of restricted stock during 2012 for the named executive officers. There were no stock options exercised by our named executive officers during 2012.

Name	Stock Awards	
	Number of Shares Acquired on Vesting	Value Realized on Vesting
Robert J. Palmisano	--	\$ --
Lance A. Berry	14,864	311,046
Daniel J. Garen	--	--
Pascal E.R. Girin	--	--
William L. Griffin, Jr.	15,671	328,489

## Potential Payments Upon Termination or Change in Control

The following table sets forth the benefits payable to our executive officers based upon a hypothetical termination and/or change in control date of December 31, 2012. Our Compensation Committee may, in its discretion, revise, amend, or add to the benefits if it deems advisable.

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Name	Benefit <sup>(1)</sup>	Termination without Cause	Change in Control with Termination	Change in Control without Termination
Robert J. Palmisano	Salary	\$3,000,000	\$4,500,000	\$ --
	Benefits continuation	10,800	10,800	--
	Accrued Bonus Obligation <sup>(2)</sup>	750,000	750,000	--
	Outplacement benefits	30,000	30,000	--
	Other termination benefits <sup>(3)</sup>	5,000	5,000	--
	Stock option acceleration <sup>(4)</sup>	2,028,033	2,028,033	2,028,033
	Restricted stock acceleration <sup>(5)</sup>	1,169,458	1,169,458	1,169,458
	Total	\$6,993,291	\$8,493,291	\$3,197,491
Lance A. Berry	Salary	\$340,000	\$579,045	\$ --
	Bonus	204,000	408,000	--
	Accrued Bonus Obligation <sup>(2)</sup>	--	184,450	--
	Benefits continuation	18,359	27,538	--
	Outplacement benefits	30,000	60,000	--
	Other termination benefits <sup>(3)</sup>	6,000	11,000	--
	Stock option acceleration <sup>(4)</sup>	--	76,226	76,226
	Restricted stock acceleration <sup>(5)</sup>	--	669,770	669,770
Total	\$598,359	\$2,016,029	\$745,996	
Daniel J. Garen	Salary	\$310,000	\$620,000	\$ --
	Bonus	139,500	279,000	--
	Accrued Bonus Obligation <sup>(2)</sup>	--	128,932	--
	Benefits continuation	18,359	27,538	--
	Outplacement benefits	30,000	60,000	--
	Other termination benefits <sup>(3)</sup>	6,000	11,000	--
	Stock option acceleration <sup>(4)</sup>	--	184,877	184,877
	Restricted stock acceleration <sup>(5)</sup>	--	124,911	124,911
Total	\$503,859	\$1,436,258	\$309,788	
Pascal E.R. Girin.	Salary	\$500,000	\$1,000,000	\$ --
	Bonus	375,000	750,000	--
	Accrued Bonus Obligation <sup>(2)</sup>	--	--	--
	Benefits continuation	--	--	--
	Outplacement benefits	30,000	60,000	--
	Other termination benefits <sup>(3)</sup>	6,000	11,000	--
	Stock option acceleration <sup>(4)</sup>	--	--	--
	Restricted stock acceleration <sup>(5)</sup>	--	--	--

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	Total	\$911,000	\$1,821,000	\$ --
William L. Griffin, Jr.	Salary	\$318,300	\$636,600	\$ --
	Bonus	143,235	286,470	--
	Accrued Bonus Obligation (2)	--	143,235	--
	Benefits continuation	14,295	21,443	--
	Outplacement benefits	30,000	60,000	--
	Other termination benefits <sup>(3)</sup>	6,000	11,000	--
	Stock option acceleration <sup>(4)</sup>	--	87,617	87,617
	Restricted stock acceleration <sup>(5)</sup>	--	735,112	735,112
	Total	\$511,830	\$1,981,477	\$822,729

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(1) Where applicable, the benefit amounts set forth in the table above reflect an automatic reduction in the payment to the extent necessary to prevent the payment from being subject to an excise tax, but only if by reason of the reduction, the after-tax benefit of the reduced payment exceeds the after-tax benefit if such reduction were not made.

(2) This amount represents a pro-rated portion of the executive's target bonus under the 2010 Executive Performance Incentive Plan.

(3) The amounts in the Other termination benefits rows include the cost of financial planning services and continued executive insurance. Reimbursement of reasonable attorneys' fees and expenses is not included as the amount is not estimable.

(4) Stock option acceleration is calculated as the intrinsic value of the unvested options on December 31, 2012. The intrinsic value is calculated as the difference between the market value of our common stock as of December 31, 2012, and the exercise price of the stock option. The market value as of December 31, 2012, was \$20.99 per share, which is the closing sale price of our common stock reported for transactions effected on the Nasdaq Global Select Market on December 31, 2012.

(5) Restricted Stock acceleration is calculated as the market value of the unvested awards on December 31, 2012. The market value as of December 31, 2012, was \$20.99 per share, which is the closing sale price of our common stock reported for transactions effected on the Nasdaq Global Select Market on December 31, 2012.

For purposes of the benefits shown for executive officers, a change of control is deemed to occur, in general, under the circumstances described in the Compensation Discussion and Analysis section above under the heading Severance Benefits.

**DIRECTOR COMPENSATION**

## Director Compensation

We compensate our directors for their services as members of our Board of Directors and committees with a combination of annual retainers and awards of restricted stock and stock options. Directors who are not employees are eligible to receive compensation for their services as directors, while directors who are our employees are ineligible to receive separate director compensation. The following table sets forth a summary of the compensation we paid to our non-employee directors in 2012:

Name	Fees Earned or Paid in Cash	Stock Awards <sup>(1)</sup>	Option Awards <sup>(2)</sup>	Total
Gary D. Blackford	\$53,000	\$83,507	\$79,860	\$216,367
Martin J. Emerson	50,000	83,507	79,860	213,367
Lawrence W. Hamilton	45,000	83,507	79,860	208,367
Ronald K. Labrum	40,000	83,507	79,860	203,367
John L. Miclot	50,000	83,507	79,860	213,367
Amy S. Paul	43,000	83,507	79,860	206,367
Robert J. Quillinan	60,000	83,507	79,860	223,367
David Stevens	93,000	83,507	--	176,507

(1) The amounts in the Stock Awards column represent grant date fair value computed in accordance with FASB ASC Topic 718. For Stock Awards, which consist of restricted stock, the grant date fair value per share is equal to the closing price of our stock on the trading day immediately prior to the date of grant.

As of December 31, 2012, the directors had the following number of shares of restricted stock outstanding: Mr. Blackford - 3,904; Mr. Emerson - 3,904; Mr. Hamilton - 3,904; Mr. Labrum - 9,952; Mr. Miclot - 3,904; Ms. Paul - 3,904; Mr. Quillinan - 3,904; and Mr. Stevens - 3,904.

The amounts in the Option Awards column represent grant date fair value computed in accordance with FASB (2)ASC Topic 718. See note 14 to our Audited Financial Statements contained in our Annual Report on Form 10-K for a discussion of assumptions used to determine fair value of Option Awards.

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As of December 31, 2012, the directors had the following number of stock options outstanding: Mr. Blackford - 40,000; Mr. Emerson - 82,500; Mr. Hamilton - 70,000; Mr. Labrum - 25,000; Mr. Micolot - 70,000; Ms. Paul - 55,000; Mr. Quillinan - 70,000; and Mr. Stevens - 80,000.

Eligible directors are paid an annual retainer of \$35,000. All directors are reimbursed for their out-of-pocket expenses incurred in connection with attending meetings of our Board of Directors and its committees. In addition, upon their initial election to our Board of Directors, eligible directors are granted a stock option to purchase 15,000 shares of common stock and a restricted stock award worth approximately \$125,000 on the date of grant. Directors reelected to office are granted an option to purchase 10,000 shares of common stock and a restricted stock award worth approximately \$83,500 on the date of grant. In 2012, the stock options for all directors were granted pursuant to the Equity Incentive Plan with an exercise price equal to the fair market value of the common stock on the grant date as determined under the Equity Incentive Plan. The stock options vest and become exercisable in equal annual installments over a period of four years after the grant date. In 2012, the restricted stock awards were granted pursuant to the Equity Incentive Plan and vest on the first anniversary of the date of grant. Future equity awards will be granted to eligible directors under our Equity Incentive Plan. The awards granted upon initial election are made either upon initial election or at the same time as annual grants, depending on timing.

In addition to the compensation discussed above, eligible directors are paid in accordance with the following:

• The non-executive Chairman of our Board of Directors is paid a supplemental annual retainer of \$50,000.

• Audit Committee - The members of the Audit Committee are paid a supplemental annual retainer of \$25,000 for the chairman and \$10,000 for the other members.

• Compensation Committee - The members of the Compensation Committee are paid a supplemental annual retainer of \$10,000 for the chairman and \$5,000 for the other members.

• Nominating, Compliance and Governance Committee - The members of the Nominating, Compliance and Governance Committee are paid a supplemental annual retainer of \$15,000 for the chairman and \$8,000 for the other members.

• Special Committees, to the extent formed - The members of special committees are paid a one-time additional retainer of \$5,000.

Director Stock Ownership Guidelines

Our Board of Directors has adopted Director Stock Ownership Guidelines whereby each non-employee director is required to hold 25,000 shares, vested options, or vested restricted shares. Each director shall be given three years from the date of his or her election to achieve the threshold ownership. Once the threshold is reached, a director would be permitted to sell shares; provided, the threshold is maintained. When a director leaves our Board of Directors, the director may sell any vested shares he or she possesses.

Compensation Committee Interlocks and Insider Participation

Lawrence W. Hamilton, Martin J. Emerson, and Ronald K. Labrum, our current directors, served as members of the Compensation Committee of our Board of Directors in 2012. No member of the Compensation Committee is or was an officer or employee of ours or any of our subsidiaries while serving on the committee. In addition, no executive officer of ours served during 2012 as a director or a member of the compensation committee of any entity that had an executive officer serving as our director or a member of the Compensation Committee.

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PROPOSAL 1

AMENDMENT TO OUR CERTIFICATE OF INCORPORATION TO  
INCREASE THE MAXIMUM SIZE OF THE BOARD OF DIRECTORS TO TEN DIRECTORS

Introduction

On November 19, 2012, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with BioMimetic Therapeutics, Inc., a Delaware corporation. Pursuant to the Merger Agreement, we agreed submit to our stockholders for approval at our 2013 annual meeting of stockholders an amendment to our Fourth Amended and Restated Certificate of Incorporation, as amended (the “Certificate of Incorporation”), to increase the maximum size of our Board of Directors to ten directors.

Our current Certificate of Incorporation provides that our number of directors shall not be less than one nor more than nine directors. Within this range, the Board of Directors is authorized to fix the exact number of directors from time to time pursuant to our Certificate of Incorporation and Second Amended and Restated Bylaws. The number of directors on our Board of Directors is currently set at nine.

Summary and Effect of Proposed Amendment

In accordance with the Merger Agreement, our Board of Directors has adopted a resolution proposing an amendment to our Certificate of Incorporation to increase the maximum size of our Board of Directors from nine to ten directors. If the proposed amendment, a copy of which is attached as Appendix B to this Proxy Statement, is approved by our stockholders, the maximum size of our Board of Directors shall be increased to ten directors. Furthermore, pursuant to a resolution adopted by our Board of Directors, the number of directors on our Board of Directors will be increased to ten. If the proposed amendment is not approved, the number of directors on our Board of Directors will remain at nine.

Text of Amendment

If the proposed amendment is approved by our stockholders, the first sentence of Article IX of the Certificate of Incorporation will be amended to read as follows:

“The number of directors which shall constitute the entire Board of Directors shall not be less than one (1) nor more than ten (10), which number shall be determined from time to time by the Board of Directors.”

The affirmative vote of two-thirds of our shares issued, outstanding and entitled to vote on the subject matter will be required to approve this amendment to our Certificate of Incorporation.

Effective Date of Amendment

If the proposed amendment is approved by our stockholders, we intend shortly thereafter to file a Certificate of Amendment to the Certificate of Incorporation with the office of the Secretary of State of the State of Delaware. The Certificate of Amendment will become effective upon its filing. The only changes to the current Certificate of Incorporation will be those made to Article IX as shown above.

Board of Directors' Recommendation

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE AMENDMENT TO OUR CERTIFICATE OF INCORPORATION TO INCREASE THE MAXIMUM SIZE OF OUR BOARD OF DIRECTORS TO TEN DIRECTORS. Each proxy solicited on behalf of the Board of Directors will be voted FOR the amendment to our Certificate of Incorporation increasing the maximum size of our Board of Directors to ten Directors unless the stockholder instructs otherwise in the proxy.

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## PROPOSAL 2

## ELECTION OF NINE DIRECTORS

## Director Nominees

Upon the recommendation of the Nominating, Compliance and Governance Committee, our Board of Directors has nominated the individuals listed below for election as our directors. Each nominee is an existing director and was elected by our stockholders at the 2012 Annual Meeting of stockholders. Each nominee has consented to serve on our Board of Directors. Our Board of Directors does not know of any reason why any nominee would not be able to serve as a director. However, if any nominee was to become unable to serve as a director, our Board of Directors may designate a substitute nominee, in which case the persons named as proxies will vote for such substitute nominee.

David D. Stevens. Mr. Stevens, age 59, has been a director since 2004. Mr. Stevens served as our interim Chief Executive Officer from April 4, 2011 to September 17, 2011. He has been a private investor since 2006. Mr. Stevens was the Chief Executive Officer of Accredo Health Group, Inc., a subsidiary of Medco Health Solutions, Inc., from 2005 to 2006. He was the Chairman of the Board and Chief Executive Officer of Accredo Health, Inc. from 1996 to 2005. Mr. Stevens was the President and Chief Operating Officer of the predecessor companies of Accredo Health from their inception in 1983 until 1996. He is a director of Allscripts Healthcare Solutions, Inc. and Viasystems Group, Inc., both public companies.

Gary D. Blackford. Mr. Blackford, age 55, has been one of directors since 2008. Since 2007, Mr. Blackford has served as Chairman of the Board of Directors of Universal Hospital Services, Inc. In addition to his role as Chairman, Mr. Blackford has been the President, Chief Executive Officer and a member of the Board of Directors of Universal Hospital Services, Inc. since 2002. From 2001 to 2002, Mr. Blackford was Chief Executive Officer for Curative Health Services Inc. From 1999 to 2001, Mr. Blackford served as Chief Executive Officer for ShopforSchool, Inc. He was the Chief Operating Officer for Value Rx from 1995 to 1998 and the Chief Operating Officer and Chief Financial Officer of MedIntel Systems Corporation from 1993 to 1994. Mr. Blackford also served on the Board of Directors of Compex Technologies, Inc., a public reporting company, from 2005 until its acquisition by Encore Medical Corporation.

Martin J. Emerson. Mr. Emerson, age 49, has been one of our directors since 2006. He currently serves as President, Chief Executive Officer, and Director of Galil Medical, a private medical device company. He was the President and Chief Executive Officer and a director of American Medical Systems Holdings, Inc., a medical device company, from 2005 to 2008, where he also served as the President and Chief Operating Officer from 2004 to 2005, the Executive Vice President of Global Sales and Marketing and Chief Operating Officer from 2003 to 2004, and a Vice President and the General Manager of International from 2000 to 2002. Mr. Emerson has over 23 years of experience in the medical device industry. He was the General Manager and Finance Director in Singapore for Boston Scientific Corporation from 1998 to 2000. Mr. Emerson was the Vice President and Regional Financial Officer in Singapore for MasterCard International Incorporated from 1997 to 1998. He also held management positions with Baxter International Inc. from 1985 to 1997, most recently as the Vice President of Finance of its Hospital Business division. Mr. Emerson is a director of Incisive Surgical, Inc., a private company, and Vascular Solutions, Inc., a public company.

Lawrence W. Hamilton. Mr. Hamilton, age 55, has been one of our directors since 2007. Mr. Hamilton served as the Senior Vice President, Human Resources at Tech Data Corporation, a distributor of information technology, from 1996 to 2006, and as the Vice President, Human Resources from 1993 to 1996. Mr. Hamilton served in a variety of human resource management positions with Bristol-Myers Squibb Company from 1985 to 1993, including Vice President, Human Resources and Administration at Linvatec Corp., an arthroscopic and endoscopic division of Bristol-Myers Squibb Company, from 1991 to 1993. Mr. Hamilton is a certified Senior Professional in Human Resources and recently received the Certified Compensation Professional designation from the American Compensation Association.

Ronald K. Labrum. Mr. Labrum, age 56, has been one of our directors since February 9, 2011. Since 2007, he has served as the Chief Executive Officer of Fenwal, Inc., a provider of products and technologies that support and improve blood collection, processing and transfusion medicine. From 2004 to 2006, Mr. Labrum served as the Chief

Executive Officer of Cardinal Health, Inc.'s Healthcare Supply Chain Services, which includes medical products distribution, pharmaceutical distribution, nuclear pharmacy services and the specialty distribution businesses of Cardinal Health, Inc. During 2004, Mr. Labrum served as Chairman and Chief Executive Officer of Integrated Provider Solutions and Cardinal Health - International, both divisions of Cardinal Health, Inc. Prior to 2004, Mr. Labrum served as executive vice president of Cardinal Health, Inc. and Group President of the Medical Products and Services segment. Mr. Labrum joined Cardinal Health in 1999 with the acquisition of Allegiance Healthcare

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Corporation, originally American Hospital Supply Corp., where he was president of Allegiance Manufacturing and Distribution. Mr. Labrum is a director of Aptalis Pharma Inc. and Procure Treatment Centers, Inc., both private companies.

John L. Miclot. Mr. Miclot, age 54, has been one of our directors since 2007. He is currently the Chief Executive Officer and a director at Tengion Inc., a publicly traded company that is focused on organ and cell regeneration. Prior to joining Tengion Inc. in December 2011, he was an executive in residence at Warburg-Pincus. Prior to that, he was the President and Chief Executive Officer of CCS Medical, Inc., a provider of products and services for patients with chronic diseases, from 2008 to 2010. He was the President and Chief Executive Officer of Respironics, Inc., a provider of sleep and respiratory products, from 2003 until 2008. Mr. Miclot served in various positions at Respironics, Inc. from 1998 to 2003, including Chief Strategic Officer and President of the Homecare Division. His previous employer, Healthdyne Technologies, Inc., a medical device company, was acquired by Respironics, Inc. in 1998. Mr. Miclot served as Healthdyne Technologies, Inc.'s Senior Vice President, Sales and Marketing, from 1995 to 1998. He began his medical career at DeRoyal Industries, Inc., Baxter International Inc., Ohmeda Medical, Inc., and Medix Inc. Mr. Miclot served as a director of ev3, Inc., a global endovascular device company, prior to the sale of the company in 2010. Currently, Mr. Miclot is a director of Dentsply International, a publicly traded company, chairman of the Board of Directors of Breathe Technologies, Inc., a private company, as well as a director of the Pittsburgh Zoo & PPG Aquarium and Burger King Cancer Caring Center, both charitable institutions.

Robert J. Palmisano. Mr. Palmisano, age 68, was elected director and appointed President and Chief Executive Officer by our Board of Directors on September 17, 2011. Prior to joining us, Mr. Palmisano served as President and Chief Executive Officer of ev3, Inc., a global endovascular device company, from April 2008 to July 2010, when it was acquired by Covidien plc. From 2003 to 2007, Mr. Palmisano was President and Chief Executive Officer of IntraLase Corp. Before joining IntraLase, Mr. Palmisano was President and Chief Executive Officer of MacroChem Corporation from 2001 to 2003. Mr. Palmisano currently serves on the Board of Directors of Bausch & Lomb and the Providence College Board of Trustees. During the past five years, Mr. Palmisano previously served on the Board of Directors of ev3, Inc., Osteotech, Inc., and Abbott Medical Optics, Inc., all public companies.

Amy S. Paul. Ms. Paul, age 61, has been one of our directors since 2008. Ms. Paul retired in 2008 following a 26-year career with C.R. Bard, Inc., a medical device company, most recently serving as the Group Vice President-International since 2003. She served in various positions at C.R. Bard, Inc. from 1982 to 2003, including President of Bard Access Systems, Inc., President of Bard Endoscopic Technologies, Vice President and Business Manager of Bard Ventures, Vice President of Marketing of Bard Cardiopulmonary Division, Marketing Manager for Davol Inc., and Senior Product Manager for Davol Inc. Ms. Paul was a director of Viking Systems, Inc., a publicly traded company, until October 2012 when it was acquired by Conmed Corporation, is a commissioner of the Northwest Commission on Colleges and Universities, and serves on the President's Innovation Network at Westminster College.

Robert J. Quillinan. Mr. Quillinan, age 65, has been one of our directors since 2006. He retired in 2003 following a 23-year career with Coherent, Inc., a leading supplier of lasers, precision optics, and related accessories used in commercial and scientific research applications. At Coherent, Inc., Mr. Quillinan served as Executive Vice President of Mergers and Acquisitions from 2002 to 2003, Executive Vice President and Chief Financial Officer from 1983 to 2002, Vice President and Treasurer from 1982 to 1983, and Corporate Controller from 1980 to 1982. He was the Director of Financial Services for Synertek, Inc. from 1978 to 1980 and an audit manager for Main, LaFrentz & Co. from 1971 to 1978. Mr. Quillinan was a director of Iverson Genetic Diagnostics, Inc., a private company, from 2009 to August 2010.

Board of Directors' Recommendation

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR EACH OF THE NOMINEES FOR DIRECTOR LISTED ABOVE. Each proxy solicited on behalf of our Board of Directors will be voted FOR the election of the nine director nominees unless the stockholder instructs otherwise in the proxy.

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PROPOSAL 3

ELECTION OF TENTH DIRECTOR

Subject to Approval of Proposal 1, the Election of Tenth Director

As described above under “Proposal 1 - Amendment to Our Certificate of Incorporation to Increase the Maximum Size of our Board of Directors to Ten Directors”, we entered into the Merger Agreement with BioMimetic Therapeutics, Inc. In addition to submitting an amendment to our certificate of incorporation increase the maximum size of our Board of Directors from nine to ten directors (Proposal 1), we agreed in the Merger Agreement to nominate and recommend for election at the Annual Meeting an individual nominated by BioMimetic, who was an independent director of BioMimetic, to serve as the tenth director on our Board of Directors. BioMimetic has nominated Douglas G. Watson. Upon the recommendation of the Nominating, Compliance and Governance Committee, our Board of Directors has nominated Douglas G. Watson for election as the tenth director. Because Mr. Watson would be the tenth director, his election can only occur if the proposed amendment to our certificate of incorporation is approved. If the amendment to our certificate of incorporation is not approved, Mr. Watson will not be eligible for election.

Mr. Watson, whose biographical information follows, has consented to serve on our Board of Directors. Our Board of Directors does not know of any reason why Mr. Watson would not be able to serve as a director. However, if Mr. Watson were to become unable to serve as a director, our Board of Directors may designate a substitute nominee, in which case the persons named as proxies will vote for such substitute nominee.

Douglas G. Watson. Mr. Watson, age 68, is currently the Chief Executive Officer of Pittencrieff Glen Associates, a leadership and consulting firm that he founded in 1999. Prior to that, Mr. Watson served as President and Chief Executive Officer of Novartis Corporation (the U.S. subsidiary of Novartis A.G.), President and Chief Executive Officer of Ciba-Geigy Corporation (which merged into Novartis Corporation in December 1996), President of the Ciba Pharmaceuticals Division and Senior Vice President of Planning and Business Development of Ciba's U.S. Pharmaceuticals Division. In all, Mr. Watson's career with Novartis spanned 33 years, having joined Geigy (UK) Ltd. in 1966. Mr. Watson currently serves as chairman of the board of OraSure Technologies, Inc., as a lead director of Dendreon Corporation, and a director of Delcath Systems, Inc., all public companies. Prior board memberships have included BioMimetic Therapeutics, Inc., Genta Incorporated, Javelin Pharmaceuticals, Inc., Engelhard Corporation and Summit Bank Corporation, all public companies, and Bionor Immuno AS and BZL Biologics Inc., both private companies. Mr. Watson has also served as a director of the American Liver Foundation and Freedom House Foundation, both charitable organizations.

Board of Directors' Recommendation

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR DOUGLAS G. WATSON AS OUR TENTH DIRECTOR. Each proxy solicited on behalf of our Board of Directors will be voted FOR the election of Douglas G. Watson unless the stockholder instructs otherwise in the proxy.

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PROPOSAL 4

APPROVAL OF OUR AMENDED AND RESTATED 2002 EMPLOYEE STOCK PURCHASE PLAN

Introduction

The Wright Medical Group, Inc. 2002 Employee Stock Purchase Plan (the “ESPP”) was adopted by our Board of Directors on February 14, 2002, and approved by the stockholders on May 30, 2002. The ESPP was amended on February 6, 2003 to make certain administrative changes. Under the terms of the ESPP, we are authorized to issue shares of common stock to eligible employees. The purpose of the ESPP is to provide a method whereby employees have an opportunity to acquire a proprietary interest in us through the purchase of shares of our common stock. The objectives of the ESPP are to strengthen the commitment of employees to our welfare by providing them with a convenient method for purchasing common stock at below-market price through voluntary, regular payroll deductions. The ESPP is intended to qualify as an “employee stock purchase plan” under Section 423 of the Internal Revenue Code of 1986, as amended (the “Code”).

Summary of Proposed Changes

Our Board of Directors has reviewed the ESPP and has concluded that it would be in our best interests and the best interest of our stockholders for the ESPP to be amended and restated to increase by 200,000 the number of shares of our common stock to be offered and to reflect administrative changes and applicable changes in the law. Our Board of Directors has adopted, as of February 11, 2013, the Wright Medical Group, Inc. Amended and Restated 2002 Employee Stock Purchase Plan (the “Amended and Restated ESPP”) to effect these changes, subject to approval by our stockholders. If our stockholders do not approve the Amended and Restated ESPP, the ESPP will continue to operate in accordance with its terms.

At present, we are authorized to issue under the ESPP up to 200,000 shares. At December 31, 2012, we had issued 182,275 shares of common stock to employees, leaving 17,725 shares of common stock available for issuance under the ESPP.

We believe that in the near future there will not be a sufficient number of shares of common stock available for future issuance under the ESPP to enable us to continue to achieve our objectives. Therefore, as contemplated in the Amended and Restated ESPP, the maximum number of shares of common stock for which we may grant awards will be increased by 200,000 shares from 200,000 to 400,000 shares. Our Board of Directors believes this number represents reasonable potential equity dilution and provides a significant incentive for employees to increase our value for all stockholders. If this Proposal is approved, this increase of 200,000 shares in the amount of shares reserved for issuance represents approximately 0.5% of the outstanding shares of our common stock as of December 31, 2012. The purpose of this increase is to secure an adequate number of shares for future issuance over the next seven to ten years. In addition, the Amended and Restated ESPP includes other changes intended to ensure the plan's compliance with Section 423 of the Code.

Summary of Amended and Restated ESPP

The following is a summary of the detailed provisions of the Amended and Restated ESPP. The statements contained herein are qualified in their entirety by reference to the Amended and Restated ESPP, a copy of which is attached as Appendix C to this Proxy Statement.

**Plan Administration.** The Amended and Restated ESPP will be administered by the Compensation Committee. The Compensation Committee will have authority to interpret the Amended and Restated ESPP, construe its terms, adopt rules and regulations, prescribe forms, and make all determinations under the Amended and Restated ESPP.

**Shares Available.** The Amended and Restated ESPP increases the maximum number of shares of common stock that will be offered under the Stock Purchase Plan, from 200,000 to 400,000 shares, subject to appropriate adjustment in the case of any stock split, reorganization, merger, reclassification, or similar corporate event affecting the common stock. Although shares purchased by participants under the Amended and Restated ESPP can be newly issued shares, treasury shares or shares acquired by us in the open market, we intend to use newly-issued shares.

**Eligible Persons.** Generally, our employees or employees of any of our subsidiaries that are designated by the Compensation Committee for participation in the Amended and Restated ESPP will be eligible to participate in the Amended and Restated ESPP, provided their customary employment with us or any designated subsidiary is more than 20 hours per week and more than five months per year. However, no employee who, immediately after the grant

of an option under the Amended and Restated ESPP, would own stock and/or hold outstanding options to purchase stock possessing 5% or more of the total combined voting power or value of all classes of our stock, shall be eligible to participate in the Amended and Restated ESPP. Approximately 1,148 employees are currently eligible to participate.

Plan Periods. The Amended and Restated ESPP provides for two six-month “Plan Periods” in each calendar year, one commencing on January 1 and terminating on the following June 30, and one commencing on July 1 and terminating on the

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following December 31. The first day of a Plan Period is the “Entry Date” and the last day is the “Exercise Date.” The Compensation Committee may change the beginning date, ending date, and duration of Plan Periods on a prospective basis, provided that Plan Periods will in all cases comply with applicable limitations under Section 423 of the Code. Participation. An eligible employee may enroll for a Plan Period by delivering a signed subscription agreement to us no later than 15 days after the Entry Date of the Plan Period for which he or she desires to enroll. After initial enrollment in the Amended and Restated ESPP, the employee will be automatically re-enrolled in the Amended and Restated ESPP for subsequent Plan Periods unless he or she withdraws from the Amended and Restated ESPP before a new Plan Period begins, terminates employment, or otherwise becomes ineligible to participate.

Payroll Deductions, Option Price, and Shares Purchased. Upon enrollment in the Amended and Restated ESPP, the employee must elect the rate at which he or she will make payroll contributions for the purchase of common stock, which may be either a fixed amount or a percentage of the employee's compensation. Participants can elect to contribute an amount not more than 5% of their compensation during a Plan Period, or \$5,000, whichever is less. For this purpose, “compensation” is defined as the total annual compensation paid to the employee during a Plan Period by us and our designated subsidiaries to the extent such compensation would be subject to F.I.C.A. tax withholding but for the maximum dollar amount of the F.I.C.A. wage base established by federal law; less the amount of such compensation that consists of bonuses, contest awards, reimbursement of moving expenses, life insurance premiums, payments characterized as deferred compensation for purposes of Section 404 or Section 409A of the Code, and compensation reportable to the employee on account of his or her participation in any restricted stock or incentive stock option plans of us or our subsidiaries. A participant is not permitted to purchase common stock having a fair market value, as of the beginning of the Plan Period, in excess of \$25,000 in any single calendar year.

All employee contributions will be made by means of direct payroll deduction. The contribution rate elected by a participant will continue in effect until modified, but a participant may not change his or her previously elected contribution rate during a Plan Period. A participant's contributions will be credited to a payroll deduction account maintained on behalf of such participant. No interest will be credited on payroll contributions.

On each Entry Date, a participant will be deemed to have been granted an option to purchase up to the number of shares of common stock that results from dividing (i) by (ii) where: (i) is either (x) the percentage of compensation the employee has elected to have withheld during the Plan Period multiplied by the employee's compensation for the Plan Period or (y) the fixed amount per pay date which the employee has elected to have withheld during the Plan Period multiplied by the number of pay dates in the Plan Period and (ii) is the Option Price, determined as set forth in the next paragraph. On the Exercise Date of each Plan Period, the Compensation Committee will automatically exercise each participant's option to purchase the number of whole shares that results from dividing the balance of each participant's payroll deduction account by the Option Price.

At the end of the Plan Period, shares of common stock will be purchased under the Amended and Restated ESPP at a price equal to the lesser of 85% of the fair market value of common stock on the Entry Date of the Plan Period or 85% of the fair market value of the common stock on the Exercise Date of the Plan Period. We will sell the shares directly to the Plan at that price for delivery to participating employees. If the aggregate number of whole shares which could be purchased by all participants exceeds the total number of shares of common stock with respect to which the Compensation Committee granted options on the Entry Date of a Plan Period, then the option will be exercised to purchase each participant's pro rata share of the available common stock, and any excess balance in a participant's payroll deduction account will be refunded.

Transferability. Shares purchased under the Amended and Restated ESPP cannot be sold, exchanged, pledged, hypothecated or otherwise transferred until the later of (i) a period of one year after the Exercise Date when they were purchased, or (ii) a period of two years after the date the option to acquire the shares was granted under the Amended and Restated ESPP (the “Holding Period”). These restrictions will be evidenced by an appropriate legend on each stock certificate issued to a participant. The restrictions may be waived by the Compensation Committee if the participant demonstrates that he or she has a financial emergency which necessitates liquidating the shares and makes adequate arrangements to cover withholding taxes resulting from the early sale of the common stock.

Participants' rights under the Amended and Restated ESPP are nontransferable except pursuant to the laws of descent and distribution. A participant does not become the owner of shares purchased under the Amended and Restated ESPP

and does not have any voting, dividend or other rights as a stockholder with respect to such shares until the shares have been transferred to the participant on our stockholder records.

**Withdrawal and Termination of Employment.** A participant may withdraw his or her payroll deductions from the Amended and Restated ESPP at any time by giving written notice to our Secretary, and such notice will also stop any further payroll deductions under the Amended and Restated ESPP. However, if the notice to withdraw is not received prior to the Exercise Date

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for a Plan Period, the participant's option to purchase shares will automatically be exercised pursuant to the terms of the Amended and Restated ESPP, and the payroll deductions will be used to pay for the shares covered by such option.

Enrollment in the Amended and Restated ESPP will also terminate upon termination of a participant's employment by us or one of our designated subsidiaries. Upon termination of employment for any reason other than death, the payroll deductions credited to a participant's account will be returned. Upon termination of employment because of death, a participant's beneficiary may elect to either withdraw the payroll deductions credited to a participant's account, or exercise the participant's option to purchase common stock on the next Exercise Date.

**Amendment and Termination.** The Board of Directors may terminate, amend or modify the Amended and Restated ESPP without obtaining approval from our stockholders, except that the Board of Directors will not, without stockholder approval, increase the maximum number of shares which may be issued under the Amended and Restated ESPP (other than adjustments for stock splits and other changes in capitalization as provided in the Amended and Restated ESPP), amend the requirements for eligibility to participate in the Amended and Restated ESPP, amend the Amended and Restated ESPP in any manner which would have the effect of causing the Amended and Restated ESPP not to be an "employee stock purchase plan" as defined and set forth in Section 423 of the Code, or change the shares with respect to which the option to purchase may be granted or change the granting corporation. However, no termination, amendment or modification of the Amended and Restated ESPP may be made which would adversely affect the rights of any employee then having an option to purchase shares under the Amended and Restated ESPP without the affected employee's consent.

**Adjustments Upon Changes in Capitalization.** In the event of any change in the structure of our common stock, such as a reorganization, merger, recapitalization, reclassification, stock split, reverse stock split or similar transaction, the Compensation Committee may make an appropriate adjustment in the number, kind and price of shares available for purchase under the Amended and Restated ESPP.

**Federal Income Tax Consequences**

Rights to purchase shares under the Amended and Restated ESPP are intended to constitute "options" issued pursuant to an "employee stock purchase plan" within the meaning of Section 423 of the Code. We believe that under present law the following federal income tax consequences would generally result under the Amended and Restated ESPP:

1.No taxable income results to the participant upon the grant of an option or upon the purchase of shares for his or her account under the Amended and Restated ESPP (although the amount of a participant's payroll deductions under the Amended and Restated ESPP will be taxable as ordinary income as if received by the participant).

2.If the participant (i) disposes of shares after the expiration of the Holding Period (i.e., after the later of one year after the Exercise Date of the Plan Period with respect to which the shares were purchased or two years after the option to acquire the shares was granted under the Amended and Restated ESPP), or (ii) dies at any time while holding shares acquired under the Amended and Restated ESPP, then at the time the participant disposes of the shares he or she will recognize ordinary income in an amount equal to the lesser of (x) the fair market value of the shares on the Entry Date of the Plan Period with respect to which they were acquired, and (y) the excess of the fair market value of the shares on the date of disposition or death over the amount of the participant's payroll deductions used to purchase the shares.

3.If the participant disposes of shares prior to the expiration of the Holding Period (i.e., before the later of one year after the Exercise Date of the Plan Period with respect to which the shares were purchased or two years after the option to acquire the shares was granted under the Amended and Restated ESPP), then at that time the participant will recognize ordinary income in an amount equal to the excess of the fair market value of the shares on the Exercise Date over the amount of the participant's payroll deductions used to purchase the shares. The participant will be considered to have disposed of a share if the participant sells, exchanges, makes a gift or transfers (except by death) legal title to the share.

4.In addition, the participant will recognize a long-term or short-term capital gain or loss, as the case may be, in an amount equal to the difference between the amount realized upon any sale of common stock and the participant's basis

in the common stock (i.e., the purchase price plus the amount, if any, taxed to the participant as ordinary income, as described in (2) and (3) above).

5.If the Holding Period is satisfied, we will not receive any deduction for federal income tax purposes with respect to any discount in the sale price of shares purchased under the Amended and Restated ESPP. If the Holding Period is not satisfied, we generally should be entitled to a tax deduction in an amount equal to the amount taxed to the participant as ordinary income.

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Dividends, if any, on shares purchased pursuant to the Amended and Restated ESPP will be taxable as ordinary income in the year paid.

The foregoing provides only a general description of the application of Federal income tax laws to the Amended and Restated ESPP and does not purport to be complete. The summary does not address the effects of other Federal taxes or taxes imposed under state, local, or foreign tax laws. Because of the complexities of the tax laws, participants are urged to consult a tax advisor as to their individual circumstances.

**New Plan Benefits**

The benefits to be received by participants in the Amended and Restated ESPP will depend upon the number of eligible employees who enroll in the Amended and Restated ESPP, the payroll deduction elections made by such employees, and the availability of shares under the Amended and Restated ESPP. Therefore, it is not possible to determine the benefits that will be received in the future by participants in the Amended and Restated ESPP or the benefits that would have been received by such participants if the Amended and Restated ESPP had been in effect in the year ended December 31, 2012.

**Board of Directors' Recommendation**

**OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF OUR AMENDED AND RESTATED 2002 EMPLOYEE STOCK PURCHASE PLAN.** Each proxy solicited on behalf of our Board of Directors will be voted FOR the approval of our Amended and Restated 2002 Employee Stock Purchase Plan unless the stockholder instructs otherwise in the proxy.

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PROPOSAL 5

APPROVAL OF OUR SECOND AMENDED AND RESTATED 2009 EQUITY INCENTIVE PLAN

Introduction

The 2009 Equity Incentive Plan originally was adopted by our Board of Directors and approved by the stockholders on May 13, 2009. On May 9, 2010, the 2009 Equity Incentive Plan was amended and restated to increase the number of shares of our common stock available for awards thereunder by 3,500,000 shares. Under the 2009 Equity Incentive Plan, as amended and restated (the “Equity Incentive Plan”), we are authorized to grant equity-based awards in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, performance share units, and stock bonuses to our and our subsidiaries' employees (including executive officers), directors, and consultants. The purpose of the Equity Incentive Plan is to provide a means for us to attract able persons to become and remain employees and directors of and consultants to us and our subsidiaries by providing them with long-term, equity based incentive compensation. The objectives of the Equity Incentive Plan are to strengthen the commitment of our employees, directors, and consultants to our welfare and to promote an identity of interest between them and our stockholders.

Summary of Proposed Changes

The Compensation Committee of our Board of Directors has reviewed the Equity Incentive Plan and has concluded that it would be in our best interests and the best interest of our stockholders for Equity Incentive Plan to be further amended to increase by 3,500,000 the number of shares of our common stock available for awards thereunder, to create a fungible share pool that reduces the share reserve more rapidly when “full value” awards such as restricted stock are granted, and to provide certain minimum vesting requirements for awards. The Compensation Committee has adopted the Second Amended and Restated 2009 Equity Incentive Plan to effect these changes, subject to approval by our stockholders in a manner that complies with applicable law, the rules and regulations of the SEC, and the rules and regulations of Nasdaq. If approved by our stockholders, the Second Amended and Restated 2009 Equity Incentive Plan will become effective as of May 14, 2013, the date of our 2013 Annual Meeting.

At present, we are authorized to grant equity-based awards under the Equity Incentive Plan for up to 1,450,000 shares plus the number of shares of common stock granted under the 1999 Equity Incentive Plan that are not exercised or are forfeited, lapsed, or expired, or otherwise terminate without delivery of any shares of common stock subject thereto, to the extent such common stock would otherwise again have been available under the 1999 Equity Incentive Plan. At December 31, 2012, we had granted stock options to approximately 160 employees, directors and independent distributors. At December 31, 2012, we had granted restricted stock to approximately 360 employees, directors and independent distributors. At December 31, 2012, we had granted restricted stock units to approximately 40 employees, directors and independent distributors. We thus far have not granted any stock appreciation rights, performance share units, or stock bonuses under the Equity Incentive Plan. At December 31, 2012, we had issued 197,053 shares of common stock pursuant to stock option exercises, and there were outstanding stock options to purchase 3,181,934 shares of common stock (the weighted-average exercise price for which is \$22.92 and the weighted-average remaining term for which is 5.3 years) and unvested restricted shares and restricted stock units of 813,825. As a result, at December 31, 2012, there were 1,588,329 remaining shares of common stock available for future awards under the Equity Incentive Plan, our only active equity incentive plan.

As noted in “Compensation Discussion and Analysis”, we believe the equity compensation aligns the long-term interests of our executive officers with the long-term interests of our stockholders by creating a strong and direct linkage between compensation and long-term stockholder return. Based on our current compensation policies and in connection with our acquisition of BioMimetic, the Compensation Committee believes that in the near future there will not be a sufficient number of shares of common stock available for future awards under the Equity Incentive Plan to enable us to continue to achieve our objectives. Therefore, as contemplated in the Second Amended and Restated 2009 Equity Incentive Plan, the maximum number of shares of common stock for which we may grant awards will be increased by 3,500,000 shares from 1,450,000 to 4,950,000 shares, plus the number of shares of common stock granted under the 1999 Equity Incentive Plan that are not exercised or are forfeited, lapsed, or expired, or otherwise terminate without delivery of any shares of common stock subject thereto, to the extent such common stock would otherwise again have been available under the 1999 Equity Incentive Plan. The additional shares represent a 241% increase in the number of authorized shares under the Equity Incentive Plan, but constitute only 8.8% of the shares of

common stock that were outstanding on December 31, 2012. If the additional shares were all granted and issued as “full value” awards, after adjusting for the impact of the fungible share ration described below, the number of shares issued from the additional 3,500,000 shares would be only 1,750,000 shares representing 4.4% of the shares of common stock that were outstanding on December 31, 2012. Our Board of Directors believes this number represents reasonable potential equity dilution and provides a significant incentive for employees, directors and consultants to increase our value for all stockholders. The additional 3,500,000 shares, together with the existing 1,588,239 shares at December 31, 2012, are expected to provide us

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with a sufficient number of available shares of common stock to make awards under the Second Amended and Restated 2009 Equity Incentive Plan for approximately the next 2 to 4 years.

The Compensation Committee has chosen to add a provision making the number of shares of common stock available for issuance under the Equity Incentive Plan a fungible share pool. Accordingly, shares issued in respect of any full value award (any award under the plan other than a options or stock appreciation rights) granted under the plan after March 14, 2013 shall be counted against the share limit as two shares for every one share actually issued in connection with such award. Shares issued in respect of any other award (not a full value award) shall be counted against the share limit as one share. Therefore, as noted previously, if stockholders approve the Second Amended and Restated 2009 Equity Incentive Plan and all of 3,500,000 additional shares are issued as full value awards, the total number of additional shares issued under the Second Amended and Restated 2009 Equity Incentive Plan will be 1,750,000.

To address stockholders' potential concerns regarding the number of options, restricted shares and restricted stock units we grant in a given year, the Compensation Committee has committed that, with respect to the number of shares subject to awards granted over the next three fiscal years, we will maintain an average annual burn rate over that period that does not exceed 5.09% of weighted common shares outstanding. For purposes of calculating the number of shares granted in a particular year, all awards will first be converted into option-share equivalents. In this case, each share that is subject to a full value award will count as equivalent to 2.5 shares. This burn rate limitation does not apply to awards under plans assumed in acquisitions, awards subject to performance vesting, or issuances under tax-qualified employee stock purchase plans.

To address stockholders' potential concerns regarding the vesting terms of awards granted under the Equity Incentive Plan, the Compensation Committee has chosen to add a provision providing for minimum vesting requirements for most awards. With the exception of substitute awards granted in a business combination, performance-based awards must have a minimum vesting period of at least one year, and non-performance based awards must vest over at least three years. Certain awards are excluded from the minimum vesting requirements, including awards in lieu of for cash compensation, awards to non-employee directors, accelerated vesting due to a participant's death, disability or retirement or a change in control, and awards covering less than 10% of the shares authorized under the Equity Incentive Plan.

The Second Amended and Restated 2009 Equity Incentive Plan became effective on February 11, 2013. If approved by our stockholders, Second Amended and Restated 2009 Equity Incentive Plan will expire on May 13, 2019. If our stockholders do not approve the Second Amended and Restated 2009 Equity Incentive Plan, the Equity Incentive Plan as in effect immediately prior to February 11, 2013 will continue to operate in accordance with its terms.

Summary of Second Amended and Restated 2009 Equity Incentive Plan

The following is a summary of the detailed provisions of the Second Amended and Restated 2009 Equity Incentive Plan. The statements contained herein are qualified in their entirety by reference to the Second Amended and Restated 2009 Equity Incentive Plan, a copy of which is attached as Appendix D to this Proxy Statement.

General. The Second Amended and Restated 2009 Equity Incentive Plan authorizes us to grant to eligible persons the following types of equity-based awards: options to purchase common stock that qualify as “incentive stock options” within the meaning of Section 422 of the Code; options to purchase common stock that do not qualify as incentive stock options under the Code, which are also referred to as “nonqualified stock options”; stock appreciation rights (SARs); shares of restricted stock; restricted stock units; performance share units; and stock bonuses.

Eligible Persons. Approximately 130 non-union employees and directors of our related entities are eligible to receive equity-based awards under the Second Amended and Restated 2009 Equity Incentive Plan. Under present law, incentive stock options may be granted only to employees.

Shares Available. As contemplated by the amendment, the aggregate number of shares of common stock which may be made subject to all awards granted under the Second Amended and Restated 2009 Equity Incentive Plan is 4,950,000 shares, plus the number of shares of common stock granted under the 1999 Equity Incentive Plan that are not exercised or are forfeited, lapsed, or expired, or otherwise terminate without delivery of any shares of common stock subject thereto, to the extent such common stock would otherwise again have been available under the 1999 Equity Incentive Plan. As of December 31, 2012, and as contemplated under the Second Amended and Restated 2009 Equity Incentive Plan, there will be 5,088,329 remaining shares of common stock available for future awards, of

which full value awards will be limited to 2,544,164 shares. Any and all shares of stock that may be made subject to Awards are authorized to be issued pursuant to Incentive Stock Options. The awards granted under the Second Amended and Restated 2009 Equity Incentive Plan and the foregoing share limitations are subject to equitable adjustment or substitution, as determined by the Compensation Committee, in its sole discretion, in the event of certain changes in our outstanding shares of common stock or its capital structure resulting from stock dividends, stock splits, reverse stock splits, recapitalizations, reorganizations, mergers, consolidations, combinations, exchanges, or other relevant changes in

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capitalization. In the event that any stock option, SAR, restricted stock, restricted stock unit, or performance share unit expires or is surrendered, terminated, or forfeited, the shares of common stock no longer subject to such award will be released and thereafter available for new awards to be granted under the Second Amended and Restated 2009 Equity Incentive Plan. The Compensation Committee may grant awards under the Second Amended and Restated 2009 Equity Incentive Plan in substitution for awards held by employees of another entity who become our employees as a result of a business combination, and such substitute awards will not count against the plan share reserve.

As of December 31, 2012, we had granted stock options and stock bonuses to approximately 160 employees, directors and independent distributors. As of December 31, 2012, we had granted full value awards to approximately 400 employees, directors and independent distributors. We thus far have not granted any stock appreciation rights, performance share units, or stock bonuses under the Equity Incentive Plan. As of December 31, 2012, there were outstanding stock options to purchase 3,181,934 shares of common stock (the weighted-average exercise price for which is \$22.92 and the weighted-average remaining term for which is 5.3 years) and unvested restricted shares and restricted stock units of 813,825.

Administration. The Compensation Committee of our Board of Directors is authorized to administer the Second Amended and Restated 2009 Equity Incentive Plan. The Compensation Committee has the authority, subject to the provisions of the Second Amended and Restated 2009 Equity Incentive Plan, to establish, adopt, or revise such rules and regulations and to make all such determinations relating to the administration of the Second Amended and Restated 2009 Equity Incentive Plan as it may deem necessary or advisable. The Compensation Committee has the power, subject to the provisions of the Second Amended and Restated 2009 Equity Incentive Plan, to select the eligible persons to participate in the Second Amended and Restated 2009 Equity Incentive Plan; determine the nature and extent of the awards to be made to each participant; determine the time or times when awards will be made to participants; establish the performance goals and determine the period of time within which performance is measured with respect to performance share units; determine the period of time during which shares of restricted stock are subject to restrictions; determine the conditions for the payment of awards; and prescribe the forms of agreements and documents evidencing the awards.

Types of Equity-Based Awards.

Stock Options. The Compensation Committee may grant awards of stock options to eligible persons under the Second Amended and Restated 2009 Equity Incentive Plan. Nonqualified stock options may be granted to all eligible persons, but incentive stock options may be granted only to employees of ours and our related entities.

The Compensation Committee may set the exercise price of stock options, provided that the exercise price is not less than the fair market value of the underlying common stock on the date of grant. Stock options will vest and become exercisable in such a manner and on such date or dates as are determined by the Compensation Committee. The stock options will expire after a period not exceeding 10 years from the date of grant, as determined by the Compensation Committee, subject to earlier termination in the event that the participant's employment or service with us or a related entity ceases before the end of the option period. If an incentive stock option is granted to a participant who owns or is deemed to own more than 10% of the combined voting power of all classes of our stock, the option period may not exceed five years and the exercise price may not be less than 110% of the fair market value of the underlying common stock on the date of grant. Each stock option is to be evidenced by a stock option agreement containing such provisions, consistent with the Second Amended and Restated 2009 Equity Incentive Plan, as are determined by the Compensation Committee.

Stock Appreciation Rights. The Compensation Committee may grant awards of stock appreciation rights to eligible persons, alone or in tandem with stock options, pursuant to the Second Amended and Restated 2009 Equity Incentive Plan. A SAR confers on the participant the right to receive the value equal to the excess of the fair market value of one share of common stock on the date of exercise over the exercise price of the SAR. We may pay an exercised SAR's excess value in the form of cash, shares of common stock, or a combination of both as determined by the Compensation Committee. If, on the day that an unexercised SAR is scheduled to expire, the fair market value of the common stock exceeds the exercise price of the SAR, the SAR will be deemed to have been exercised by the participant on such last day, and we will make the appropriate payment therefore. Each SAR is to be subject to such terms and conditions as are imposed by the Compensation Committee and are not inconsistent with the Second

Amended and Restated 2009 Equity Incentive Plan.

Restricted Stock. The Compensation Committee may grant awards of restricted stock to eligible persons under the Second Amended and Restated 2009 Equity Incentive Plan. Upon the award of the restricted stock, we issue such stock to be held in a restricted book entry account in the name of the participant. The participant's rights to the restricted stock are subject to certain transferability and forfeiture restrictions during a restricted period which commences on the date of grant of the restricted stock and expires from time to time in accordance with a schedule established by the Compensation Committee. While the restrictions are in place, the participant generally has the rights and privileges of a stockholder as to the restricted stock, including the right to vote the restricted stock and to receive dividends thereon. Upon the expiration of the restricted period, the restrictions are of

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no further force or effect with respect to the restricted stock, and we will remove the restrictions of such restricted book entry account. Each restricted stock award is to be evidenced by an agreement between us and the participant setting forth the applicable restrictions.

**Restricted Stock Units.** The Compensation Committee may grant awards of restricted stock units to eligible persons pursuant to the Second Amended and Restated 2009 Equity Incentive Plan. A restricted stock unit is a hypothetical investment equal to one share of common stock. We do not issue any shares of common stock when a restricted stock unit award is made, and the participant is not considered a stockholder of ours. The participant's rights with respect to the restricted stock units are subject to certain forfeiture provisions during a restricted period which commences as of the date of grant of the restricted stock units and expires from time to time in accordance with a schedule established by the Compensation Committee. Upon the expiration of the restricted period, we deliver to the participant one share of common stock for each restricted stock unit for which the restrictions have expired. The terms and conditions of each grant of restricted stock units are to be reflected in a written award agreement.

**Performance Share Units.** The Compensation Committee is authorized to establish performance share unit programs and may grant awards of performance share units to eligible persons in accordance with such programs under the Second Amended and Restated 2009 Equity Incentive Plan. The Compensation Committee determines the number of performance share units to be granted to each eligible person who is selected to receive such an award. At the beginning of each performance measurement period, referred to in the Second Amended and Restated 2009 Equity Incentive Plan as an "award period," the Compensation Committee establishes written performance goals based on our financial objectives for such award period and a schedule relating the accomplishment of the performance goals to the performance share units to be earned by the participants. The performance goals may include absolute or relative growth in earnings per share or rate of return on stockholders' equity or any other measurement of corporate performance and may be determined on an individual basis or by categories of participants. The Compensation Committee may adjust the performance goals during the award period to account for certain events affecting us. At the completion of the award period, the Compensation Committee calculates the number of shares of common stock earned with respect to each participant's performance share unit award by multiplying the number of performance share units granted to the participant by a performance factor representing the degree of attainment of the performance goals. Payment of earned performance share units is made in the form of shares of common stock or, at the Compensation Committee's discretion, cash if requested by the participant.

**Stock Bonuses.** The Compensation Committee may issue unrestricted shares of common stock to eligible persons pursuant to the Second Amended and Restated 2009 Equity Incentive Plan. The Compensation Committee may grant the stock awards as or in payment of a bonus to the participant, to provide incentives for the participant, or to recognize the participant's special achievements or contributions.

**Transferability.** A participant's rights and interest under the Second Amended and Restated 2009 Equity Incentive Plan, including amounts payable, may not be sold, assigned, donated, transferred or otherwise disposed of, mortgaged, pledged or encumbered except, in the event of a participant's death, to a designated beneficiary to the extent permitted in the Second Amended and Restated 2009 Equity Incentive Plan, or in the absence of such designation, by will or the laws of descent and distribution. The Compensation Committee, however, may allow for the transfer of awards other than incentive stock options to other persons or entities.

**Change of Control Provisions.** The award agreements entered into under the Second Amended and Restated 2009 Equity Incentive Plan may provide for change in control provisions. In the absence of such provisions, in the event of any of the following: (i) we are merged or consolidated with another corporation or entity and, in connection therewith, consideration is received by our stockholders in a form other than stock or other equity interests of the surviving entity, (ii) all or substantially all of our assets are acquired by another person, or (iii) the reorganization or liquidation of us, the Compensation Committee may in its discretion and upon at least ten days advance notice to the affected persons, cancel any outstanding awards and pay to the holders in cash the value of such awards based upon the price per share of stock received or to be received by our other stockholders in such event.

**Minimum Vesting Requirements.** Except in the case substitute awards granted in a business combination as described above, full-value awards shall either (i) be subject to a minimum vesting period of three years (which may include graduated vesting within such three-year period), or one year if the vesting is based on performance criteria other than

continued service, or (ii) be granted solely in lieu of foregone cash compensation. However, the Compensation Committee may at its discretion (i) accelerate vesting of such full-value awards in the event of the participant's death, disability, or retirement, or the occurrence of a change in control, or (ii) grant full-value awards without the minimum vesting requirements described above with respect to awards covering 10% or fewer of the total number of shares authorized under the Second Amended and Restated 2009 Equity Incentive Plan. The minimum vesting requirements shall not apply to awards made to non-employee directors

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Amendment and Termination. Our Board of Directors may terminate the Second Amended and Restated 2009 Equity Incentive Plan at any time. Our Board of Directors or the Compensation Committee may suspend and, if suspended, reinstate the Second Amended and Restated 2009 Equity Incentive Plan in whole or in part at any time and from time to time. Any amendment of the Second Amended and Restated 2009 Equity Incentive Plan must be approved by our stockholders to the extent that such approval is required by the Second Amended and Restated 2009 Equity Incentive Plan, applicable law, the rules and regulations of the SEC, or the rules and regulations of any national securities exchange on which the common stock is then listed.

Federal Income Tax Consequences

The following is a summary of the material anticipated United States federal income tax consequences of the Second Amended and Restated 2009 Equity Incentive Plan to us and the participants. The summary is based on current federal income tax law, which is subject to change, and does not address state, local, or foreign tax consequences or considerations.

Stock Options. The grant of a stock option that does not have a readily ascertainable value will not result in taxable income at the time of the grant for either us or the optionee. Upon exercising an incentive stock option, the optionee will have no taxable income (except that the alternative minimum tax may apply) and we will receive no deduction. Upon exercising a nonqualified stock option, the optionee will recognize ordinary income in the amount by which the fair market value of the common stock at the time of exercise exceeds the stock option exercise price, and we will be entitled to a deduction for the same amount. The optionee's income is subject to withholding tax as wages. The optionee's basis for determining any subsequent gain or loss on the sale of stock acquired through the exercise of an option includes both the exercise price and any income recognized.

The tax treatment of the optionee upon a disposition of shares of common stock acquired through the exercise of a stock option is dependent upon the length of time that the shares have been held and on whether such shares were acquired by exercising an incentive stock option or a nonqualified stock option. If an employee exercises an incentive stock option and holds the shares for two years from the date of grant and one year after exercise, then any gain or loss realized based on the exercise price of the stock option will be treated as long-term capital gain or loss. Shares obtained upon exercise of an incentive stock option that are sold without satisfying these holding periods will be treated as shares received from the exercise of a nonqualified stock option. Generally, upon the sale of shares obtained by exercising a nonqualified stock option, the optionee may recognize capital gain or loss, the character of which is dependent upon the length of time that the shares have been held. Generally, there will be no tax consequence to us in connection with the disposition of shares of common stock acquired under a stock option, except that we may be entitled to a deduction in the case of a disposition of shares acquired upon exercise of an incentive stock option before the applicable holding periods have been satisfied.

Stock Appreciation Rights. The grant of a SAR will not result in taxable income to the participant at the time of the award. Upon exercising the SAR, the participant will recognize ordinary income in the amount by which the fair market value of the common stock or the amount of cash, as the case may be, exceeds the SAR exercise price, if any. We will be entitled to a deduction for the same amount. The participant's income is subject to withholding tax as wages. Upon a disposition of shares of common stock acquired through the exercise of the SAR, the participant may recognize capital gain or loss, the character of which is dependent upon the length of time that the shares have been held. Generally, there will be no tax consequences to us in connection with the disposition of shares of common stock acquired under a SAR.

Restricted Stock. An award of shares of common stock that is limited in terms of transferability and is subject to a substantial risk of forfeiture (i.e., restricted stock) will not result in taxable income to the participant at the time of the grant. Prior to the lapse of either of the restrictions on the restricted stock, any dividends on such shares will be paid currently and will be treated as ordinary compensation income to the participant, subject to withholding. Upon the lapse of either of the restrictions, the participant will recognize ordinary compensation income in the amount of the fair market value of the shares of common stock at the time that the restriction lapses, less the amount paid for the shares, if any.

Alternatively, within 30 days after transfer of the restricted stock, a participant may make an election under Section 83(b) of the Code, which would allow the participant to include in income in the year that the restricted

common stock is awarded an amount equal to the fair market value of the restricted stock on the date of such award determined as if the restricted common stock were not subject to restrictions. The employer is then entitled to a compensation-paid deduction in the same amount. The election is required to be written and delivered to both the Internal Revenue Service and the employer within that 30-day period. The participant is also required to confirm the election with the filing of the participant's federal income tax return for the year in which the award is made. Failure to satisfy any of these requirements may invalidate the intended election. In the event of a valid Section 83(b) election, the participant will not recognize income at the time that the restrictions actually lapse. In addition, any appreciation or depreciation in the value of the stock and any dividends paid on the stock after a valid Section 83(b) election are not deductible by the employer as compensation paid. For purposes of determining the period of time that the participant holds the restricted stock, the holding period begins on the award date when a participant makes a Section 83(b) election. Further,

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any dividends received after the Section 83(b) election is made will constitute ordinary dividend income to the participant and will not be deductible by the employer. If the restricted stock subject to the Section 83(b) election is subsequently forfeited, however, the participant is not entitled to a deduction or tax refund with respect to the income recognized because of the election, but may take a capital loss with respect to the amount paid for the shares, if any. We will be entitled to a deduction for the year in which the participant recognizes ordinary income with respect to the restricted stock in an amount equal to such income.

**Restricted Stock Units.** The grant of a restricted stock unit will not result in taxable income to the participant at the time of the grant. At the time that we make a payment with respect to the restricted stock unit, the participant will recognize ordinary compensation income in an amount equal to the fair market value of the shares of common stock received or in the amount of the cash received, as the case may be. Wage withholding rules will apply. We will be entitled to a deduction at the time of payment in an amount equal to such income.

**Performance Share Units.** The grant of a performance share unit will not result in taxable income to the participant at the time of the grant. At the time that we make a payment with respect to the performance share units, the participant will recognize ordinary compensation income in an amount equal to the fair market value of the shares of common stock received or in the amount of the cash received, as the case may be. Wage withholding rules will apply. We will be entitled to a deduction at the time of payment in an amount equal to such income.

**Stock Bonuses.** A participant who receives a stock bonus will recognize ordinary compensation income upon receipt of the stock in an amount equal to the fair market value of the stock on the date of grant. Wage withholding rules will apply. We will be entitled to a deduction at the time of grant in an amount equal to such income.

**Effect of Section 162(m) of the Code.** Section 162(m) of the Code limits to \$1,000,000 per person the annual amount that we may deduct for compensation paid to any of our most highly compensated employees. Compensation payable as a result of the attainment of performance goals may be excluded from this limit. To qualify as performance-based compensation, the Second Amended and Restated 2009 Equity Incentive Plan and the awards made thereunder must meet certain requirements. For example, stock options and SARs granted with an exercise price not less than the fair market value of the underlying shares of common stock are considered performance-based compensation, so long as the Second Amended and Restated 2009 Equity Incentive Plan and the stock option or SAR meet certain requirements, because the amount of compensation is attributable to an increase in the price of the common stock. Restricted stock awards may or may not qualify as performance-based compensation, depending on whether the vesting of the restricted stock is based on the attainment of performance-based goals.

**Common Stock Price**

The last sale price of our common stock on December 31, 2012, as reported by the Nasdaq Global Select Market, was \$20.99 per share.

**Award Grants**

**Past Award Grants.** The following table sets forth information regarding the number of equity-based awards that were made under the Equity Incentive Plan during 2012, to (i) each of our named executive officers, (ii) all named executive officers as a group, (iii) all directors, who are not executive officers, as a group, and (iv) all employees, who are not named executive officers, as a group. There is no applicable disclosure to be made with regard to any associate of our directors, director nominees, and executive officers or any other recipient of 5% or more of the stock options.

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Name or Category	Options	Restricted Stock
Robert A. Palmisano	145,128	55,715
Lance A. Berry	20,838	8,003
Daniel Garen	15,489	5,951
Pascal E.R. Girin	--	--
William L. Griffin, Jr.	22,042	8,465
All named executive officers as a group	203,497	78,134
All directors, who are not executive officers, as a group	70,000	31,232
All employees, who are not named executive officers, as a group	529,999	188,731

Future Award Grants. The granting of equity-based awards under the Second Amended and Restated 2009 Equity Incentive Plan is at the discretion of the Compensation Committee. The Compensation Committee has not yet determined any additional awards that will be granted under the Second Amended and Restated 2009 Equity Incentive Plan to the persons and groups of persons identified in the preceding table. See "Executive Compensation - Grant of Plan Based Awards" for information regarding the stock options, restricted stock, and restricted stock units granted in 2012 to our executive officers named in the Summary Compensation Table.

## Board of Directors' Recommendation

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF OUR SECOND AMENDED AND RESTATED 2009 EQUITY INCENTIVE PLAN. Each proxy solicited on behalf of our Board of Directors will be voted FOR the approval of our Second Amended and Restated 2009 Equity Incentive Plan unless the stockholder instructs otherwise in the proxy.

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PROPOSAL 6

APPROVAL OF OUR AMENDED AND RESTATED  
2010 EXECUTIVE PERFORMANCE INCENTIVE PLAN

Introduction

The 2010 Executive Performance Incentive Plan (the “Performance Incentive Plan”) was originally adopted by our Compensation Committee on March 20, 2010, and the material terms of the Performance Incentive Plan were approved by our stockholders on May 13, 2010. The Performance Incentive Plan provides for objective, performance-based awards for selected senior executives, subject to a maximum limit, as described in more detail below. Amounts paid under the Performance Incentive Plan are intended to qualify as “performance-based compensation,” which is excluded from the \$1,000,000 limit on deductible compensation set forth in Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”).

Summary of Proposed Changes

The Compensation Committee of our Board of Directors has reviewed the Performance Incentive Plan and has concluded that it would be in our best interest and the best interest of our stockholders for the Performance Incentive Plan to be amended and restated (i) to allow for awards to be paid, in whole or in part, in shares of our common stock, at the election of the participant, (ii) to permit all awards to be paid as soon as the performance goals have been achieved and certified to in writing by the Compensation Committee, and (iii) to make certain other administrative, clarifying and conforming amendments to the provisions of, and definitions used in, the Performance Incentive Plan. Our Board of Directors, upon the recommendation by the Compensation Committee, has adopted the Amended and Restated 2010 Equity Performance Incentive Plan (the “Amended and Restated Performance Incentive Plan”) to effect these changes, subject to approval by our stockholders in a manner that complies with applicable law, the rules and regulations of the SEC, the rules and regulations of Nasdaq and Section 162(m) of the Code.

Our Board of Directors is requesting that our stockholders approve the Amended and Restated Performance Incentive Plan to enable us to fully deduct for tax purposes payments under the Amended and Restated Performance Incentive Plan that are intended to qualify as “performance-based compensation.” Under Section 162(m), the federal income tax deductibility of compensation paid to our CEO and our three other most highly compensated officers (other than our CEO and principal financial officer) determined pursuant to the executive compensation disclosure rules under the Securities Exchange Act of 1934 (collectively, the “Covered Employees”) may be limited to the extent such compensation exceeds \$1,000,000 in any taxable year. However, we may deduct compensation paid to our Covered Employees in excess of that amount if it qualifies as performance-based compensation. In addition to certain other requirements, for awards under the Amended and Restated Performance Incentive Plan to constitute performance-based compensation, the material terms of the Amended and Restated Performance Incentive Plan must be disclosed to and approved by our stockholders. Under the Section 162(m) regulations, the material terms of the Amended and Restated Performance Incentive Plan are (i) the maximum amount of compensation that may be paid to a participant under the Amended and Restated Performance Incentive Plan during a specified period, (ii) the employees eligible to receive compensation under the Amended and Restated Performance Incentive Plan, and (iii) the business criteria on which performance goals are based. These material terms are disclosed below, respectively, in the following sections: (i) “Summary of the Amended and Restated Performance Incentive Plan - Maximum Award,” (ii) “Summary of the Amended and Restated Performance Incentive Plan - Individuals Who May Participate,” and (iii) “Summary of the Amended and Restated Performance Incentive Plan - Administration of the Amended and Restated Performance Incentive Plan and Performance Goals.” Our stockholders' approval of the Amended and Restated Performance Incentive Plan itself will constitute approval of each of the material terms of the Amended and Restated Performance Incentive Plan for purposes of the approval requirements of Section 162(m) of the Code.

As noted in “Compensation Discussion and Analysis”, we believe the equity compensation aligns the long-term interests of our executive officers with the long-term interests of our stockholders by creating a strong and direct linkage between compensation and long-term stockholder return. If the Amended and Restated Performance Incentive Plan is approved by our stockholders, we may issue shares of common stock as payment of awards granted under the Amended and Restated Performance Incentive Plan. Any shares of common stock awarded under the Amended and

Restated Performance Incentive Plan will be granted from the Amended and Restated 2009 Equity Incentive Plan, as may be amended from time-to-time, or any subsequently adopted equity incentive plan of the Company.

The Amended and Restated Performance Incentive Plan became effective on January 1, 2013. If approved by our stockholders, the Amended and Restated Performance Incentive Plan will expire on May 14, 2018. If our stockholders do not approve the Amended and Restated Performance Incentive Plan, the Performance Incentive Plan as in effect immediately prior to January 1, 2013, will continue to operate in accordance with its terms.

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Summary of the Amended and Restated Performance Incentive Plan

The following is a summary of the Amended and Restated Performance Incentive Plan, including its material terms. It does not purport to be a complete description of all the provisions of the Amended and Restated Performance Incentive Plan and should be read in conjunction with, and is qualified in its entirety by reference to, the complete text of the Amended and Restated Performance Incentive Plan, a copy of which is attached as Appendix E to this Proxy Statement.

Administration of the Amended and Restated Performance Incentive Plan and Performance Goals. The Compensation Committee administers and interprets the Amended and Restated Performance Incentive Plan, and any determination made by the Compensation Committee will be final and conclusive. The Compensation Committee may employ such legal counsel, consultants and agents (including counsel or agents who are our employees) as it may deem desirable for the administration of the Amended and Restated Performance Incentive Plan and may rely upon any opinion received from any such counsel or consultant or agent and any computation received from such consultant or agent. All expenses incurred in the administration of the Amended and Restated Performance Incentive Plan, including, without limitation, for the engagement of any counsel, consultant, or agent, will be paid by us.

The Compensation Committee has the sole and absolute authority to designate the participants in the Amended and Restated Performance Incentive Plan from the pool of employees qualified to participate in the Amended and Restated Performance Incentive Plan.

Within 90 days of the start of each calendar year, but in no case later than the date that is 25% of the period being measured, the Compensation Committee must establish the performance objectives for all applicable measuring periods during the year. The Compensation Committee must determine the performance periods (e.g., quarterly or full-year) for which performance goals will be measured. The Compensation Committee or its designee must communicate performance goals, financial performance measures, the relative weighting of each measure, and the performance minimum threshold, target bonus, and maximum bonus to each participant. However, the weighting of measures of cash flow shall not be greater than the weighting of measures of net income.

Performance goals must be based upon performance measures, such as sales revenue, operating income before or after taxes, net income before or after taxes, net income before securities transactions, net or operating income excluding non-recurring charges, return on assets, return on equity, return on capital, market share, earnings per share, cash flow, revenue, revenue growth, expenses, stock price, dividends, total stockholder return, price/earnings ratio, market capitalization, book value, product quality, customer retention, unit sales, strategic business objectives or any other performance measure deemed appropriate by the Compensation Committee in its discretion.

The Compensation Committee must determine a target performance bonus, stated as a percentage of base salary, for each participant. The target performance bonus represents the award that a participant will receive if all performance goals for each performance measure are met or exceeded.

The Compensation Committee must determine minimum performance thresholds for each of the performance measures. Partial payments of the target performance bonus may be paid only if the minimum performance thresholds are achieved. A participant may not be paid for performance below the minimum performance threshold of any component of the performance measures.

If the performance goals for a performance year are exceeded, the Compensation Committee may pay additional bonus in excess of the target performance bonus. However, no participant may be paid an amount, in cash and/or common stock, that exceeds twice the target performance bonus unless otherwise determined by the Compensation Committee.

Awards granted under the Amended and Restated Performance Incentive Plan will be prorated for each component of the performance measures between the minimum performance threshold and the target performance goal and between the target performance goal and the maximum performance bonus.

As soon as practicable, the Compensation Committee will determine whether the performance goals of any participant have been attained for any applicable performance period and will certify to such attainment in writing. The Compensation Committee will determine, in its sole discretion, the awards to be paid to the participants under the Amended and Restated Performance Incentive Plan. Awards will be calculated based on the participant's basis for award calculation, which is the participant's base salary in effect at the end of the quarter or performance year,

prorated to cover the period under consideration, plus any lump sum merit increases that may have been granted to the participant during the performance year, prorated to cover the period under consideration. All other compensatory incentives, premiums, bonuses or payments will be excluded from the basis for award calculation.

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If performance goals are not achieved for any quarterly performance period but, due to full-year financial results, which is allocated equally amongst the four quarters, one or more quarterly performance goals would be achieved, the payment of awards for the entire performance year will also include an additional payment equal to the amount of the quarterly awards that are deemed achieved based on the equal allocation of the full-year financial results. Awards based on quarterly financial results of the first, second or third quarterly performance periods each will not exceed twenty percent (20%) of a participant's target bonus for the entire performance year.

Awards granted under the Amended and Restated Performance Incentive Plan will be paid as soon as practicable upon achievement of the performance goals and the Compensation Committee's certification to such achievement for any applicable performance period. Payment of the awards must occur on or prior to March 15 of the calendar year following the performance year for which such awards are made. Awards under the Amended and Restated Performance Incentive Plan will generally be paid in cash. However, a participant may elect for the participant's award to be paid in shares of common stock, in lieu of cash, or a combination of cash and shares of common stock. Upon such election, the participant will receive such number of shares equal to (a) the amount of the award, divided by (b) the fair market value of a share of common stock, as of the date of the participant's election, provided that such number of shares of common stock are available for issuance under the Amended and Restated 2009 Equity Incentive Plan, as may be amended from time-to-time, or any subsequently adopted equity incentive plan of the Company. Subject to certain exceptions, a participant must be employed as of the last day of a performance year to be entitled to a payment under the Amended and Restated Performance Incentive Plan. A participant's payments under the Amended and Restated Performance Incentive Plan will be prorated if the participant leaves his or her position due to disability, dies, or takes a military leave.

Newly hired individuals may become participants if they are hired on or prior to September 30 of a performance year. Individuals who transfer within us or our subsidiaries may also become participants. All awards made to such newly hired or transferred individuals will be prorated for the period of participation in the Amended and Restated Performance Incentive Plan. Awards granted to such newly hired individuals may not be based upon performance measures achieved under the Amended and Restated Performance Incentive Plan prior to the date of hire.

**Maximum Award.** In no event may any payment, whether in cash and/or common stock, under the Amended and Restated Performance Incentive Plan to a participant exceed \$1,500,000 for any performance year.

**Individuals Who May Participate.** The Compensation Committee has the sole and absolute authority to designate the participants in the Amended and Restated Performance Incentive Plan. To be eligible to participate in the Amended and Restated Performance Incentive Plan, an individual must be a regular full-time or part-time executive employed by us or our subsidiaries and be designated as an officer of us or our subsidiaries by our Board of Directors of such entity. In addition, an individual must (i) be employed by us or one of our subsidiaries for at least three months during the performance year with a hire date on or prior to September 30 and must be an employee on December 31 of the performance year, (ii) have met minimum job expectations and have performed satisfactorily, as determined by the participant's manager/supervisor in conjunction with our Human Resource Department; and (iii) be employed in the United States, Canada or in a European country in the business unit designated by us as "EMEA."

If a participant does not maintain an acceptable level of overall performance, the participant may, at the sole discretion of the Compensation Committee, be suspended from the Amended and Restated Performance Incentive Plan.

As of December 31, 2012, eleven executive officers were eligible to participate in the Amended and Restated Performance Incentive Plan.

**Transfer Restrictions; No Right to Continued Employment.** A participant's rights and interest under the Amended and Restated Performance Incentive Plan, including amounts payable, may not be sold, assigned, donated, or transferred or otherwise disposed of, mortgaged, pledged or encumbered except, in the event of a participant's death, to a designated beneficiary to the extent permitted by the Amended and Restated Performance Incentive Plan, or in the absence of such designation, by will or the laws of descent and distribution.

Neither the Amended and Restated Performance Incentive Plan nor any action taken under the Amended and Restated Performance Incentive Plan may be construed as giving any participant any right to be retained in the employ or service of us or our subsidiaries.

Term and Amendment. The Amended and Restated Performance Incentive Plan became effective as of January 1, 2013 and, if approved by our stockholders, will expire on May 14, 2018.

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Our Board of Directors or the Compensation Committee may at any time amend, suspend, discontinue, or terminate the Amended and Restated Performance Incentive Plan; provided, however, that no such amendment, suspension, discontinuance or termination shall adversely affect any then existing rights of any participant in any respect of any performance year that has already begun.

The affirmative vote of a majority of the shares present in person or represented by proxy at the annual meeting and entitled to vote on the subject matter will be required for our stockholders to approve the Amended and Restated Performance Incentive Plan.

**Federal Income Tax Consequences**

The following is a summary of the material anticipated United States federal income tax consequences of the Amended and Restated Performance Incentive Plan to the participants and us. The summary is based on current federal income tax law, which is subject to change, and does not address state, local, or foreign tax consequences or considerations.

A participant will generally recognize ordinary income equal to the amount of the award, whether paid in cash and/or shares of common stock, at the time the award is received by the participant. Such income will be subject to applicable income and withholding tax by us. Any withholding of federal, state, or local taxes will be deducted from all awards paid in cash under the Amended and Restated Performance Incentive Plan. In the case of awards paid in shares of common stock, the participant receiving such common stock may be required to pay, prior to delivery of such common stock, the amount of any such taxes which are required to be withheld, if any, with respect to such common stock. Otherwise, shares of common stock of equivalent fair market value may be accepted for payment of such withholding tax obligations if the participant elects to make payment in such manner.

If, and to the extent that, award payments under the Amended and Restated Performance Incentive Plan satisfy the requirements of Section 162(m) of the Code and otherwise satisfy the requirements of deductibility under the federal income tax law, we will receive a deduction for the amount constituting ordinary income to the participant.

If an award is paid to a participant in shares of common stock, upon any transfer or sale of the common stock, the participant will recognize a short-term or long-term capital gain or loss, as the case may be, in an amount equal to the difference between the amount realized upon any sale of common stock and the participant's basis in the common stock (i.e., the amount of the award taxed to the participant as ordinary income upon receipt).

**Common Stock Price**

The last sale price of our common stock on December 31, 2012, as reported by the Nasdaq Global Select Market, was \$20.99 per share.

**Award Payments**

**Past Award Payments.** The following table sets forth information regarding the amount of cash bonus earned under the Performance Incentive Plan during 2012, to (i) each of our named executive officers, and (ii) all named executive officers as a group.

Name	Performance Incentive Bonus
Robert J. Palmisano	\$1,165,669
Lance A. Berry	287,848
Daniel J. Garen	195,601
Pascal E.R. Girin <sup>(1)</sup>	N/A
William L. Griffin, Jr.	214,593
All named executive officers as a group	1,863,711

(1) As previously noted, Mr. Girin's employment commenced on November 26, 2012, and as such, he was not eligible to participate in the 2010 Executive Performance Incentive Plan.



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Future Award Payments. Future award grants under the Amended and Restated Performance Incentive Plan are at the discretion of the Compensation Committee. Because award payments under the Amended and Restated Performance Incentive Plan depend on future corporate performance and performance goals may vary from year to year, the actual amounts we will pay or the number of shares of stock that will be awarded under the plan for future years are not yet determinable. See “Compensation Discussion and Analysis - Performance Incentive Bonus” and the Summary Compensation Table for information regarding our recent practices with respect to the performance incentive bonuses.

Board of Directors' Recommendation

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF OUR AMENDED AND RESTATED 2010 EXECUTIVE PERFORMANCE INCENTIVE PLAN. Each proxy solicited on behalf of our Board of Directors will be voted FOR the approval of the Amended and Restated 2010 Executive Performance Incentive Plan unless the stockholder instructs otherwise in the proxy.

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PROPOSAL 7

ADVISORY VOTE TO APPROVE THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

We are submitting for stockholder advisory vote a resolution to approve the compensation paid to our named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables, and narrative discussion contained in this Proxy Statement. Accordingly, the following resolution will be submitted for stockholder approval at the annual meeting:

“RESOLVED, that the compensation paid to the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables, and narrative discussion is hereby APPROVED.”

The advisory vote on the compensation of our named executive officers is non-binding. The approval or disapproval of the resolution approving our executive compensation by our stockholders will not require our Board of Directors or any of its committees to take any action regarding our executive compensation practices. The final decision on the compensation and benefits of our named executive officers and whether, and if so, how, to address stockholder disapproval remains with our Board of Directors and its committees.

Our Board of Directors believes that it, through recommendations of the Compensation Committee, is in the best position to consider the extensive information and factors necessary to make independent, objective, and competitive compensation recommendations and decisions that are in our best interest and the best interest of our stockholders.

Our Board of Directors values the opinions of our stockholders as expressed through their votes and other communications. Although the resolution is non-binding, our Board of Directors will carefully consider the outcome of the advisory vote to approve the compensation of our named executive officers and those opinions when making future compensation decisions.

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS. Each proxy solicited on behalf of our Board of Directors will be voted FOR the approval of the compensation of our named executive officers unless the stockholder instructs otherwise in the proxy.

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## PROPOSAL 8

## RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

## General

The Audit Committee of our Board of Directors has selected KPMG LLP (KPMG) as the independent registered public accounting firm to perform the audit of our consolidated financial statements for 2013. KPMG has been our independent registered public accounting firm since 2002.

Our Board of Directors is asking the stockholders to ratify the selection of KPMG as our independent registered public accounting firm for 2013. Although not required by law, Nasdaq's listing standards, or our bylaws, our Board of Directors is submitting the selection of KPMG to the stockholders for ratification as a matter of good corporate practice. Even if the selection is ratified, the Audit Committee, in its discretion, may select a different registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of us and our stockholders.

Representatives of KPMG are expected to be present at the meeting. They will have an opportunity to make a statement if they desire and will be available to respond to appropriate questions from our stockholders.

## Board of Directors' Recommendation

**OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE RATIFICATION OF THE SELECTION OF KPMG AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2013.**

Each proxy solicited on behalf of our Board of Directors will be voted FOR the ratification of the selection of KPMG as our independent registered public accounting firm for 2013 unless the stockholder instructs otherwise in the proxy. If the stockholders do not ratify the selection, the matter will be reconsidered by the Audit Committee and our Board of Directors.

## Audit and Non-Audit Services

The Audit Committee is directly responsible for the appointment, compensation, and oversight of our independent auditor. In addition to retaining KPMG to audit our consolidated financial statements for 2012, the Audit Committee retained KPMG to provide other auditing and advisory services in 2012. The Audit Committee understands the need for KPMG to maintain objectivity and independence in its audits of our financial statements. The Audit Committee has reviewed all non-audit services provided by KPMG in 2012 and has concluded that the provision of such services was compatible with maintaining KPMG's independence in the conduct of its auditing functions.

To help ensure the independence of the independent auditor, the Audit Committee has adopted a policy for the pre-approval of all audit and non-audit services to be performed for us by our independent auditor. Pursuant to this policy, all audit and non-audit services to be performed by the independent auditor must be approved in advance by the Audit Committee. The Audit Committee may delegate to one or more of its members the authority to grant the required approvals, provided that any exercise of such authority is presented to the full Audit Committee at its next regularly scheduled meeting.

The table below sets forth the aggregate fees billed by KPMG for audit and non-audit services provided to us in 2012 and 2011.

Fees	2012	2011
Audit Fees	\$1,259,000	\$1,150,000
Audit-Related Fees	22,000	30,000
Tax Fees	264,000	124,000
All Other Fees	—	82,000
Total	\$1,545,000	\$1,386,000

In the above table, in accordance with the SEC's definitions and rules, "audit fees" are fees for professional services for the audit of a company's financial statements included in the annual report on Form 10-K, for the review of a company's financial statements included in the quarterly reports on Form 10-Q, and for services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements; "audit-related fees" are

fees for assurance and related services that are reasonably related to the performance of the audit or review of a company's financial statements and are not included in "audit fees" and consisted of audits our benefit plan; "tax fees" are fees for tax compliance and consultation primarily related

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to assistance with international tax compliance and tax audits; and “all other fees” are fees for any services not included in the first three categories, which includes fees for a risk management review and assessment.

Other Independence Measures

We have taken additional steps to ensure the independence of our independent auditor. The Audit Committee requires that the lead and concurring partners assigned to the audit of our consolidated financial statements be rotated off the independent auditor's audit engagement at least every five years. Our Board of Directors, upon the recommendation of the Audit Committee, also has adopted a policy restricting the hiring of employees or former employees of the independent auditor, who participated in any capacity in the audit of our consolidated financial statements.

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## EXECUTIVE OFFICERS

## Executive Officers and Other Officers

The table below sets forth certain information concerning our executive officers and other officers.

Name	Age	Position(s)
Executive Officers:		
Robert J. Palmisano	68	President and Chief Executive Officer
Julie B. Andrews	42	Vice President and Chief Accounting Officer
Lance A. Berry	40	Senior Vice President and Chief Financial Officer
Peter Cooke	47	Senior Vice President, International
Timothy E. Davis, Jr.	42	President, OrthoRecon Division
Daniel J. Garen	40	Senior Vice President, Chief Compliance Officer
Pascal E.R. Girin	53	Executive Vice President and Chief Operating Officer
William L. Griffin, Jr.	64	Senior Vice President and General Manager, BioMimetic Therapeutics
James A. Lightman	55	Senior Vice President, General Counsel and Secretary
Edward A. Steiger	61	Senior Vice President, Human Resources
Eric A. Stookey	42	President, Extremities Division
Julie D. Tracy	51	Senior Vice President, Chief Communications Officer
Jennifer S. Walker	45	Senior Vice President, Process Improvement
Other Officers:		
William J. Flannery	59	Vice President, Logistics and Materials
Kyle M. Joines	45	Vice President, Operations
Thomas McAllister	45	Vice President, Assistant General Counsel and Assistant Secretary
W. Dean Morgan	46	Vice President, Tax and Treasury
Max Mortensen	46	Vice President, Global Quality, Regulatory & Clinical
John Raney	55	Vice President and Chief Information Officer
Aurelio Sahagun	39	Vice President, EMEA Commercial Operations
Kengo Yamada	46	Vice President, International Sales and Marketing

Robert J. Palmisano has been our President and Chief Executive Officer since September 17, 2011. Prior to joining us, Mr. Palmisano served as President and Chief Executive Officer of ev3, Inc., a global endovascular device company, from April 2008 to July 2010, when it was acquired by Covidien plc. From 2003 to 2007, Mr. Palmisano was President and Chief Executive Officer of IntraLase Corp. Before joining IntraLase, Mr. Palmisano was President and Chief Executive Officer of MacroChem Corporation from 2001 to 2003. Mr. Palmisano is currently a Venture Partner of SV Life Sciences and serves on the Board of Directors of Bausch & Lomb and the Providence College Board of Trustees. During the past five years, Mr. Palmisano previously served on the Board of Directors of ev3, Inc., Osteotech, Inc., and Abbott Medical Optics, Inc., all public companies.

Julie B. Andrews has been our Vice President and Chief Accounting Officer since May 18, 2012. From February 1998 to May 2012, Ms. Andrews held numerous key financial positions with Medtronic, Inc. Most recently, Ms. Andrews served as Medtronic's Vice President, Finance for their spinal and biologics business units. Ms. Andrews brings significant accounting, finance and business skills as well as global experience, having held positions in worldwide planning and analysis in Medtronic Sofamor Danek and in Medtronic's spinal and biologics business. Prior to joining Medtronic, Ms. Andrews worked with Thomas & Betts Corporation in Memphis, Tennessee and Thomas Havey, LLP in Chicago, Illinois.

Lance A. Berry has been our Senior Vice President and Chief Financial Officer since 2009. He joined us in 2002, and, until his appointment as Chief Financial Officer, served as Vice President and Corporate Controller. Prior to joining us, Mr. Berry



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served as audit manager with the Memphis, Tennessee office of Arthur Andersen LLP from 1995 to 2002. Mr. Berry is a certified public accountant, inactive.

Peter Cooke has been our Senior Vice President, International since January 2013. Prior to joining us, Mr. Cooke served as Vice President and General Manager, Vascular Therapies Emerging Markets for Covidien Public Limited Company from 2010 to January 2013. Prior to Covidien, Mr. Cooke served in various sales roles for ev3, Inc., including Vice President & General Manager, International from July 2008 to July 2010; Vice President, General Manager, International from November 2006 to June 2008; Vice President, Sales International from January 2005 until November 2006; and Regional Director Asia Pacific & China from February 2003 until January 2005. Prior to ev3, Mr. Cooke spent 11 years at Guidant Corporation, 9 years Baxter Healthcare Corporation and 2 years at St. Jude Medical, Inc.

Timothy E. Davis, Jr. has been the President of our OrthoRecon division since November 2012. Mr. Davis previously served as our Senior Vice President, Corporate Development from January 2010 to November 2012, as our head of Research and Development from May 2011 to November 2012 and as our Vice President, Business Development from 2006 to December 2009. He was a partner with MB Venture Partners, LLC, a medical technology and life sciences venture capital firm specializing in musculoskeletal diseases, from 2004 to 2006. Mr. Davis was Vice President of Vector Fund Management, a healthcare and life sciences venture capital firm, from 1997 to 2004. He was a Senior Consultant at Gemini Consulting Group, a healthcare consulting firm, from 1995 to 1997 and a Sales Specialist at Parke-Davis Company, a pharmaceutical company, from 1992 to 1994.

Daniel J. Garen was appointed our Senior Vice President, Chief Compliance Officer in January 2012. Prior to joining us, Mr. Garen served in various legal, compliance and regulatory positions with Siemens AG. Mr. Garen served as Chief Compliance Officer and Senior Counsel from January 2007 to August 2010 and he most recently held the position of Vice President, Healthcare Policy and Clinical Affairs until January 2012 at Siemens Healthcare Sector US. Prior to joining Siemens, Mr. Garen held senior counsel and compliance officer positions with Bayer Healthcare from September 2003 to January 2007.

Pascal E.R. Girin was appointed to serve as our Executive Vice President and Chief Operating Officer on November 6, 2012. Prior to joining us, Mr. Girin served as President and Chief Executive Officer of Keystone Dental Inc. from February 2011 to June 2012. From October 2010 to February 2011, Mr. Girin served as Executive Vice President and Chief Operating Officer of Keystone Dental Inc. From July 2010 to September 2010, Mr. Girin served as Chief Operating Officer of ev3 Inc. following its acquisition by a wholly owned subsidiary of Covidien Group S.a.r.l. Prior to that time, Mr. Girin served as Executive Vice President and Chief Operating Officer of ev3 Inc. from January 2010 to July 2010, as Executive Vice President and President, Worldwide Neurovascular and International of ev3 Neurovascular Inc. from July 2008 to January 2010, as Senior Vice President and President, International of ev3 International from July 2005 to July 2008, and as General Manager, Europe of ev3 Inc. from September 2003 to July 2005. From September 1998 to August 2003, Mr. Girin served in various capacities at BioScience Europe Baxter Healthcare Corporation, most recently as Vice President. Mr. Girin received an engineering education at the French Ecole des Mines. From November 2010 until November 2, 2012, Mr. Girin had served as a director of Tornier, N.V., a publicly traded global medical device company, as well as a member of its Nominating, Corporate Governance and Compliance Committee

William L. Griffin, Jr. has been our Senior Vice President and General Manager, BioMimetic Therapeutics since March 2013. He served as our Senior Vice President, Global Operations from 2008 to March 2013. Prior to joining us, Mr. Griffin had global responsibility for all operations at Smith & Nephew, Inc. since 2002. From 1997 until 2002, he held positions at Johnson & Johnson Medical, including serving as its Vice President and General Manager. Mr. Griffin began his career in the medical device industry with Becton, Dickinson and Company where he spent 23 years with the final position of Vice President of Global Supply Chain Services.

James A. Lightman was appointed our Senior Vice President, General Counsel and Secretary on December 29, 2011. Prior to joining us, Mr. Lightman served in various legal and executive positions with Bausch & Lomb Incorporated. From February 2008 to November 2009, Mr. Lightman served as Vice President and Assistant General Counsel of Bausch & Lomb, and most recently held the position of Vice President, Global Sales Operations until August 2011. From June 2007 to February 2008, he served as Vice President and General Counsel of Eyeonics, Inc. Prior to joining

Eyeonics, Mr. Lightman served as Senior Vice President and General Counsel of IntraLase Corp. from February 2005 to April 2007.

Edward A. Steiger has been our Senior Vice President, Human Resources since January 2010, and was previously our Vice President, Human Resources from 2008 to January 2010. He has ten years of experience in the medical device industry and 37 years of experience related to various aspects of human resources. Prior to joining us, Mr. Steiger was employed by Sempra Energy as Vice President, Human Resources for its global businesses from 2003 to 2008. From 1998 to 2003, Mr. Steiger worked for Monsanto Company, most recently as its Vice President, Global Staffing. From 1992 to 1997, Mr. Steiger was Vice President, Human Resources for Tastemaker, a specialty chemical/flavor partnership between Mallinckrodt Inc. and Hercules Incorporated.

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From 1985 to 1992, Mr. Steiger held a number of key positions at Allergan, Inc. a global eye care pharmaceutical and medical device company.

Eric A. Stookey has been the President of our Extremities division since November 2012. Mr. Stookey has served us in various other marketing and sales positions from 1995 to January 2010, including as our Senior Vice President and Chief Commercial Officer from January 2010 to November 2012, as our Vice President, North American Sales from 2007 to January 2010, as our Vice President - U.S. Sales from 2005 until 2007, as our Senior Director of Sales - Central Region from 2003 to 2005 and as our Director of Marketing for Large Joint Reconstruction Products from 2001 to 2003. He was employed by DePuy Orthopedics, Inc. from 1993 to 1995.

William J. Flannery has been our Vice President, Logistics and Materials since 2004. He served as our Senior Director - Materials and Purchasing from 1994 to 2004. Mr. Flannery has 30 years of experience in the orthopaedic medical device industry. He was employed by United States Surgical Corporation, a manufacturer of products used to perform minimally invasive surgical procedures, in various operational positions from 1978 to 1994, where he ultimately served as the Senior Director of Materials.

Kyle M. Joines has been our Vice President, Operations since March 2013. He served as our Vice President, Manufacturing from 2004 to 2013, Senior Director - Manufacturing from 2001 to 2004, Director - Manufacturing from 1998 to 2001, and in various other production positions from 1993 to 1998. Mr. Joines was employed by Precision Castparts Corp., a global manufacturer of complex metal components and products, from 1990 to 1992, where he ultimately served as the Foundry Coordinator.

Thomas McAllister resumed his position as Vice President, Assistant General Counsel and Assistant Secretary in December 2011 after serving as Interim General Counsel and Secretary since May, 2011. He was appointed Vice President in June 2011. He has been a member of the legal department at Wright since 2002 and he has held the positions of Assistant General Counsel since March 2005 and Assistant Secretary since June 2010 except when serving as Interim General Counsel and Secretary. Prior to joining us, Mr. McAllister held positions in private law practice and as a corporate attorney for Harrah's Entertainment Company.

W. Dean Morgan became our Vice President, Tax and Treasury in October 2011. He previously served as the Director, Tax from 2003 to 2010 and Vice President, Tax from 2010 to 2011. Prior to joining us, Mr. Morgan was employed by Buckeye Technologies, Inc., a manufacturer and distributor of cellulose-based specialty products, and Arthur Andersen LLP. Mr. Morgan is a certified public accountant.

Max Mortensen became our Vice President, Global Quality, Regulatory & Clinical in May 2011. Mr. Mortensen previously served as Vice President, Global Quality Systems since February 2010. He joined us in 2008 to lead our Advanced Engineering and Manufacturing program. Prior to joining us, Mr. Mortensen served as Director of Engineering for Bend Research Inc. from 2004 to 2008.

John Raney became our Vice President and Chief Information Officer in March 2012. Prior to joining us, Mr. Raney served as Vice President, IT Strategy for Express Scripts, Inc. from May 2011 to March 2012, and served as Vice President, Corporate Systems and Data from April 2007 to May 2011. Before joining Express Scripts, Mr. Raney held senior level information technology positions with Metal Container Corporation (a subsidiary of Anheuser-Busch Inc.) from December 1990 to April 2001 and Anheuser-Busch Inc. from April 2001 to December 2005.

Aurelio Sahagun became our Vice President, EMEA Commercial Operations in May 2011. He previously served as Vice President, Sales for Wright EMEA since April 2010. He joined Wright in early 2006 as Director of Finance and Operations in France and has served as both Director of Finance-EMEA and Vice President of Finance-EMEA. Prior to joining us, Mr. Sahagun worked for Medtronic Inc. where he provided senior financial support to the company's spine business across Europe.

Julie D. Tracy was appointed our Senior Vice President, Chief Communications Officer in October 2011. Prior to joining us, Ms. Tracy most recently served as Chief Communications Officer for Epocrates, Inc. from March 2011 to October 2011. From January 2008 to July 2010, Ms. Tracy was Senior Vice President and Chief Communications Officer for ev3 Inc. Prior to ev3, Ms. Tracy held marketing and investor relations positions at Kyphon Inc. from January 2003 to November 2007 and Thoratec Corporation from January 1998 to January 2003.

Jennifer S. Walker became our Senior Vice President, Process Improvement in December 2011. Prior to this role, she had served as our Vice President & Corporate Controller since December 2009. Since joining our financial

organization in 1993, she has also served as Assistant Controller, Director, Financial Reporting & Risk Management, Director, Corporate Tax & Risk Management and Tax Manager. Prior to joining us, Ms. Walker was a senior tax accountant with Arthur Andersen LLP. Ms. Walker is a certified public accountant.

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Kengo Yamada became our Vice President, International Sales and Marketing in January 2011. Prior to joining us, Mr. Yamada served as the Director of Asia of Integra Life Sciences Corporation from 2009 to January of 2011. From 2003 to September 2009, he served as Managing Partner for MedicalWrx Consultants.

Code of Business Conduct

We have adopted a Code of Business Conduct which applies to all of our directors, officers, employees and agents, as well as those of our subsidiaries. The Code of Business Conduct satisfies the SEC's requirements for a "code of ethics" and Nasdaq's requirements for a "code of conduct." The Code of Business Conduct, which was revised by our Board of Directors on February 2012, is posted on our website at <http://www.wmt.com/compliance>. The information on our website, however, is not a part of this Proxy Statement. The Code of Business Conduct may be waived for any director or officer only by our Board of Directors upon the recommendation of both our Nominating, Compliance and Governance Committee and our ethics officer. Our Board of Directors has no present intention to permit any waiver of the Code of Business Conduct for any director or officer.

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**OTHER MATTERS**

As of the date hereof, our Board of Directors knows of no business that will be presented at the meeting other than the proposals described in this Proxy Statement. If any other proposal properly comes before the stockholders for a vote at the meeting, the proxy holders will vote the shares of common stock represented by proxies that are submitted to us in accordance with their best judgment.

**ADDITIONAL INFORMATION**

**Solicitation of Proxies**

We will solicit proxies on behalf of our Board of Directors by mail, telephone, facsimile, or other electronic means or in person. We will pay the proxy solicitation costs. We will supply copies of the proxy solicitation materials to brokerage firms, banks, and other nominees for the purpose of soliciting proxies from the beneficial owners of the shares of common stock held of record by such nominees. We have not retained any firm to assist with the solicitation of proxies. We request that such brokerage firms, banks, and other nominees forward the proxy solicitation materials to the beneficial owners and will reimburse them for their reasonable expenses.

**Mailing Address of Principal Executive Office**

The mailing address of our principal executive office is Wright Medical Group, Inc., 5677 Airline Road, Arlington, Tennessee 38002.

**Stockholder Proposals for Inclusion in Proxy Statement for 2014 Annual Meeting of Stockholders**

To be considered for inclusion in our proxy statement for the 2014 Annual Meeting of Stockholders, a stockholder proposal must be received by us no later than the close of business on December [ \* ], 2013. Stockholder proposals must be sent to Corporate Secretary, Wright Medical Group, Inc., 5677 Airline Road, Arlington, Tennessee 38002.

We will not be required to include in our proxy statement any stockholder proposal that does not meet all the requirements for such inclusion established by the SEC's proxy rules and Delaware corporate law.

**Other Stockholder Proposals for Presentation at 2014 Annual Meeting of Stockholders**

For any proposal that is not submitted for inclusion in our proxy statement for the 2014 Annual Meeting of Stockholders, but is instead sought to be presented directly at the meeting, the SEC's rules permit management to vote proxies in its discretion if: (i) we receive notice of the proposal before the close of business on March [ \* ], 2014, and advise stockholders in the proxy statement about the nature of the matter and how management intends to vote on such matter; or (ii) we do not receive notice of the proposal prior to the close of business on March [ \* ], 2014. Notices of intention to present proposals at the 2014 Annual Meeting of Stockholders should be sent to Corporate Secretary, Wright Medical Group, Inc., 5677 Airline Road, Arlington, Tennessee 38002.

By Order of our Board of  
Directors,

/s/ James A. Lightman  
James A. Lightman  
Secretary

Arlington, Tennessee  
April [ \* ], 2013

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Appendix A

Non-GAAP Financial Measures

The discussion of our results in the Compensation Disclosure and Analysis section of this Proxy Statement includes a discussion of adjusted net income and free cash flow.

Adjusted Net Income

Adjusted net income excludes (a) restructuring charges, (b) non-cash stock-based compensation expense, (c) costs associated with governmental inquiries and our deferred prosecution agreement (DPA), (d) non-cash inventory step-up amortization, (e) transaction costs and non-cash write-off of deferred financing fees associated with the 2.625% Convertible Senior Notes due 2014 (tender offer), (f) costs associated with distributor conversions and amortization of non-competes, (g) loss on the termination of the interest rate swap, (h) non-cash interest expense related to the Convertible Notes due 2017, (i) the unrealized loss on the mark-to-market of derivatives, (j) transaction costs and non-cash write-off of deferred financing fees associated with the termination of the senior credit facility and certain 2014 Convertible Notes, (k) product liability provision, (l) expenses associated with certain employment matters, (m) gain on the sale of intellectual property, (n) due diligence and transaction costs, (o) increase to management's estimate of our probable insurance recovery for previously recognized costs associated with product liability claims, and (p) the income tax effects of the foregoing.

Constant Currency Revenue

Constant currency revenue is calculated by excluding foreign currency impact from net sales.

Free Cash Flow

Free cash flow is calculated by subtracting capital expenditures from cash provided by operating activities.

Reference is made to the reconciliation of these non-GAAP measures in our Current Report on Form 8-K filed on February 21, 2013, within Exhibit 99.

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APPENDIX B  
CERTIFICATE OF AMENDMENT  
TO  
FOURTH AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
WRIGHT MEDICAL GROUP, INC.

WRIGHT MEDICAL GROUP, INC., a corporation duly organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"), does hereby certify:

1. The name of the Corporation is WRIGHT MEDICAL GROUP, INC.

The Fourth Amended and Restated Certificate of Incorporation of the Corporation, as amended (the "Certificate of Incorporation"), is hereby amended by deleting the first sentence of Article IX thereof and replacing it with the following:

"The number of directors which shall constitute the entire Board of Directors shall not be less than one (1) nor more than ten (10), which number shall be determined from time to time by the Board of Directors."

3. This Certificate of Amendment to the Certificate of Incorporation has been duly adopted in accordance with Section 242 of the General Corporation Law of the State of Delaware.

4. All other provisions of the Certificate of Incorporation shall remain in full force and effect.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be signed this 14th day of May, 2013.

WRIGHT MEDICAL GROUP, INC.

By:  
Name:  
Title:

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APPENDIX C

AMENDED AND RESTATED 2002 EMPLOYEE STOCK PURCHASE PLAN

The following sets forth the terms and conditions of an employee stock purchase plan to be called the Wright Medical Group, Inc. Amended and Restated 2002 Employee Stock Purchase Plan (the "Plan"), amended and restated this 14<sup>th</sup> day of May, 2013.

WHEREAS, the Plan was adopted by the Wright Medical Group, Inc. (the "Company") Board of Directors on February 14, 2002;

WHEREAS, the Plan was approved by the Company's Stockholders on May 30, 2002;

WHEREAS, the Plan was amended on February 6, 2003 to allow employees to make Payroll Deductions in either a fixed amount or a percentage of Compensation, to exclude bonus from the definition of Compensation for purposes of the Plan, and to eliminate the Option feature that pre-sets the number of shares an Employee can purchase during a Plan Period (capitalized terms each as defined below);

WHEREAS, the Plan has been interpreted and operated in compliance with the applicable provisions of the Internal Revenue Code of 1986, as amended, including but not limited to Section 423 thereof and the regulations promulgated thereunder; and

WHEREAS, the Company now desires to amend and restate the Plan to increase the number of shares of Common Stock to be offered and to reflect administrative changes and applicable changes in the law.

ARTICLE I

DEFINITIONS

The following terms when used in this plan shall have the following meanings:

"Account" shall mean, with respect to a Participant, the cumulative total of Payroll Deductions set aside from time to time pursuant to the Plan for the purpose of acquiring Options Shares.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Committee" shall mean the Compensation Committee of the Board of Directors of the Company.

"Common Stock" shall mean shares of the \$.01 par value per share Voting Common Stock of the Company.

"Company" shall mean Wright Medical Group, Inc., a Delaware corporation.

"Compensation" shall mean with respect to a Participant (a) the total annual compensation paid to such Participant during a Plan Period by the Company and each Subsidiary Corporation to the extent such compensation would be subject to F.I.C.A. tax withholding but for the maximum dollar amount of the F.I.C.A. wage base established by federal law; less (b) the amount of such compensation that consists of bonuses, contest awards, reimbursement of moving expenses, life insurance premiums, payments characterized as deferred compensation for purposes of Section 404 or Section 409A of the Code, and compensation reportable to the Participant on account of his or her participation in any Restricted Stock or Incentive Stock Option plans of the Company or any of its subsidiaries.

"Effective Date" shall mean March 1, 2002.

"Eligible Employee" shall mean an Employee meeting the requirements of Article 3.

"Employee" shall mean each and every employee of the Company and each Subsidiary Corporation.

"Entry Date" shall mean January 1 and July 1 of each calendar year during which this Plan is effective. The Entry Dates may be changed pursuant to Section 10.2 below.

"Exercise" shall mean the purchase of Common Stock pursuant to the Plan for a Participant in the manner set forth in Article 7 below.

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"Exercise Date" shall mean June 30 and December 31 in each Plan Period during which Options shall have been granted pursuant to the Plan. The Exercise Dates may be changed pursuant to Section 10.2 below.

"Option" shall mean the right of an Eligible Employee to purchase Common Stock pursuant to the Plan.

"Option Price" shall mean the price per share of Common Stock determined in the manner set forth in Section 6.2 below.

"Option Share" shall mean each share of Common Stock purchased by a Participant upon Exercise of an Option granted hereunder.

"Participant" shall mean each Eligible Employee who Participates in the Plan.

"Participate" shall mean with respect to each Eligible Employee the act of having Payroll Deductions made for the purpose of acquiring Option Shares.

"Payroll Deduction" shall mean money periodically deducted from the Compensation of an Eligible Employee for the purpose of acquiring Option Shares.

"Plan" shall have the meaning set forth in the preface above.

"Plan Period" shall mean each 6-month period beginning January 1 and ending on June 30 and beginning on July 1 and ending December 31 of each calendar year during which this Plan is in effect. The beginning and ending dates and duration of Plan Periods may be changed pursuant to Section 10.2 below.

"Registration Statement" shall mean any registration statement filed with the Securities and Exchange Commission pursuant to the Securities Act.

"Reorganization" shall mean any reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, share exchange, offering of rights, reclassification, conversion, or any other change in the capital structure of the Company which would affect the number of shares of Common Stock purchasable, or the Option Price payable therefor, or both, with respect to the Options then in effect.

"Securities Act" shall mean the Securities Act of 1933, as amended from time to time.

"Subsidiary Corporation" shall mean any present or future corporation which (a) would be a "subsidiary corporation" of the Company as that term is defined in Section 424 of the Code and is a related corporation as contemplated in Treasury Regulation 1.421-1(i) and (b) is designated as a participant in the Plan by the Committee.

"Termination of Employment" shall mean with respect to a Participant the termination of his or her employment by the Company or any subsidiary thereof for any reason whatsoever, including death, disability, retirement, dismissal, resignation or otherwise.

ARTICLE 2

PLAN PURPOSE

2.1 Purpose. The Plan is intended to provide a method whereby Employees of the Company and its Subsidiary Corporations will have an opportunity to acquire a proprietary interest in the Company through the purchase of shares of the Common Stock of the Company. It is the intention of the Company to have the Plan qualify as an "employee stock purchase plan" under Section 423 of the Code. The provisions of the Plan shall be construed so as to extend and limit participation in a manner consistent with the requirements of Section 423 of the Code. Employee participation in the ownership of the Company is intended to be of mutual benefit to Employees and the Company and its Subsidiary Corporations.

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ARTICLE 3

ELIGIBILITY AND PARTICIPATION

3.1 Eligibility. Subject to the limitations contained in this Article 3, any Employee who is employed by the Company or any Subsidiary Corporation on an Entry Date is eligible to participate in the Plan. Options will be granted to all Employees of any corporation whose employees are granted any Options under the Plan.

3.2 Restrictions on Participation. Notwithstanding any provisions of the Plan to the contrary, no Employee shall be granted an Option to Participate in the Plan:

- (a) if such Employee's customary employment by the Company or a Subsidiary Corporation is twenty (20) hours or less per week;
- (b) if such Employee's customary employment by the Company or a Subsidiary Corporation is five (5) months or less in any calendar year;
- (c) if, immediately after the grant, such Employee would own stock, and/or hold outstanding options to purchase stock, possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company (for purposes of this Section 3.3(c), the rules of Section 424(d) of the Code shall apply in determining stock ownership of any Employee); or
- (d) which permits his or her rights to purchase stock under all employee stock purchase plans of the Company and its related corporations for Code Section 421 purposes to accrue at a rate which exceeds \$25,000 in fair market value of the stock (determined at the time such option is granted) for each calendar year in which any option granted to the Employee is outstanding at any time. The Entry Date will be deemed to occur on the first day of an offering period if the Plan or offering designates a maximum number of shares which may be purchased by each Employee during the offering, or if the Plan or offering provides a formula on the first day of an offering to determine the maximum number of shares that may be purchased. If the maximum number of shares that may be purchased under an Option is not determinable until the Option is Exercised, then the Exercise Date shall be the Entry Date.

3.3 Commencement of Participation. In order to Participate in the Plan during a Plan Period, an Eligible Employee must sign and deliver to the Committee, or its designated representative (which may be an officer or ad hoc committee of officers of the Company), no later than the fifteenth (15th) day of the Plan Period during which he or she desires to Participate, a Subscription Agreement (the form of which shall be adopted by the Committee prior to the beginning of the first Plan Period) setting forth the Employee's name, social security number, address, position and the percentage of his or her Compensation to be withheld as his or her Payroll Deduction. The Committee shall cause the form of Subscription Agreement to be distributed to all Eligible Employees on or prior to the Entry Date of any Plan Period. Each Eligible Employee shall sign and deliver to the Committee additional documents and instruments reasonably required by the Committee to properly administer the Plan. The Participant's Subscription Agreement shall remain in effect for successive Plan Periods unless the Participant discontinues participation as provided in Article 8, or files with the Committee a new Subscription Agreement for a subsequent Plan Period. All Participants within the same offering under the Plan shall have the same rights and privileges. All provisions applying to one Option granted under the Plan will apply to all Options within the same offering under the Plan; provided, however that with respect to Options granted to Employees in foreign jurisdictions, the terms of an Option may be less favorable than Options granted to U.S. Employees where necessary to comply with the laws of the relevant foreign jurisdiction.

ARTICLE 4

OFFERINGS; COMMON STOCK

4.1 Maximum Number of Shares to be Offered. The maximum number of shares of Common Stock that will be offered under the Plan, subject to adjustment upon changes in capitalization of the Company as provided in Section 11.4, shall be one hundred thousand (100,000) shares on each Exercise Date plus on each Exercise Date all unissued shares from any prior Exercise Date, whether offered or not, not to exceed four hundred thousand (400,000) for all Exercise Dates. Common Stock may be unissued shares or reacquired shares or shares bought on the market.

4.2 Participant's Interest in Option Stock. A Participant does not become the owner of Option Shares purchased under the Plan and does not have any voting, dividend or other rights as a stockholder of the Company with respect to such Option Shares until the transfer of the Option Shares to the Participant on the stockholder records of the Company shall have occurred. The



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Option Shares shall be transferred to the Participant within a reasonable time after the Exercise Date of a particular Plan Period, but only after payment in full for said Option Shares has been made and there has been compliance with all of the applicable provisions of the Plan. The Option Shares may be issued in book-entry form or in the form of physical certificates, at the discretion of the Company. If issued in book-entry form, the Option Shares will not be evidenced by physical certificates, and no Participant will have the right to demand the same. A Participant's ownership of Option Shares will be recorded on or through the records of the Company. At such time as a Participant shall become the owner of Option Shares purchased pursuant to this Plan, the Participant shall have the right to vote, receive dividends and enjoy all other rights as a stockholder of the Company with respect to such shares.

4.3 Registration of Common Stock. The Common Stock to be delivered to a Participant under the Plan will be registered in the name of the Participant, or, if the Participant so directs by written notice to the Secretary of the Company prior to the Exercise Date applicable thereto, in the names of the Participant and one such other person as may be designate by the Participant, as joint tenants with rights of survivorship or as tenants by the entireties, to the extent permitted by applicable law.

4.4 Restrictions on Transfer of Common Stock.

(a) No Participant who is an affiliate (as defined in the Securities Act and rules promulgated thereunder) of the Company may sell Option Shares purchased hereunder unless he or she shall either (i) cause said Option Shares to be registered under the Securities Act at his or her own expense; (ii) comply with the provisions of Rule 144 promulgated under the Securities Act; or (iii) provide the Company an opinion of competent securities counsel to the effect that said Participant may lawfully sell Options Shares without complying with Section 4.4(a)(i) or Section 4.4(a)(ii).

(b) No Participant shall sell, exchange, pledge, hypothecate or otherwise transfer the shares of Common Stock received upon each Exercise under the Plan until the later of (i) a period of one (1) year after the Exercise Date with respect to such shares of Common Stock or (ii) a period of two (2) years after the date the Option to acquire such shares of Common Stock was granted by the Committee.

(c) The foregoing restrictions upon transfer shall be evidenced by an appropriate legend on each share certificate issued to a Participant. The restrictions described in Section 4.4(b) may be waived by the Committee provided the Participant demonstrates to the Committee that the Participant has a financial emergency which necessitates his or her liquidating shares of Common Stock and makes adequate arrangements to cover withholding taxes resulting from the early sale of such Common Stock.

ARTICLE 5

PAYROLL DEDUCTIONS

5.1 Amount of Deduction. Each Eligible Employee shall be entitled to contribute to the Plan in any Plan Period the lesser of (a) five (5%) percent of his or her Compensation during the Plan Period or (b) Five Thousand (\$5,000.00) Dollars. Payroll Deductions may be in either a fixed amount or a percentage of a Participant's Compensation. By way of additional limitation, all Participants during a Plan Period shall be entitled to acquire Common Stock aggregating no more than the number of shares designated by the Committee on the Entry Date, if the Committee makes such a designation, and in any event no more than the number of shares then available for purchase under the Plan. If, on the Exercise Date of a Plan Period, the Committee shall determine that the maximum number of whole shares of Common Stock purchasable at the Option Price out of the cumulative balance of all Participants' Accounts exceeds the aggregate number of shares with respect to which Options were granted by the Committee on the Entry Date, then each Participant shall be entitled to acquire only that number of shares determined in the manner set forth in Section 7.1 below.

5.2 Participant's Account. All Payroll Deductions made for a Participant shall be credited to his or her Account under the Plan. A Participant may not make any separate cash payment into such Account. The Committee shall cause accurate records of the Payroll Deductions of all Participants to be maintained, and shall, upon written request by a Participant, report to the Participant his or her Account balance as of the Date of the most-recently completed pay period preceding the date of the Participant's request.

5.3 Changes in Payroll Deductions. A Participant may discontinue his or her participation in the Plan as provided in Article 8, but no other change can be made during any Plan Period and, specifically, a Participant may not alter the amount of his or her payroll deductions for that Plan Period.

5.4 Leave of Absence. If a Participant goes on a leave of absence, such Participant shall have the right to elect: (a) to withdraw the balance in his or her Account pursuant to Section 7.3; (b) to discontinue contributions to the Plan but remain a Participant, or (c) remain a Participant, during such leave of absence, authorizing deductions to be made from payments by the Company to the

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Participant during such leave of absence and undertaking to make cash payments to the Plan at the end of each payroll period to the extent that amounts payable by the Company to such Participant are insufficient to meet such Participant's authorized Plan deductions.

ARTICLE 6

GRANTING OF OPTIONS

6.1 Number of Option Shares. On each Entry Date, a Participant shall be deemed to have been granted an Option to purchase a maximum number of shares of Common Stock in an amount equal to:

(a) either (i) that percentage of the Employee's Compensation which he or she has elected to have withheld multiplied by the Employee's Compensation during the Plan Period, or (ii) the fixed amount per pay date which he or she has elected to have withheld multiplied by the number of pay dates in the Plan Period (in either case subject to the limitations set forth in Section 5.1)

divided by

(b) the Option Price.

An Employee's Compensation during any Plan Period shall be determined by multiplying his or her normal weekly rate of pay (as in effect on the last day prior to the Entry Date of the particular Plan Period) by 26 or the hourly rate by 1,040.

6.2 Option Price. The Option Price of the Common Stock purchased pursuant to Payroll Deductions made for a Participant therein shall be the lower of:

(a) 85% of the closing price of the stock on the Entry Date or the nearest prior business day on which trading occurred on the Nasdaq Stock Market; or

(b) 85% of the closing price of the stock on the Exercise Date or the nearest prior business day on which trading occurred on the Nasdaq Stock Market. If the Common Stock is not admitted to trading on any of the aforesaid dates for which closing prices of the stock are to be determined, then reference shall be made to the fair market value of the Common Stock on that date, as determined on such basis as shall be established or specified for the purpose by the Committee.

6.3 Entry Date. The Committee may, in its discretion, grant Options to Eligible Employees on any Entry Date so long as the Plan has not been terminated and the maximum number of shares described in Section 4.1 shall not have been purchased by Participants.

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## ARTICLE 7

## EXERCISE OF OPTIONS

7.1 Automatic Exercise. On the Exercise Date of each Plan Period, the Committee will automatically Exercise on each Participant's behalf the Option to purchase the number of whole Option Shares (no fractional shares will be issued under the Plan) resulting by dividing the balance of each Participant's Account by the Option Price; provided, however, that if the aggregate number of whole Option Shares which could be purchased by the cumulative Account balances of all Participants exceeds the total number of shares of Common Stock with respect to which the Committee granted Options on the Entry Date of the Plan Period, then the Committee automatically will exercise on each Participant's behalf the Option to purchase the number of Option Shares resulting by multiplying the number of Option Shares purchasable by such Participant without regard to the Committee's limitation times a fraction, the numerator of which shall be the total number of shares of Common Stock with respect to which the Committee granted Options to all Participants during the Plan Period and the denominator of which shall be the total number of whole Option Shares which would have been purchasable by all Participants if said limitation had not been in effect. Assume, for example, that Employee A had \$5,000 withheld between July 1 and December 31 of the first Plan Period. Assume, further, that all Participants had a total of \$625,000 so withheld. Also assume that the formula Option Price computed pursuant to Section 6.2 was \$25. However, for that year, the Committee made available only 12,500 shares under the Plan. The Participants have contributed enough cash through payroll deductions to acquire 25,000 shares. However, since the Committee has made available only one-half that number, then Employee A would be entitled to Exercise his or her Option with respect to only one half the number of shares that he or she otherwise could have bought with his or her \$5,000 contribution. The mathematics with respect to Employee A are  $\$5,000 / \$25 = 200$  possible shares.  $200 \text{ possible shares} \times [12,500 \text{ available shares} / 25,000 \text{ aggregate possible shares}] = 100$  shares of Common Stock acquired by Employee A. If a Participant's Account balance as of any Exercise Date exceeds the aggregate Option Price payable for that Participant's Option Shares pursuant to this section, then such excess shall be refunded to the Participant no later than 15 days after the applicable Exercise Date without interest.

7.2 Expiration of Option. If the number of shares of Common Stock with respect to which Options have been granted during a Plan Period exceeds the number of Option Shares actually acquired by Exercise on the Exercise Date, then the Options with respect to such excess shares shall expire on the Exercise Date; provided, however, that Options with respect to those unissued shares may be granted in the future. Options granted at an Option Price less than 85% of the fair market value of the Common Stock on the Exercise Date may not be Exercised more than 27 months after the Entry Date. However, Options granted at an Option Price greater than or equal to 85% of the fair market value of the Common Stock on the Exercise Date may be Exercised after a period of 27 months but not more than 5 years after the Entry Date.

7.3 Withdrawal of Account. By written notice to the Secretary of the Company, at any time prior to the Exercise Date in any Plan Period, a Participant may elect to withdraw all the accumulated Payroll Deductions in his or her Account at such time.

7.4 Fractional Shares. Fractional shares will not be issued under the Plan and any accumulated payroll deductions which would have been used to purchase fractional shares will be returned to any Eligible Employee promptly following the applicable Exercise Date, without interest.

7.5 Transferability of Option. During a Participant's lifetime, Options held by such Participant shall be exercisable only by that Participant.

7.6 Delivery of Common Stock. As promptly as practicable after the Exercise Date of each Plan Period, the Company will deliver to each Participant, as appropriate, the Common Stock purchased upon exercise of his or her Option.

## ARTICLE 8

## WITHDRAWAL

8.1 In General. As indicated in Section 7.3, a Participant may withdraw Payroll Deductions credited to his or her Account under the Plan at any time by giving written notice to the Secretary of the Company. All of the Participant's Payroll Deductions credited to his or her Account will be paid to him or her promptly after receipt of his or her notice of withdrawal, and no further Payroll Deductions will be made from his or her pay during such Plan Period. The

Company may, at its option, treat any attempt to borrow by an Employee on the security of his or her accumulated Payroll Deductions as an election, under Section 7.3, to withdraw such deductions.

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8.2 Effect on Subsequent Participation. A Participant's withdrawal during any Plan Period will not have any effect upon his or her eligibility to participate in any succeeding Plan Period or in any similar plan which might hereafter be adopted by the Company.

8.3 Termination of Employment. Upon termination of the Participant's employment for any reason, including retirement (but excluding death while in the employ of the Company), the Payroll Deductions credited to his or her Account will be returned to him or her, or, in the case of his or her death subsequent to the termination of his or her employment, to the person or persons entitled thereto under Section 11.1.

8.4 Termination of Employment Due to Death. Upon termination of the Participant's employment because of his or her death, his or her beneficiary (as defined in Section 11.1) shall have the right to elect, by written notice given to the Secretary of the Company prior to the earlier of the Exercise Date or the expiration of a period of sixty (60) days commencing with the date of the death of the participant, either:

- (a) to withdraw all of the Payroll Deductions credited to the Participant's Account under the Plan, or
- (b) to exercise the Participant's Option for the purchase of Common Stock on the Exercise Date next following the date of the Participant's death for the purchase of the number of full shares of stock which the accumulated Payroll Deductions in the Participant's Account at the date of the Participant's death will purchase at the applicable Option Price, and any excess in such Account will be returned to said beneficiary, without interest.

In the event that no such written notice of election shall be duly received by the office of the Secretary of the Company, the beneficiary shall automatically be deemed to have elected, pursuant to Section 8.4(b), to Exercise the Participant's Option.

ARTICLE 9

INTEREST

9.1 Payment of Interest. No interest will be paid or allowed on any money paid into the Plan or credited to the Account of any Participant.

ARTICLE 10

ADMINISTRATIVE PROVISIONS

10.1 Administration of Plan. The Plan shall be administered under the direction and control of the Committee.

10.2 Authority of Committee. Subject to the express provision of the Plan, the Committee shall have plenary authority in its discretion to interpret and construe any and all provisions of the Plan, to adopt rules and regulations for administering the Plan, and to make all other determinations deemed necessary or advisable for administering the Plan. The Committee's determination on the foregoing matters shall be conclusive. Without limiting the generality of the foregoing, in administering the Plan, the Committee shall have the following rights and powers, subject only to the terms and the limitations contained herein:

- (a) to establish the maximum number of shares of Common Stock with respect to which Options may be exercised during a Plan Period (subject to the limits established in Section 4.1);
- (b) to interpret the terms, conditions and limitations set forth in the Plan, which determinations shall be final with respect to each and every Participant;
- (c) to refuse to grant Options during a Plan Period;
- (d) to determine the eligibility of any Employee to Participate;
- (e) to make all computations, maintain all accounts, provide for the issuance of all Option Shares, and do all other acts and things reasonably necessary to properly administer the Plan;
- (f) to change the Entry Date, the Exercise Date, the beginning and ending dates and duration of Plan Periods with respect to future offerings if such change is announced at least five days prior to the scheduled beginning of the first Plan Period

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to be affected thereafter, provided that Plan Periods will in all cases comply with applicable limitations under Section 423(b)(7) of the Code; and

(g) to revoke, alter, or amend the terms and conditions of the Plan without obtaining the prior approval of the Participants or the Company's stockholders, subject, however, to the limitations hereinafter stated.

10.3 Rules Governing the Administration of the Committee. All determinations of the Committee shall be made by a majority of its members. The Committee may correct any defect or omission or reconcile any inconsistency in the Plan, in the manner and to the extent it shall deem desirable. Any decision or determination reduced to writing and signed by a majority of the members of the Committee shall be as fully effective as if it had been made by a majority vote at a meeting duly called and held. The Committee may appoint a secretary and shall make such rules and regulations for the conduct of its business as it shall deem advisable.

ARTICLE 11

MISCELLANEOUS

11.1 Designation of Beneficiary. A Participant may file a written designation of a beneficiary who is to receive any Common Stock and/or cash. Such designation of beneficiary may be changed by the Participant at any time by written notice to the Secretary of the Company. Upon the death of a Participant and upon receipt by the Company of proof of identity and existence at the Participant's death of a beneficiary validly designated by him under the Plan, the Company shall deliver such Common Stock and/or cash to such beneficiary. In the event of the death of a Participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such Participant's death, the Company shall deliver such Common Stock and/or cash to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such Common Stock and/or cash to the spouse or to any one or more dependents of the Participant as the Company may designate. No beneficiary shall, prior to the death of the Participant by whom he or she has been designated, acquire any interest in the Common Stock or cash credited to the Participant under the Plan.

11.2 Transferability. Neither Payroll Deductions credited to a Participant's Account nor any rights with regard to the exercise of an Option or to receive Common Stock under the Plan may be assigned, transferred, pledged, or otherwise disposed of in any way by the Participant other than by will or the laws of descent and distribution. Any such attempted assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Section 7.3.

11.3 Use of Funds. All Payroll Deductions received or held by the Company under this Plan may be used by the Company for any corporate purposes and the Company shall not be obligated to segregate such Payroll Deductions.

11.4 Adjustments upon Change in Capitalization.

(a) If, while any Options are outstanding, the outstanding shares of Common Stock of the Company have increased, decreased, changed into, or been exchanged for a different number or kind of shares or securities of the Company through reorganization, merger, recapitalization, reclassification, stock split, reverse stock split or similar transaction, appropriate and proportionate adjustments may be made by the Committee in the number and/or kind of shares which are subject to purchase under outstanding Options and on the Option Price or prices applicable to such outstanding Options. In addition, in any such event, the number and/or kind of shares which may be offered shall also be proportionately adjusted. No adjustments shall be made for stock dividends. For the purposes of this Section 11.4, any distribution of shares to stockholders in an amount aggregating 20% or more of the outstanding shares shall be deemed a stock split and any distributions of shares aggregating less than 20% of the outstanding shares shall be deemed a stock dividend.

(b) Upon the dissolution or liquidation of the Company, or upon a reorganization, merger or consolidation of the Company with one or more corporations as a result of which the Company is not the surviving corporation, or upon a sale of substantially all of the property or stock of the Company to another individual or entity, the holder of each Option then outstanding under the Plan will thereafter be entitled to receive at the next Exercise Date upon the Exercise of such Option for each share as to which such Option shall be exercised, as nearly as reasonably may be determined, the cash, securities and/or property which a holder of one share of the Common Stock was entitled to receive upon and at the time of such transaction. The Board of Directors shall take such steps in connection with such

transactions as the Board shall deem necessary to assure that the provisions of this Section 11.4(b) shall thereafter be applicable, as nearly as reasonably may be determined, in relation to the said cash, securities and/or property as to which such holder of such Option might thereafter be entitled to receive.

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11.5 Amendment and Termination. The Board of Directors shall have complete power and authority to terminate or amend the Plan; provided, however, that the Board of Directors shall not, without the approval of the stockholders of the Corporation:

- (a) increase the maximum number of shares which may be issued pursuant to the Plan (except pursuant to Section 11.4);
- (b) amend the requirements as to the class of Employees eligible to purchase Common Stock under the Plan or permit the members of the Committee to purchase stock under the Plan;
- (c) amend the Plan in any manner which would have the effect of causing the Plan not to be an "employee stock purchase plan" as defined and set forth in Section 423 of the Code; or
- (d) amend the Plan to change the shares with respect to which Options may be granted or to change the granting corporation.

No termination, modification, or amendment of the Plan may, without the consent of an Employee then having an Option under the Plan to purchase stock, adversely affect the rights of such Employee under such Option.

11.6 Control of Funds; ERISA. The Plan shall not be subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the Plan shall be unfunded. In that regard, the cumulative amount of Account balances of all Participants shall remain part of the general funds of the Company and shall at all times during a Plan Period be subject to the claims of all the Company's creditors.

11.7 Stockholder Approval; Registration. This Plan became effective upon the completion of all of the following actions:

- (a) approval by the stockholders of the Company in accordance with the Company's bylaws and Delaware law at the annual meeting of such stockholders to be held in May, 2002;
- (b) filing of a Registration Statement with respect to the Common Stock offered pursuant to this Plan shall have become effective, and appropriate registration of the Common Stock with any state agency or securities law administrator required by the Blue Sky Law of any state shall likewise have become effective;
- (c) providing each Participant with a prospectus meeting the requirements of Section 10 of the Securities Act no later than the time such Participant delivers an executed Subscription Agreement to the Committee, which prospectus will be updated and supplemented as required by law; and
- (d) prior to the issuance of Option Shares on any Exercise Date, the Company causing said Option Shares to be listed on the Nasdaq Stock Market, whereupon the Option Shares may be freely sold by Participants, subject to the limitations contained in the Plan.

11.8 No Employment Rights. The Plan does not, directly or indirectly, create any right for the benefit of any Employee or class of Employees to purchase any shares of Common Stock under the Plan, or create in any Employee or class of Employees any right with respect to continuation of employment by the Company, and it shall not be deemed to interfere in any way with the Company's right to terminate, or otherwise modify, an Employee's employment at any time.

11.9 Effect of Plan. The provisions of the Plan shall, in accordance with its terms, be binding upon, and inure to the benefit of, all successors of each Participant, including, without limitation, such Participant's estate and the executors, administrators or trustees thereof, heirs and legatees, and any receiver, trustee in bankruptcy or representative of creditors of such Participant.

11.10 Governing Law; Venue. The Plan shall be governed by and construed in accordance with the domestic laws of the State of Tennessee without giving effect to any choice or conflict of law provision or rule (whether of the State of Tennessee or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Tennessee. Each of the parties submits to the jurisdiction of any state or federal court sitting in Memphis, Tennessee, in any action or proceeding arising out of or relating to the Plan and agrees that all claims in respect of the action or proceeding shall be heard and determined in any such court. No Participant shall bring any action or proceeding arising out of or relating to the Plan in any other court. No Participant shall raise any defense of inconvenient forum to the maintenance of any action or proceeding so brought and waives any bond, surety, or other security that might be required of any other party with respect thereto.



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11.11 Rule 16b-3 Restrictions upon Dispositions of Stock. The Plan is intended to conform to the extent necessary with all provisions of the Securities Act of 1933, as amended (the "Securities Act"), and the Exchange Act and any and all regulations and rules promulgated by the Securities and Exchange Commission thereunder, including without limitation, Rule 16b-3. Notwithstanding anything herein to the contrary, the Plan shall be administered, and Options shall be granted and may be Exercised, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and Options granted hereunder shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

AS DULY ADOPTED BY THE BOARD OF DIRECTORS OF WRIGHT MEDICAL GROUP, INC.  
WRIGHT MEDICAL GROUP, INC.

/s/ Robert J. Palmisano  
Robert J. Palmisano, President and Chief  
Executive Officer

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APPENDIX D

SECOND AMENDED AND RESTATED 2009 EQUITY INCENTIVE PLAN

RECITALS:

WHEREAS, the 2009 Equity Incentive Plan originally was adopted by our Board of Directors and approved by the stockholders on May 13, 2009;

WHEREAS, the Plan was amended and restated on May 11, 2010 to increase by 700,000 the number of shares of our common stock, par value \$0.01 per share, available for awards under the Plan;

WHEREAS, it is now desired to amend and restate the Plan in its entirety to increase by an additional 3,500,000 the number of shares of our common stock, par value \$0.01 per share, available for awards under the Plan;

WHEREAS, Section 15 of the Plan provides that the Plan may be amended at any time, in whole or in part, by action of the Company's Board of Directors or its Compensation Committee; and

NOW, THEREFORE, pursuant to the authority granted by the Compensation Committee, the Plan is hereby amended and restated, effective as of May 14, 2013, as follows:

1. Purpose.

(a) The purpose of the Plan is to provide a means through which the Company may attract able persons to become and remain directors of the Company or any Related Entity and enter and remain in the employ of the Company or any Related Entity and to provide a means whereby employees, directors and consultants of the Company and any Related Entity can acquire and maintain Stock ownership, or be paid incentive compensation measured by reference to the value of Stock, thereby strengthening their commitment to the welfare of the Company and promoting an identity of interest between stockholders and these employees, directors and consultants.

(b) So that the appropriate incentive can be provided, the Plan provides for granting Incentive Stock Options, Nonqualified Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Share Units and Stock Bonus, or any combination of the foregoing.

2. Definitions. The following definitions shall be applicable throughout the Plan:

(a) "Award" means, individually or collectively, any Incentive Stock Option, Nonqualified Stock Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Performance Share Unit or Stock Bonus granted under the Plan.

(b) "Award Period" means a period of time within which performance is measured for the purpose of determining whether a Performance Share Unit has been earned.

(c) "Board" means our Board of Directors of the Company.

(d) "Cause" means the Company or a Related Entity having cause to terminate a Participant's employment or service in accordance with the provisions of any existing employment, consulting or any other agreement between the Participant and the Company or a Related Entity or, in the absence of such an employment, consulting or other agreement, upon (i) the determination by the Committee that the Participant has ceased to perform the Participant's duties to the Company or a Related Entity (other than as a result of the Participant's incapacity due to physical or mental illness or injury), which failure amounts to intentional and extended neglect of the Participant's duties, (ii) the Committee's determination that the Participant has engaged or is about to engage in conduct injurious to the Company or a Related Entity, or (iii) the Participant having plead no contest to a charge of a felony or having been convicted of a felony.

(e) "Change in Control" has the meaning set forth in Section 13.

(f) "Code" means the Internal Revenue Code of 1986, as amended. Reference in the Plan to any section of the Code shall be deemed to include any amendments or successor provisions to such section and any regulations under such section.

(g) "Committee" means the full Board, the Compensation Committee of the Board or such other committee as the Board may appoint to administer the Plan.

(h) "Common Stock" means the common stock, par value \$0.01 per share, of the Company.

(i) "Company" means Wright Medical Group, Inc., a Delaware corporation, and any successor thereto.

(j) "Date of Grant" means the date on which the granting of an Award is authorized, or such other date as may be specified in such authorization.

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- (k) “Disability” means the complete and permanent inability by reason of illness or accident to perform the duties of the occupation at which a Participant was employed or served when such disability commenced or, if the Participant was retired when such disability commenced, the inability to engage in any substantial gainful activity, in either case as determined by the Committee based upon medical evidence acceptable to it.
- (l) “Eligible Person” means any (i) person regularly employed by the Company or any Related Entity; provided, however, that no such employee covered by a collective bargaining agreement shall be an Eligible Person unless and to the extent that such eligibility is set forth in such collective bargaining agreement or in an agreement or instrument relating thereto; (ii) director of the Company or any Related Entity; or (iii) consultant to the Company or any Related Entity.
- (m) “Exchange Act” means the Securities Exchange Act of 1934, as amended.
- (n) “Fair Market Value” on a given date means (i) if the Stock is listed on a national securities exchange, the closing price of a share of Stock reported as having occurred on the primary exchange with which the Stock is listed and traded on the date prior to such date, or, if there is no such sale on that date, then on the last preceding date on which such a sale was reported; (ii) if the Stock is not listed on any national securities exchange but is quoted on an automated quotation system, the closing price of a share of Stock reported on the date prior to such date, or, if there is no such sale on that date, then on the last preceding date on which a sale was reported; or (iii) if the Stock is not listed on a national securities exchange nor quoted on an automated quotation system, the amount determined pursuant to one of the methods set forth in Treas. Reg. § 1.409A-1(b)(5)(iv)(B)(2), as elected by the Committee.
- (o) “Full Value Award” means any Award, other than Options or Stock Appreciation Rights, which is settled by the issuance of Common Stock.
- (p) “Holder” means a Participant who has been granted an Award.
- (q) “Incentive Stock Option” means an Option granted by the Committee to a Participant under the Plan which is designated by the Committee as an Incentive Stock Option pursuant to Section 422 of the Code.
- (r) “Non-Employee Director” means a “non-employee director” within the meaning of Rule 16b-3 of the Exchange Act or any successor rule or regulation.
- (s) “Nonqualified Stock Option” means an Option granted under the Plan which is not designated as an Incentive Stock Option.
- (t) “Normal Termination” means termination of status as an Eligible Person:
- (i) upon retirement pursuant to the retirement plan of the Company or any Related Entity, as may be applicable at the time to the Participant in question;
  - (ii) on account of Disability;
  - (iii) with the written approval of the Committee;
  - (iv) voluntary on the part of the Participant; or
  - (v) by the Company or any Related Entity without Cause.
- (u) “Option” means an Award granted under Section 7 of the Plan.
- (v) “Option Period” means the period described in Section 7(c).
- (w) “Option Price” means the exercise price set for an Option described in Section 7(a).
- (x) “Participant” means an Eligible Person who has been selected by the Committee to participate in the Plan and to receive an Award.
- (y) “Performance Goals” means the performance objectives of the Company or a Related Entity during an Award Period or Restricted Period established for the purpose of determining whether, and to what extent, Awards will be earned for an Award Period or Restricted Period.
- (z) “Performance Share Unit” means a hypothetical investment equal to one share of Stock granted in connection with an Award made under Section 9 of the Plan.
- (aa) “Prior Plan” has the meaning set forth in Section 5(a).
- (bb) “Plan” means the Wright Medical Group, Inc. 2009 Equity Incentive Plan, as may be amended and/or restated from time to time.
- (cc) “Qualified Committee” means a committee composed of at least two Qualified Directors.



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- (dd) “Qualified Director” means a person who is (i) a Non-Employee Director and (ii) an “outside director” within the meaning of Section 162(m) of the Code.
- (ee) “Related Entity” means, when referring to a subsidiary, any business entity (other than the Company) which, at the time of the granting of an Award, is in an unbroken chain of entities ending with the Company, if stock or voting interests possessing 50% or more of the total combined voting power of all classes of stock or other ownership interests of each of the entities other than the Company is owned by one of the other entities in such chain and, when referring to a parent entity, the term “Related Entity” shall mean any entity in an unbroken chain of entities ending with the Company if, at the time of the granting of the Award, each of the entities other than the Company owns stock or other ownership interests possessing 50% or more of the total combined voting power of all classes of stock (or other ownership interests) in one of the other entities in such chain. In addition, with respect to an Incentive Stock Option, the definition of “Related Entity” as used in this Plan shall apply by only considering entities that are corporations.
- (ff) “Restricted Period” means, with respect to any share of Restricted Stock or any Restricted Stock Unit, the period of time determined by the Committee during which such Award is subject to the restrictions set forth in Section 10.
- (gg) “Restricted Stock” means an Award of Restricted Stock granted under Section 10 of the Plan.
- (hh) “Restricted Stock Unit” means a hypothetical investment equal to one share of Stock granted in connection with an Award made under Section 10 of the Plan.
- (ii) “Securities Act” means the Securities Act of 1933, as amended.
- (jj) “Stock” means the Common Stock or such other authorized shares of stock of the Company as from time to time may be authorized for use under the Plan.
- (kk) “Stock Appreciation Right” or “SAR” means an Award granted under Section 8 of the Plan.
- (ll) “Stock Bonus” means an Award granted under Section 11 of the Plan.
- (mm) “Stock Option Agreement” means the agreement between the Company and a Participant who has been granted an Option pursuant to Section 7 which defines the rights and obligations of the parties as required in Section 7(d).
- (nn) “Vested Unit” shall have the meaning ascribed thereto in Section 10(e).
3. Effective Date, Duration and Shareholder Approval. The Plan was effective as of May 13, 2009 and amended and restated on May 11, 2010 and May 14, 2013. The effectiveness of the Plan and the validity of any and all Awards granted hereunder is contingent upon approval of the Plan by the stockholders of the Company in a manner which complies with (i) Section 422(b)(1) and, to the extent provided in Section 16 herein, Section 162(m) of the Code and (ii) if listed, the requirements of the national securities exchange with which the Stock is listed. Unless and until the stockholders approve the Plan in compliance with the applicable requirements, no Award granted hereunder shall be effective. The expiration date of the Plan, after which no Awards may be granted hereunder, shall be May 13, 2019; provided, however, that the administration of the Plan shall continue in effect until all matters relating to the payment of Awards previously granted have been settled.
4. Administration. The Plan shall be administered by the full Board or the Committee, provided that the Committee shall be composed of at least two persons, each member of which, at the time he takes any action with respect to an Award under the Plan, shall be a Non-Employee Director and an “independent director” for purpose of the rules and regulations of the Nasdaq Global Select Market; and further provided, that to the extent that the Company determines that an Award is intended to comply with Section 162(m) of the Code, the Plan shall be administered by a Qualified Committee. The majority of the members of the Committee shall constitute a quorum. The acts of a majority of the members present at any meeting at which a quorum is present or acts approved in writing by a majority of the Committee shall be deemed the acts of the Committee. Subject to the provisions of the Plan, the Committee shall have exclusive power to:
- (a) select the Eligible Persons to participate in the Plan;
  - (b) determine the nature and extent of the Awards to be made to each Participant;
  - (c) determine the time or times when Awards will be made to Participants;
  - (d) determine the duration of each Award Period and Restricted Period;
  - (e) determine the conditions to which the payment of Awards may be subject;
  - (f) establish the Performance Goals for each Award Period;
  - (g) prescribe the form of Stock Option Agreement or other form or forms evidencing Awards; and

(h) cause records to be established in which there shall be entered, from time to time as Awards are made to Participants, the date of each Award, the number of Incentive Stock Options, Nonqualified Stock Options, SARs, Restricted Stock Units,

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Performance Share Units, shares of Restricted Stock and Stock Bonuses awarded by the Committee to each Participant, the expiration date, the Award Period and the duration of any applicable Restricted Period.

The Committee shall have the authority, subject to the provisions of the Plan, to establish, adopt, or revise such rules and regulations and to make all such determinations relating to the Plan as it may deem necessary or advisable for the administration of the Plan. The Committee's interpretation of the Plan or any documents evidencing Awards granted pursuant thereto and all decisions and determinations by the Committee with respect to the Plan shall be final, binding, and conclusive on all parties unless otherwise determined by the Board.

5. Grant of Awards; Shares Subject to the Plan. The Committee may, from time to time, grant Awards of Options, Stock Appreciation Rights, Restricted Stock Units, Performance Share Units, shares of Restricted Stock, Stock Bonuses to one or more Eligible Persons; provided, however, that:

(a) Subject to Section 13, the aggregate number of shares of Stock which may be made subject to all Awards shall be equal to the sum of (i) 4,950,000 shares of Common Stock plus (ii) the number of shares of Stock granted under the Company's Fifth Amended and Restated 1999 Equity Incentive Plan, as amended (the "Prior Plan"), that are not exercised or are forfeited, lapse or expire, or otherwise terminate without delivery of any Stock subject thereto, to the extent such Stock would otherwise again have been available for issuance under such Fifth Amended and Restated 1999 Equity Incentive Plan, as amended. Shares of Stock issued in respect of any Full Value Awards granted under the Plan on or after May 14, 2013 shall be counted against the share limit as two shares of Stock for every one share actually issued in connection with such Full Value Award. Each share issued in respect of Options and SARs shall be counted against the share limit as one share of Stock. Any and all shares of Stock that may be made subject to Awards are authorized to be issued pursuant to Incentive Stock Options;

(b) For purposes of Section 5(a), the aggregate number of shares of Stock issued under the Plan at any time shall equal only the number of shares actually issued upon exercise or settlement of an Award. If any shares of Stock subject to an Option or SAR granted under the Plan or the Prior Plan are forfeited or such Option or SAR is settled in cash or otherwise terminates without the delivery of such shares, the maximum share limitation of Section 5(a) shall be credited with one share of Stock for each share of Stock subject to such Option or SAR, and such number of credited shares of Stock may again be made subject to Awards under the Plan, subject to the foregoing maximum limitation. If any shares of Stock subject to a Full Value Award granted under the Plan or the Prior Plan are forfeited or such Full Value Award is settled in cash or otherwise terminates without the delivery of such shares, the maximum share limitation of Section 5(a) shall be credited with two shares of Stock for each share of Stock subject to such Full Value Award, and such number of credited shares of Stock may again be made subject to Awards under the Plan, subject to the foregoing maximum limitation. Notwithstanding the foregoing, shares of Stock subject to any Award under the Plan may not again be made available for issuance under the Plan if such shares of Stock are: (i) shares delivered to or withheld by the Company to pay the exercise price of an Option, (ii) shares delivered to or withheld by the Company to pay the withholding taxes related to an Award, or (iii) shares purchased by the Company on the open market with the proceeds of an Award paid to the Company by or on behalf of the Participant. For the avoidance of doubt, when SARs are exercised and settled in shares of Stock, the number of shares delivered will no longer be available for issuance under the Plan.

(c) Substitute Awards granted pursuant to Section 12(b) shall not count against the shares of Stock otherwise available for issuance under the Plan under Section 5(a);

(d) Stock delivered by the Company in settlement of Awards under the Plan may be authorized and unissued Stock or Stock held in the treasury of the Company or may be purchased on the open market or by private purchase; and

(e) The Committee may, in its sole discretion, require a Participant to pay consideration for an Award in an amount and in a manner as the Committee deems appropriate.

6. Eligibility. Participation shall be limited to Eligible Persons who have received written notification from the Committee, or from a person designated by the Committee, that they have been selected to participate in the Plan.

7. Discretionary Grant of Stock Options. The Committee is authorized to grant one or more Incentive Stock Options or Nonqualified Stock Options to any Eligible Person; provided, however, that no Incentive Stock Options shall be granted to any Eligible Person who is not an employee of the Company or a Related Entity. Each Option granted shall be subject to the following conditions, or to such other conditions as may be reflected in the applicable Stock Option

Agreement:

(a) Option Price. The exercise price (“Option Price”) per share of Stock for each Option shall be set by the Committee at the time of grant; provided, however, that no Option shall be granted with a per share exercise price that is less than the Fair Market Value of a share of Stock at the Date of Grant.

(b) Manner of Exercise and Form of Payment. Options which have become exercisable may be exercised by delivery of written notice of exercise to the Committee accompanied by payment of the Option Price. The Option Price shall be payable in cash and/or shares of Stock valued at the Fair Market Value on the date the Option is exercised or, in the discretion of the Committee, either (i) in other property having a fair market value on the date of exercise equal to the Option Price, or (ii) by delivering to the

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Committee a copy of irrevocable instructions to a stockbroker to deliver promptly to the Company an amount of sale or loan proceeds sufficient to pay the Option Price.

(c) Option Period and Expiration. Options shall vest and become exercisable in such manner and on such date or dates determined by the Committee and shall expire after such period, not to exceed ten years from the Date of Grant, as may be determined by the Committee (the "Option Period"), provided, however, that notwithstanding any vesting dates set by the Committee, the Committee may in its sole discretion accelerate the exercisability of any Option, which acceleration shall not affect the terms and conditions of any such Option other than with respect to exercisability. If an Option is exercisable in installments, such installments or portions thereof which become exercisable shall remain exercisable until the Option expires.

Unless otherwise stated in the applicable Option Agreement, the Option shall expire earlier than the end of the Option Period in the following circumstances:

(i) If prior to the end of the Option Period, the Holder shall undergo a Normal Termination, the Option shall expire on the earlier of the last day of the Option Period or the date that is thirty days after the date of such Normal Termination. In such event, the Option shall remain exercisable by the Holder until its expiration, only to the extent the Option was exercisable at the time of such Normal Termination.

(ii) If the Holder dies prior to the end of the Option Period and while still in the employ or service of the Company or any Related Entity or within thirty days of Normal Termination, the Option shall expire on the earlier of the last day of the Option Period or the date that is thirty days after the date of death of the Holder. In such event, the Option shall remain exercisable by the person or persons to whom the Holder's rights under the Option pass by will or the applicable laws of descent and distribution until its expiration, only to the extent the Option was exercisable by the Holder at the time of death.

(iii) If the Holder ceases to be Eligible Person for reasons other than Normal Termination or death, the Option shall expire immediately upon such cessation of the Holder's status as an Eligible Person.

(d) Stock Option Agreement - Other Terms and Conditions. Each Option granted under the Plan shall be evidenced by a Stock Option Agreement, which shall contain such provisions as may be determined by the Committee and, except as may be specifically stated otherwise in such Stock Option Agreement, which shall be subject to the following terms and conditions:

(i) Each Option issued pursuant to this Section 7 or portion thereof that is exercisable shall be exercisable for the full amount or for any part thereof.

(ii) Each share of Stock purchased through the exercise of an Option issued pursuant to this Section 7 shall be paid for in full at the time of the exercise. Each Option shall cease to be exercisable, as to any share of Stock, when the Holder purchases the share or exercises a related SAR or when the Option expires.

(iii) Subject to Section 12(m), Options issued pursuant to this Section 7 shall not be transferable by the Holder except by will or the laws of descent and distribution and shall be exercisable during the Holder's lifetime only by such Holder.

(iv) Each Option issued pursuant to this Section 7 shall vest and become exercisable by the Holder in accordance with the vesting schedule established by the Committee and set forth in the Stock Option Agreement.

(v) Each Stock Option Agreement may contain a provision that, upon demand by the Committee for such a representation, the Holder shall deliver to the Committee at the time of any exercise of an Option issued pursuant to this Section 7 a written representation that the shares to be acquired upon such exercise are to be acquired for investment and not for resale or with a view to the distribution thereof. Upon such demand, delivery of such representation prior to the delivery of any shares issued upon exercise of an Option issued pursuant to this Section 7 shall be a condition precedent to the right of the Holder or such other person to purchase any shares. In the event certificates for Stock are delivered under the Plan with respect to which such investment representation has been obtained, the Committee may cause a legend or legends to be placed on such certificates to make appropriate reference to such representation and to restrict transfer in the absence of compliance with applicable federal or state securities laws.

(vi) Each Incentive Stock Option Agreement shall contain a provision requiring the Holder to notify the Company in writing immediately after the Holder makes a disqualifying disposition of any Stock acquired pursuant to the exercise

of such Incentive Stock Option. A disqualifying disposition is any disposition (including any sale) of such Stock before the later of (a) two years after the Date of Grant of the Incentive Stock Option or (b) one year after the date the Holder acquired the Stock by exercising the Incentive Stock Option.

(e) Incentive Stock Option Grants to 10% Stockholders. Notwithstanding anything to the contrary in this Section 7, if an Incentive Stock Option is granted to a Holder who owns stock representing more than ten percent of the voting power of all classes of stock of the Company or of a Related Entity, the Option Period shall not exceed five years from the Date of Grant of such Option and the Option Price shall be at least 110 percent of the Fair Market Value (on the Date of Grant) of the Stock subject to the Option.

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(f) \$100,000 Per Year Limitation for Incentive Stock Options. To the extent the aggregate Fair Market Value (determined as of the Date of Grant) of Stock for which Incentive Stock Options are exercisable for the first time by any Participant during any calendar year (under all plans of the Company and its Subsidiaries) exceeds \$100,000, such excess Incentive Stock Options shall be treated as Nonqualified Stock Options.

(g) Prohibition on Option Repricing. Subject to Section 13, without the prior approval of the Company's stockholders, the Company shall not, and the Committee shall not authorize the Company to, (i) amend any outstanding Option to reduce its Option Price or (ii) cancel any Option and replace it with the grant of any new Award with a higher intrinsic value. This prohibition on Option repricing shall not be construed to prohibit the adjustments for extraordinary changes in the Company's capital structure that are otherwise permitted under Section 13 of this Plan.

8. Stock Appreciation Rights. Any Option granted under the Plan may include SARs, either at the Date of Grant or, except in the case of an Incentive Stock Option, by subsequent amendment. The Committee also may award SARs independent of any Option. A SAR shall confer on the Holder thereof the right to receive in shares of Stock, cash or a combination thereof the value equal to the excess of the Fair Market Value of one share of Stock on the date of exercise over the exercise price for the SAR, with respect to every share of Stock for which the SAR is granted. An SAR shall be subject to such terms and conditions not inconsistent with the Plan as the Committee shall impose, including, but not limited to, the following:

(a) Vesting. SARs granted in connection with an Option shall become exercisable, be transferable and shall expire according to the same vesting schedule, transferability rules and expiration provisions as the corresponding Option. A SAR granted independent of an Option shall become exercisable, be transferable and shall expire in accordance with a vesting schedule, transferability rules and expiration provisions as established by the Committee and reflected in an Award agreement.

(b) Automatic Exercise. If on the last day of the Option Period (or in the case of a SAR independent of an Option, the period established by the Committee after which the SAR shall expire), the Fair Market Value of the Stock exceeds the Option Price (or in the case of an SAR granted independent of an Option, the Fair Market Value of the Stock on the Date of Grant), the Holder has not exercised the SAR or the corresponding Option, and neither the SAR nor the corresponding Option has expired, such SAR shall be deemed to have been exercised by the Holder on such last day and the Company shall make the appropriate payment therefor.

(c) Payment. Upon the exercise of a SAR, the Company shall pay to the Holder an amount equal to the number of shares subject to the SAR multiplied by the excess, if any, of the Fair Market Value of one share of Stock on the exercise date over the Option Price, in the case of an SAR granted in connection with an Option, or the Fair Market Value of one share of Stock on the Date of Grant, in the case of a SAR granted independent of an Option. The Company shall pay such excess in cash, in shares of Stock valued at Fair Market Value, or any combination thereof, as determined by the Committee. Fractional shares shall be settled in cash.

(d) Method of Exercise. A Holder may exercise a SAR after such time as the SAR vests by filing an irrevocable written notice with the Committee or its designee, specifying the number of SARs to be exercised, and the date on which such SARs were awarded.

(e) Expiration. Each SAR shall cease to be exercisable, as to any share of Stock, when the Holder exercises the SAR or exercises a related Option, with respect to such share of Stock. Except as otherwise provided, in the case of SARs granted in connection with Options, a SAR shall expire on a date designated by the Committee which is not later than seven years after the Date of Grant of the SAR. In the case of SARs granted independent of Options, a SAR shall expire on a date designated by the Committee which is not later than ten years after the Date of Grant of the SAR.

(f) Prohibition on SAR Repricing. Subject to Section 13, without the prior approval of the Company's stockholders, the Company shall not, and the Committee shall not authorize the Company to, (i) amend any outstanding SAR to reduce its exercise price or (ii) cancel any SAR and replace it with the grant of any new Award with a higher intrinsic value. This prohibition on SAR repricing shall not be construed to prohibit the adjustments for extraordinary changes in the Company's capital structure that are otherwise permitted under Section 13 of this Plan.

(g) Fair Market Value. No SAR shall be granted with an exercise price that is less than the Fair Market Value of a share of Stock at the Date of Grant of the SAR.

9. Performance Share Units.

(a) Award Grants. The Committee is authorized to establish Performance Share Unit programs to be effective over designated Award Periods determined by the Committee. The Committee may grant Performance Share Units to Eligible Persons in accordance with such Performance Share Unit programs. At the beginning of each Award Period, the Committee will establish written Performance Goals based upon financial objectives for the Company for such Award Period and a schedule relating the accomplishment of the Performance Goals to the Awards to be earned by Participants. Performance Goals may include absolute or relative growth in earnings per share or rate of return on stockholders' equity or other measurement of corporate performance

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and may be determined on an individual basis or by categories of Participants. The Committee shall determine the number of Performance Share Units to be awarded, if any, to each Eligible Person who is selected to receive such an Award. The Committee may add new Participants to a Performance Share program after its commencement by making pro rata grants.

(b) Determination of Award. At the completion of an Award Period, or at other times as specified by the Committee, the Committee shall calculate the number of shares of Stock earned with respect to each Participant's Performance Share Units by multiplying the number of Performance Share Units granted to the Participant by a performance factor representing the degree of attainment of the Performance Goals.

(c) Partial Awards. A Participant for less than a full Award Period, whether by reason of commencement or termination of employment or otherwise, shall receive such portion of an Award, if any, for that Award Period as the Committee shall determine.

(d) Form of Payment. Performance Share Units shall be payable in that number of shares of Stock determined in accordance with Section 9(b); provided, however, that, at its discretion, the Committee may make payment to any Participant in the form of cash upon the specific request of such Participant. The amount of any payment made in cash shall be based upon the Fair Market Value of the Stock on the day of payment. Payments of Performance Share Units shall be made as soon as practicable after the completion of an Award Period, but in no event later than two and one half months after the end of the calendar year in which the Award Period ends.

(e) Adjustment of Performance Goals. The Committee may, during the Award Period, make such adjustments to Performance Goals as it may deem appropriate, to compensate for, or reflect, (i) extraordinary or non-recurring events experienced during an Award Period by the Company or by any Related Entity whose performance is relevant to the determination of whether Performance Goals have been attained; (ii) any significant changes that may have occurred during such Award Period in applicable accounting rules or principles or changes in the Company's method of accounting or in that of any Related Entity whose performance is relevant to the determination of whether an Award has been earned or (iii) any significant changes that may have occurred during such Award Period in tax laws or other laws or regulations that alter or affect the computation of the measures of Performance Goals used for the calculation of Awards; provided, however, that with respect to Performance Share Units intended to qualify as "performance-based compensation" under Section 162(m) of the Code, such adjustments shall be made only to the extent that the Committee determines that such adjustments may be made without a loss of deductibility of the compensation includible with respect to such Award under Section 162(m) of the Code.

10. Restricted Stock and Restricted Stock Units.

(a) Award of Restricted Stock and Restricted Stock Units.

(i) The Committee shall have the authority (A) to grant Restricted Stock and Restricted Stock Units, (B) to issue or transfer Restricted Stock to Eligible Persons, and (C) to establish terms, conditions and restrictions applicable to such Restricted Stock and Restricted Stock Units, including the Restricted Period, which may differ with respect to each grantee, the time or times at which Restricted Stock or Restricted Stock Units shall be granted or become vested and the number of shares or units to be covered by each grant.

(ii) The Holder of Restricted Stock shall execute and deliver to the Company an Award agreement with respect to the Restricted Stock setting forth the restrictions applicable to such Restricted Stock. If the Committee determines that the Restricted Stock shall be held in escrow rather than delivered to the Holder pending the release of the applicable restrictions, the Holder additionally shall execute and deliver to the Company (A) an escrow agreement satisfactory to the Committee, and (B) the appropriate blank stock powers with respect to the Restricted Stock covered by such agreements. If a Holder shall fail to execute a Restricted Stock agreement and, if applicable, an escrow agreement and stock powers, the Award shall be null and void. Subject to the restrictions set forth in Section 10(b), the Holder shall generally have the rights and privileges of a stockholder as to such Restricted Stock, including the right to vote such Restricted Stock. Cash dividends and stock dividends with respect to the Restricted Stock shall be currently paid to the Holder.

(iii) Upon the Award of Restricted Stock, the Committee shall either (i) cause a stock certificate registered in the name of the Holder to be issued and, if it so determines, deposited together with the stock powers with an escrow agent designated by the Committee, or (ii) issue such Stock to be held in a restricted book entry account in the name of the

Holder. If an escrow arrangement is used, the Committee shall cause the escrow agent to issue to the Holder a receipt evidencing any stock certificate held by it registered in the name of the Holder.

(iv) The terms and conditions of a grant of Restricted Stock Units shall be reflected in a written Award agreement. No shares of Stock shall be issued at the time a Restricted Stock Unit Award is made, and the Company will not be required to set aside a fund for the payment of any such Award.

(b) Restrictions.

(i) Restricted Stock awarded to a Participant shall be subject to the following restrictions until the expiration of the Restricted Period, and to such other terms and conditions as may be set forth in the applicable Award agreement:

(A) if a stock certificate

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registered in the name of the Holder is issued and an escrow arrangement is used, the Holder shall not be entitled to delivery of the stock certificate; (B) the shares shall be subject to the restrictions on transferability set forth in the Award agreement; (C) the shares shall be subject to forfeiture to the extent provided in subparagraph (d) and the Award Agreement and, to the extent such shares are forfeited, the stock certificates, if any, shall be returned to the Company, and all rights of the Holder to such shares and as a stockholder shall terminate without further obligation on the part of the Company.

(ii) Restricted Stock Units awarded to any Participant shall be subject to (A) forfeiture until the expiration of the Restricted Period, to the extent provided in subparagraph (d) and the Award agreement, and to the extent such Awards are forfeited, all rights of the Holder to such Awards shall terminate without further obligation on the part of the Company and (B) such other terms and conditions as may be set forth in the applicable Award agreement.

(c) Restricted Period. The Restricted Period of Restricted Stock and Restricted Stock Units shall commence on the Date of Grant and shall expire from time to time as to that part of the Restricted Stock and Restricted Stock Units indicated in a schedule established by the Committee and set forth in a written Award agreement. Notwithstanding the foregoing, the Committee shall have the authority to accelerate the end of the Restricted Period on the Restricted Stock and Restricted Stock Units whenever it may determine that, by reason of changes in applicable laws or other changes in circumstances arising after the Date of Grant such action is appropriate.

(d) Forfeiture Provisions. Except to the extent determined by the Committee and reflected in the underlying Award agreement, in the event a Holder terminates their status as an Eligible Person during a Restricted Period for any reason, that portion of the Award with respect to which restrictions have not expired shall be completely forfeited to the Company.

(e) Delivery of Restricted Stock and Settlement of Restricted Stock Units. Upon the expiration of the Restricted Period with respect to any shares of Stock covered by a Restricted Stock Award, the restrictions set forth in Section 10(b) and the Award agreement shall be of no further force or effect with respect to shares of Restricted Stock which have not then been forfeited. If an escrow arrangement is used, upon such expiration, the Company shall deliver to the Holder, or the Holder's beneficiary, without charge, the stock certificate evidencing the shares of Restricted Stock which have not then been forfeited and with respect to which the Restricted Period has expired (to the nearest full share) and any cash dividends or stock dividends credited to the Holder's account with respect to such Restricted Stock and the interest thereon, if any. If the shares of Stock are held in a restricted book entry account in the name of the Holder, upon such expiration, the Company shall remove the restrictions of such restricted book entry account for such shares of Restricted Stock which have not been forfeited and with respect to which the Restricted Period has expired (to the nearest full share) and any cash dividend or stock dividends credited to the Holders' account with respect to such Restricted Stock and the interest thereon, if any.

As soon as administratively feasible, but in no event later than two and one half months after the end of the calendar year in which such occurs, upon the expiration of the Restricted Period with respect to any Restricted Stock Units the Company shall deliver to the Holder, or the Holder's beneficiary, without charge, one share of Stock for each Restricted Stock Unit which has not then been forfeited and with respect to which the Restricted Period has expired ("Vested Unit"); provided, however, that, if so noted in the applicable Award agreement, the Committee may, in its sole discretion, elect to pay cash or part cash and part Stock in lieu of delivering only Stock for Vested Units. If cash payment is made in lieu of delivering Stock, the amount of such payment shall be equal to the Fair Market Value of the Stock as of the date on which the Restricted Period lapsed with respect to such Vested Unit.

(f) Stock Restrictions. Each certificate representing Restricted Stock awarded under the Plan shall bear the following legend until the end of the Restricted Period with respect to such Stock:

"Transfer of this certificate and the shares represented hereby is restricted pursuant to the terms of a Restricted Stock Agreement, dated as of \_\_\_\_\_ between Wright Medical Group, Inc. and \_\_\_\_\_. A copy of such Agreement is on file at the offices of the Company at 5677 Airline Road, Arlington, Tennessee 38002."

Stop transfer orders shall be entered with the Company's transfer agent and registrar against the transfer of legended securities.

11. Stock Bonus. The Committee may issue unrestricted Stock to Eligible Persons, alone or in tandem with other Awards, in such amounts and subject to such terms and conditions as the Committee shall from time to time in its sole

discretion determine. A Stock Bonus shall be granted as or in payment of a bonus, to provide incentives, or to recognize special achievements or contributions.

12. General.

(a) Minimum Vesting Requirements. Except in the case of substitute Awards granted pursuant to Section 12(b), Awards granted under the Plan to an Eligible Person shall either (i) be subject to a minimum vesting period of three years (which may include graduated vesting within such three-year period), or one year if the vesting is based on performance criteria other than continued services, or (ii) be granted solely in lieu of foregone cash compensation. Notwithstanding the foregoing, (i) the Committee may at its discretion permit and authorize acceleration of vesting of such Awards in the event of the Participant's death, Disability,

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or retirement, or the occurrence of a Change in Control, (ii) the Committee may grant Full Value Awards without the above-described minimum vesting requirements, or may permit and authorize acceleration of vesting of Full Value Awards otherwise subject to the above-described minimum vesting requirements, with respect to Awards covering 10% or fewer of the aggregate number of Shares of Common Stock authorized under the Plan, and (iii) this Section 12(a) shall not apply to Awards granted to Non-Employee Directors.

(b) Substitute Awards. The Committee is authorized to grant Awards under the Plan in substitution for stock and stock-based awards held by employees of another entity who become employees of the Company or a Related Entity as a result of a merger or consolidation of the former employing entity with the Company or a Related Entity or the acquisition by the Company or a Related Entity of property or stock of the former employing entity. The Committee may direct that the substitute awards be granted on such terms and conditions as the Committee considers appropriate in the circumstances.

(c) Additional Provisions of an Award. Awards may be subject to such other provisions (whether or not applicable to the benefit awarded to any other Participant) as the Committee determines appropriate including, without limitation, provisions to assist the Participant in financing the purchase of Stock upon the exercise of Options, provisions for the forfeiture of or restrictions on resale or other disposition of shares of Stock acquired under any Award, provisions giving the Company the right to repurchase shares of Stock acquired under any Award in the event the Participant elects to dispose of such shares, and provisions to comply with Federal and state securities laws and Federal and state tax withholding requirements. Any such provisions shall be reflected in the applicable Award agreement.

(d) Privileges of Stock Ownership. Except as otherwise specifically provided in the Plan, no person shall be entitled to the privileges of stock ownership in respect of shares of Stock which are subject to Awards hereunder until such shares have been issued to that person. No cash dividends or stock dividends with respect to any Award subject to Performance Goals shall be granted or paid to the Holder until such shares have been issued to that person.

(e) Government and Other Regulations. The obligation of the Company to make payment of Awards in Stock or otherwise shall be subject to all applicable laws, rules, and regulations, and to such approvals by governmental agencies as may be required. Notwithstanding any terms or conditions of any Award to the contrary, the Company shall be under no obligation to offer to sell or to sell and shall be prohibited from offering to sell or selling any shares of Stock pursuant to an Award unless such shares have been properly registered for sale pursuant to the Securities Act with the Securities and Exchange Commission or unless the Company has received an opinion of counsel, satisfactory to the Company, that such shares may be offered or sold without such registration pursuant to an available exemption therefrom and the terms and conditions of such exemption have been fully complied with. The Company shall be under no obligation to register for sale under the Securities Act any of the shares of Stock to be offered or sold under the Plan. If the shares of Stock offered for sale or sold under the Plan are offered or sold pursuant to an exemption from registration under the Securities Act, the Company may restrict the transfer of such shares and may legend the Stock certificates representing such shares in such manner as it deems advisable to ensure the availability of any such exemption.

(f) Tax Withholding. Notwithstanding any other provision of the Plan, the Company or any Related Entity, as appropriate, shall have the right to deduct from all Awards cash and/or Stock, valued at Fair Market Value on the date of payment, in an amount necessary to satisfy all Federal, state or local taxes as required by law to be withheld with respect to such Awards and, in the case of Awards paid in Stock, the Holder or other person receiving such Stock may be required to pay prior to delivery of such Stock, the amount of any such taxes which are required to be withheld, if any, with respect to such Stock. Subject in particular cases to the disapproval of the Committee, shares of Stock of equivalent Fair Market Value in payment of such withholding tax obligations may be accepted if the Holder of the Award elects to make payment in such manner.

(g) Claim to Awards and Employment Rights. No employee or other person shall have any claim or right to be granted an Award under the Plan or, having been selected for the grant of an Award, to be selected for a grant of any other Award. Neither the Plan nor any action taken hereunder shall be construed as giving any Participant any right to be retained in the employ or service of the Company or any Related Entity.

(h) Designation and Change of Beneficiary. Each Participant may file with the Committee a written designation of one or more persons as the beneficiary who shall be entitled to receive the rights or amounts payable with respect to

an Award due under the Plan upon the Participant's death. A Participant may, from time to time, revoke or change the Participant's beneficiary designation without the consent of any prior beneficiary by filing a new designation with the Committee. The last such designation received by the Committee shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Committee prior to the Participant's death, and in no event shall it be effective as of a date prior to such receipt. If no beneficiary designation is filed by the Participant, the beneficiary shall be deemed to be the Participant's spouse, if the Participant is unmarried at the time of death, the Participant's estate.

(i) Payments to Persons other Than Participants. If the Committee shall find that any person to whom any amount is payable under the Plan is unable to care for such person's affairs because of illness or accident, or is a minor, or has died, then any payment due to such person or such person's estate (unless a prior claim therefor has been made by a duly appointed legal representative) may, if the Committee so directs, be paid to such person's spouse, child, relative, an institution maintaining or having custody of

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such person, or any other person deemed by the Committee to be a proper recipient on behalf of such person otherwise entitled to payment. Any such payment shall be a complete discharge of the liability of the Committee and the Company therefor.

(j) No Liability of Committee Members. No member of the Committee shall be personally liable by reason of any contract or other instrument executed by such member or on such member's behalf in such member's capacity as a member of the Committee nor for any mistake of judgment made in good faith, and the Company shall indemnify and hold harmless each member of the Committee and each other employee, officer or director of the Company to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against any cost or expense (including counsel fees) or liability (including any sum paid in settlement of a claim) arising out of any act or omission to act in connection with the Plan unless arising out of such person's own fraud or willful bad faith; provided, however, that approval of the Board shall be required for the payment of any amount in settlement of a claim against any such person. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's certificate of incorporation or bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

(k) Governing Law. The Plan shall be governed by and construed in accordance with the internal laws of the State of Delaware without regard to the principles of conflicts of law thereof.

(l) Funding. No provision of the Plan shall require the Company, for the purpose of satisfying any obligations under the Plan, to purchase assets or place any assets in a trust or other entity to which contributions are made or otherwise to segregate any assets, nor shall the Company maintain separate bank accounts, books, records or other evidence of the existence of a segregated or separately maintained or administered fund for such purposes. Holders shall have no rights under the Plan other than as unsecured general creditors of the Company, except that insofar as they may have become entitled to payment of additional compensation by performance of services, they shall have the same rights as other employees under general law.

(m) Non-transferability. A person's rights and interest under the Plan, including amounts payable, may not be sold, assigned, donated, or transferred or otherwise disposed of, mortgaged, pledged or encumbered except, in the event of a Holder's death, to a designated beneficiary to the extent permitted by the Plan, or in the absence of such designation, by will or the laws of descent and distribution; provided, however, the Committee may, in its sole discretion, allow for transfer of Awards other than Incentive Stock Options to other persons or entities. Notwithstanding the foregoing provision, in no event may an Award be transferred by a grantee for value.

(n) Reliance on Reports. Each member of the Committee and each member of the Board shall be fully justified in relying, acting or failing to act, and shall not be liable for having so relied, acted or failed to act in good faith, upon any report made by the independent public accountant of the Company and any Related Entity and upon any other information furnished in connection with the Plan by any person or persons other than himself.

(o) Relationship to Other Benefits. No payment under the Plan shall be taken into account in determining any benefits under any pension, retirement, profit sharing, group insurance or other benefit plan of the Company except as otherwise specifically provided in such other plan.

(p) Expenses. The expenses of administering the Plan shall be borne by the Company.

(q) Pronouns. Masculine pronouns and other words of masculine gender shall refer to both men and women.

(r) Titles and Headings. The titles and headings of the sections in the Plan are for convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings shall control.

13. Changes in Capital Structure. Awards granted under the Plan and any agreements evidencing such Awards, the maximum number of shares of Stock subject to all Awards, and the maximum number of shares of Stock with respect to which any one person may be granted Options or SARs during any year, if applicable, shall be subject to equitable adjustment or substitution, as determined by the Committee in its sole discretion, as to the number, price or kind of a share of Stock or other consideration subject to such Awards (a) in the event of changes in the outstanding Stock or in the capital structure of the Company by reason of stock dividends, stock splits, reverse stock splits, recapitalizations, reorganizations, mergers, consolidations, combinations, exchanges, or other relevant changes in capitalization occurring after the Date of Grant of any such Award or (b) in the event of any change in applicable laws or any change in circumstances which results in or would result in any substantial dilution or enlargement of the rights

granted to, or available for, Participants in the Plan, or which otherwise warrants equitable adjustment because it interferes with the intended operation of the Plan. In addition, in the event of any such adjustment or substitution, the aggregate number of shares of Stock available under the Plan shall be appropriately adjusted by the Committee, whose determination shall be conclusive. With respect to Awards intended to qualify as “performance-based compensation” under Section 162(m) of the Code, such adjustments or substitutions shall be made only to the extent that the Committee determines that such adjustments or substitutions may be made without a loss of deductibility for such Awards under Section 162(m) of the Code. With respect to Awards of Stock rights intended to be excluded from the definition of “deferred compensation” under Code Section 409A, such adjustments or substitutions shall be made only to the extent that the adjustments or substitutions are made pursuant to Treas. Reg. § 1.409A-1(b)(5)(v)(D). The

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Company shall give each Participant notice of an adjustment hereunder and, upon notice, such adjustment shall be conclusive and binding for all purposes.

Notwithstanding the above, in the event of any of the following (the occurrence of any one of which is defined as a “Change in Control”) : (a) the Company is merged or consolidated with another corporation or entity and, in connection therewith, consideration is received by shareholders of the Company in a form other than stock or other equity interests of the surviving entity; (b) all or substantially all of the assets of the Company are acquired by another person; or (c) the reorganization or liquidation of the Company; then the Committee may, in its discretion and upon at least 10 days advance notice to the affected persons, cancel any outstanding Awards and pay to the Holders thereof, in cash, the value of such Awards based upon the price per share of Stock received or to be received by other shareholders of the Company in the event. The terms of this Section 13 may be varied by the Committee in any particular Award agreement.

14. Non-exclusivity of the Plan. Neither the adoption of this Plan by the Board nor the submission of this Plan to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options otherwise than under this Plan, and such arrangements may be either applicable generally or only in specific cases.

15. Amendments and Termination. The Board may at any time terminate the Plan. Subject to Sections 7(g), 8(f) and 13, with the express written consent of an individual Participant, the Board or the Committee may cancel or reduce or otherwise alter outstanding Awards if, in its judgment, the tax, accounting, or other effects of the Plan or potential payouts thereunder would not be in the best interest of the Company. The Board or the Committee may, at any time, or from time to time, amend or suspend and, if suspended, reinstate, the Plan in whole or in part; provided, however, that any amendment of the Plan shall require the approval of the Company's stockholders to the extent that such approval is then required by the Plan, applicable law, the rules and regulations of the Securities and Exchange Commission, or the rules and regulations of any national securities exchange on which the Stock is then listed or any automated quotation system on which the Stock is then quoted.

16. Effect of Section 162(m) of the Code. The Plan, and all Options and Stock Appreciation Rights issued thereunder, are intended to be exempt from the application of Section 162(m) of the Code, which restricts under certain circumstances the Federal income tax deduction for compensation paid by a public company to named executives in excess of \$1 million per year. The Committee may, without shareholder approval, amend the Plan retroactively and/or prospectively to the extent it determines necessary in order to comply with any subsequent clarification of Section 162(m) of the Code required to preserve the Company's Federal income tax deduction for compensation paid pursuant to the Plan. To the extent that the Committee determines as of the Date of Grant of an Award that the Award is intended to comply with Section 162(m) of the Code, such Award shall not be effective until any stockholder approval required under Section 162(m) of the Code to provide a full Federal income tax deduction has been obtained.

17. Compliance with Section 409A.

(a) This Plan shall at all times be administered and the provisions of this Plan shall be interpreted consistent with the requirements of Section 409A of the Code and any and all regulations thereunder, including such regulations as may be promulgated after the effective date of this Plan. Without limiting the foregoing, for purposes of Section 409A of the Code,

(i) each “payment” (as defined by Section 409A of the Code) made under this Plan or an Award shall be considered a “separate payment;”

(ii) payments shall be deemed exempt from the definition of deferred compensation under Section 409A of the Code to the fullest extent possible under (i) the “short-term deferral” exemption of Treasury Regulation § 1.409A-1(b)(4), and

(ii) with respect to amounts paid as separation pay no later than the second calendar year following the calendar year containing the participant's “separation from service” (as defined for purposes of Section 409A of the Code) the “two years/two-times” separation pay exemption of Treasury Regulation § 1.409A-1(b)(9)(iii), which are hereby incorporated by reference, and

(iii) if the Participant is a “specified employee” as defined in Section 409A of the Code (and as applied according to procedures of the Company and its Related Entities) as of the Participant's separation from service, to the extent any payment under the Plan or an Award constitutes deferred compensation (after taking into account any applicable exemptions from Section 409A of the Code) and to the extent required by Section 409A of the Code, no payments due under the Plan or an Award may be made until the earlier of: (i) the first day of the seventh month following the Participant's separation from service, or (ii) the Participant's date of death; provided, however, that any payments delayed during this six-month period shall be paid in the aggregate in a lump sum, without interest, on the first day of the seventh month following the Participant's separation from service. To the extent that the payment terms for an Award are otherwise set forth in a written employment agreement or change in control agreement with a specified employee (or other Company plan applicable to the specified employee) and such payment terms otherwise meet the requirements of Section 409A of the Code and the application of such terms does not result in a violation of Section 409A of the Code, the foregoing payment terms shall be disregarded and the payment terms set forth in the applicable agreement or plan shall apply.

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(b) If this Plan or any Award fails to meet the requirements of Section 409A of the Code, neither the Company nor any of its Related Entities shall have any liability for any tax, penalty or interest imposed on the Participant by Section 409A of the Code, and the Participant shall have no recourse against the Company or any of its Related Entities for payment of any such tax, penalty or interest imposed by Section 409A of the Code.

IN WITNESS WHEREOF, the undersigned has caused the Plan to be executed on behalf of the Company as of February 11, 2013.

WRIGHT MEDICAL GROUP, INC.

By: /s/ Robert J. Palmisano  
Robert J. Palmisano  
President and Chief Executive Officer

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APPENDIX E

AMENDED AND RESTATED 2010 EXECUTIVE PERFORMANCE INCENTIVE PLAN

ARTICLE I.

GENERAL PROVISIONS

1.1. Objectives of the Plan. The primary objectives of the Plan are to attract, retain, recognize, engage, motivate and reward Executives by providing them with the opportunity to earn competitive compensation directly linked to the Company's performance.

1.2. Definitions. The following capitalized terms used in the Plan have the respective meanings set forth in this Section:

- (a) "Award" shall mean a payment made under the Plan.
- (b) "Basis for Award Calculation" shall mean the base salary in effect at the end of the quarter or Performance Year, prorated to cover the period under consideration, plus any lump sum merit increases that may have been granted during the Performance Year, prorated to cover the period under consideration. All other compensatory incentives, premiums, bonuses or payments of any kind shall be excluded from the Basis for Award Calculation.
- (c) "Board" shall mean the Board of Directors of the Company.
- (d) "Code" shall mean the Internal Revenue Code of 1986, as amended, or any successor thereto.
- (e) "Committee" shall mean the Compensation Committee of the Board or any other committee appointed by the Board which is composed solely of independent directors within the meaning of the listing standards set forth by the Nasdaq Capital Market and outside directors as defined under the Code and the regulations promulgated thereunder.
- (f) "Company" shall mean Wright Medical Group, Inc.
- (g) "Disability" shall mean the complete and permanent inability by reason of illness or accident to perform the duties of the occupation at which a Participant was employed or served when such disability commenced, as determined by the Committee based upon medical evidence acceptable to it.
- (h) "Executive" shall mean any person who is legally employed by the Company or its Related Entities and who has been designated an officer of the Company or its Related Entities by the board of directors of such entity.
- (i) "Fair Market Value" on a given date shall mean (i) if the Stock is listed on a national securities exchange, the closing price of a share of Stock reported as having occurred on the primary exchange with which the Stock is listed and traded on the date prior to such date, or, if there is no such sale on that date, then on the last preceding date on which such a sale was reported; (ii) if the Stock is not listed on any national securities exchange but is quoted on an automated quotation system, the closing price of a share of Stock reported on the date prior to such date, or, if there is no such sale on that date, then on the last preceding date on which a sale was reported; or (iii) if the Stock is not listed on a national securities exchange nor quoted on an automated quotation system, the amount determined pursuant to one of the methods set forth in Treas. Reg. § 1.409A-1(b)(5)(iv)(B)(2), as elected by the Committee.
- (j) "Participant" shall mean a regular full-time or part-time Executive who is eligible to participate in the Plan as set forth in Article II.
- (k) "Performance Period" shall mean the period for which performance is calculated, which unless otherwise indicated by the Committee, shall be the Performance Year.
- (l) "Performance Year" shall mean a calendar year, beginning on January 1 of each year.
- (m) "Plan" shall mean this 2010 Executive Performance Incentive Plan, as set forth herein and as may be amended and/or restated from time to time.

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(n) “Related Entity” shall mean, when referring to a subsidiary, any business entity (other than the Company) which is in an unbroken chain of entities ending with the Company, if stock or voting interests possessing 50% or more of the total combined voting power of all classes of stock or other ownership interests of each of the entities other than the Company is owned by one of the other entities in such chain and, when referring to a parent entity, the term “Related Entity” shall mean any entity in an unbroken chain of entities ending with the Company if each of the entities other than the Company owns stock or other ownership interests possessing 50% or more of the total combined voting power of all classes of stock (or other ownership interests) in one of the other entities in such chain.

(o) “Stock” shall mean the common stock, par value \$0.01 per share, of the Company.

ARTICLE II.

ADMINISTRATION, ELIGIBILITY AND PARTICIPATION

2.1. General Administration. The Plan shall be administered and interpreted by the Committee. Any determination made by the Committee under the Plan shall be final and conclusive. The Committee may employ such legal counsel, consultants and agents (including counsel or agents who are employees of the Company or a Related Entity) as it may deem desirable for the administration of the Plan and may rely upon any opinion received from any such counsel or consultant or agent and any computation received from such consultant or agent. All expenses incurred in the administration of the Plan, including, without limitation, for the engagement of any counsel, consultant or agent, shall be paid by the Company.

2.2. Performance Objectives. The Committee shall establish the performance objectives for each Performance Year in accordance with Article III for such financial performance measures as the Committee determines and shall determine the Performance Periods (e.g., quarterly or full-year) for which performance goals shall be measured. The Committee, or its designee, shall communicate performance goals, financial performance measures, the relative weighting of each measure, and the performance minimum threshold, target bonus and maximum bonus to each Participant. Notwithstanding the foregoing, the weighting of measures of cash flow shall not be greater than the weighting of measures of net income.

2.3. Eligibility. The Committee shall have the sole and absolute authority to designate actual Participants. At a minimum, a Participant shall be a regular full-time or part-time Executive who meets all of the following criteria:

(a) Participant must be employed by the Company or a Related Entity for at least three (3) months during the Performance Year with a hire date on or prior to September 30 and must be an employee on December 31 of the Performance Year;

(b) Participant must have met minimum job expectations and have performed satisfactorily, as determined by the Participant's manager/supervisor in conjunction with the Company's Human Resource Department; and

(c) Participant must be employed in the United States, Canada or in a European country in the business unit designated by the Company as “EMEA.”

2.4. Participation. Participation in one Performance Year does not constitute a right to continue or participate in succeeding Performance Years.

ARTICLE III.

SETTING, DETERMINATION AND CALCULATION OF AWARDS

3.1. Setting of Performance Goals. Within ninety (90) days of the start of each Performance Year, but no case, later than the date which is 25% of the period being measured, the Committee shall establish performance goals for all applicable periods during the Performance Year. The performance goals shall be based upon performance measures such as sales revenue, operating income before or after taxes, net income before or after taxes, net income before securities transactions, net or operating income excluding non-recurring charges, return on assets, return on equity, return on capital, market share, earnings per share, cash flow, revenue, revenue growth, expenses, stock price, dividends, total stockholder return, price/earnings ratio, market capitalization, book value, product quality, customer retention, unit sales, strategic business objectives or any other performance measure deemed appropriate by the Committee in its discretion.

3.2. Determination of the Awards. The Committee may grant, terminate, decrease, reduce or eliminate Awards as it may determine during the Performance Year; provided, however, that the Committee shall not take action to terminate, decrease, reduce or eliminate Awards after the conclusion of the Performance Year to which the

determination relates.

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3.3. Target Performance Bonus. The Committee shall determine a target performance bonus, stated as a percentage of base pay, for each Participant. The target performance bonus shall represent the Award that the Participant will receive if all performance goals for each performance measure are met or exceeded.

3.4. Minimum Performance Thresholds. The Committee shall determine minimum performance thresholds for each of the performance measures. Partial payments of the target performance bonus shall only be paid if the minimum performance thresholds are achieved. A Participant shall not be paid for performance below the minimum performance threshold of any component of an Award. Further, if a Participant does not maintain an acceptable level of overall performance, the Participant may, at the sole discretion of the Committee, be suspended from the Plan.

3.5. Maximum Performance Bonus. If the performance goals for a Performance Year are exceeded, the Committee may pay additional bonus in excess of the target performance bonus; provided however, that no Participant shall be paid an amount, in cash and/or Stock, that exceeds twice the target performance bonus unless otherwise determined by the Committee and in no event shall any payment, in cash and/or Stock, that to any individual under this Plan exceed \$1,500,000 for any Performance Year.

3.6. Basis for Award Calculation. Based on the terms of the Plan, the Committee shall determine in its sole discretion the Awards to be made. Awards shall be calculated based on the Participant's Basis for Award Calculation and shall be expressed as a percentage of the Participant's Basis for Award Calculation.

3.7. Payout Matrices. Awards will be prorated for each component of the Plan between the minimum performance threshold and the target performance goal and between the target performance goal and the maximum performance bonus.

ARTICLE IV.

TIMING, CERTIFICATION, CALCULATION AND PAYMENT OF AWARDS

4.1. Timing of Awards. Award payments under the Plan shall be paid as soon as practicable upon achievement of the performance goals and the Committee's certification to such achievement for any applicable Performance Period. In the event performance goals are not achieved for any quarterly Performance Period but due to full year financial results, which if allocated equally amongst the four quarters would result in the achievement of one or more quarterly performance goals, the payment of Awards for the entire Performance Year shall also include an additional payment equal to the amount of the quarterly Awards that are deemed achieved based on the equal allocation of the full year financial results. Payments based on quarterly financial results of the first, second or third quarterly Performance Periods each shall not exceed twenty percent (20%) of a Participant's target bonus for the entire Performance Year.

4.2. Certification of Results. As soon as practicable, the Committee shall determine whether the performance goals of each Participant have been attained for any applicable Performance Period and shall certify to such attainment in writing. The Committee shall determine the amount, if any, to be awarded to each Participant for such Performance Period pursuant to the terms of this Plan.

4.3. Grant of Awards. No Award shall be inconsistent with the terms of the Plan or fail to satisfy the requirements of applicable law. Each Award shall relate to a specific designated Performance Year.

4.4. Payment. Except as otherwise provided for hereunder, payment of any Award determined under Article III shall be made to each Participant as soon as practicable after the Committee certifies that one or more of the applicable performance goals have been attained. Delivery of the approved Awards must occur on or prior to March 15 of the calendar year following the Performance Year for which Awards are to be made. All Awards hereunder shall generally be paid in cash; provided, however, that, a Participant may, in his or her sole discretion, elect, at such time as may be specified by the Committee for the making of such election, that such Participant's Award be paid in shares of Stock, in lieu of cash, or a combination of cash and shares of Stock. Any shares of Stock awarded to a Participant under this Plan will be granted from the Amended and Restated 2009 Equity Incentive Plan, as may be amended from time-to-time, or any subsequently adopted equity incentive plan of the Company. The number of shares shall be equal to (a) the amount of the Award, divided by (b) the Fair Market Value of a share of Stock as of the date of the Participant's election; provided that issuance of any shares of Stock in accordance with this Section 4.4 shall be contingent on the availability of shares of Stock under the Amended and Restated 2009 Equity Incentive Plan, as may be amended from time-to-time, or any subsequently adopted equity incentive plan of the Company.



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ARTICLE V.

EMPLOYMENT STATUS CHANGES

- 5.1. New Hires. All eligible Executives newly hired on or prior to September 30<sup>th</sup> of a Performance Year will have their Awards prorated for the period of participation in the Plan. Awards granted to such newly hired Executives shall not be based upon performance measures achieved under the Plan prior to the date of hire.
- 5.2. Transfer. Executives who transfer within the Company or its Related Entities to or from another incentive plan or business unit performance measures during the Performance Year will be eligible for an Award under the Plan on a prorated basis, provided that all eligibility requirements are met. Awards granted to such transferred Executives shall not be based upon performance measures achieved under the Plan prior to the date of transfer.
- 5.3. Prorated Award. Provided that the performance measures are achieved, an Award will be prorated, and paid, if a Participant meets all other eligibility requirements during the Performance Year but is not a regular, active Executive on December 31 of the Performance Year due to one of the following reasons:
- (a) Participant leaves his or her position due to a Disability; or
  - (b) Participant dies during a Performance Year (the prorated Award, if any, will be paid to the Participant's estate); or
  - (c) Participant takes a military leave during the Performance Year.
- 5.4. Termination of Employment. Unless otherwise determined by the Committee, a Participant shall not be entitled to any payment hereunder with respect to a Performance Year in the event of the termination of the Participant's employment with the Company and its Related Entities for any reason prior to the last day of the applicable quarter or Performance Year.

ARTICLE VI.

MISCELLANEOUS MATTERS

- 6.1. Term of the Plan. The Plan became effective on March 20, 2010, the date on which it was adopted by the Compensation Committee. The Plan was amended and restated effective as of January 1, 2013; provided, however, that no award intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code shall be payable upon the amended terms set forth herein prior to the approval of the Plan's material terms by the Company's stockholders. The Plan shall expire on May 14, 2018.
- 6.2. Amendment. The Board or the Committee may at any time amend, suspend, discontinue or terminate the Plan; provided, however, that no such amendment, suspension, discontinuance or termination shall adversely affect any then existing rights of any Participant in any respect of any Performance Year that has already begun.
- 6.3. Claim to Awards and Employment Rights. Neither the Plan nor any action taken hereunder shall be construed as giving any Participant any right to be retained in the employ or service of the Company or any Related Entity. There is no obligation for uniformity of treatment of Participants. The terms and conditions of Awards and the Committee's determinations and interpretations with respect thereto need not be the same with respect to each Participant (whether or not the Participants are similarly situated).
- 6.4. No Liability of Committee Members. No member of the Committee shall be personally liable by reason of any contract or other instrument executed by such member or on his behalf in his capacity as a member of the Committee nor for any mistake of judgment made in good faith, and the Company shall indemnify and hold harmless each member of the Committee and each other employee, officer or director of the Company to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against any cost or expense (including counsel fees) or liability (including any sum paid in settlement of a claim) arising out of any act or omission to act in connection with the Plan unless arising out of such person's own fraud or willful bad faith; provided, however, that approval of the Board shall be required for the payment of any amount in settlement of a claim against any such person. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's certificate of incorporation or bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

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6.5. No Limitation on Corporate Actions. Nothing in this Plan shall be construed to prevent the Company or any of its Related Entities from taking any corporate action which is deemed by it to be appropriate or in its best interest, whether or not such action would have any adverse effect on any Awards made under the Plan. No employee or other person shall have any claim against the Company or any Related Entity as a result of any such action.

6.6. Non-transferability. A Participant's rights and interest under the Plan, including amounts payable, may not be sold, assigned, donated, or transferred or otherwise disposed of, mortgaged, pledged or encumbered except, in the event of a Participant's death, to a designated beneficiary to the extent permitted by the Plan, or in the absence of such designation, by will or the laws of descent and distribution.

6.7. Tax Withholding. Notwithstanding any other provision of the Plan, the Company or any Related Entity, as appropriate, shall have the right to deduct from all Awards of cash and/or Stock, valued at Fair Market Value on the date of payment, in an amount necessary to satisfy all Federal, state or local taxes as required by law to be withheld with respect to such Awards and, in the case of Awards paid in Stock, the Participant or other person receiving such Stock may be required to pay prior to delivery of such Stock, the amount of any such taxes which are required to be withheld, if any, with respect to such Stock. Subject to the disapproval of the Committee in particular cases, shares of Stock of equivalent Fair Market Value in payment of such withholding tax obligations may be accepted if the Participant of the Award elects to make payment in such manner.

6.8. Severability. If any provision of this Plan is held unenforceable, the remainder of the Plan shall continue in full force and effect without regard to such unenforceable provision and shall be applied as though the unenforceable provision were not contained in the Plan.

6.9. Governing Law. The Plan shall be governed by and construed in accordance with the internal laws of the State of Delaware without regard to the principles of conflicts of law thereof.

6.10. Other Compensation Plans. The Plan shall not affect any other compensation plan in effect for the Company, nor shall the Plan preclude the Company from establishing any other forms of compensation for Executives of the Company.

6.11. Effect of Section 162(m) of the Code. Upon approval of the Plan by the Stockholders of the Company, the Plan and all Awards issued hereunder, are intended to be performance-based compensation exempt from the application of Section 162(m) of the Code, which restricts under certain circumstances the Federal income tax deduction for compensation paid by a public company to named executives in excess of \$1 million per year. The Committee may, without stockholder approval, amend the Plan retroactively and/or prospectively to the extent it determines necessary in order to comply with any subsequent clarification of Section 162(m) of the Code required to preserve the Company's Federal income tax deduction for compensation paid pursuant to the Plan. To the extent that the Committee determines as of the payout date of an Award that the Award is intended to comply with Section 162(m) of the Code, such Award shall not be effective until any stockholder approval required under Section 162(m) of the Code to provide a full Federal income tax deduction has been obtained.

6.12. Compliance with Section 409A. This Plan shall at all times be administered and the provisions of this Plan shall be interpreted consistent with the requirements of Section 409A of the Code and any and all regulations thereunder, including such regulations as may be promulgated after the effective date of this Plan.

IN WITNESS WHEREOF, the undersigned has caused this Plan to be executed on behalf of the Company as of January 1, 2013.

WRIGHT MEDICAL GROUP, INC.

By: /s/ Robert J. Palmisano  
Robert J. Palmisano  
President and Chief Executive Officer



