WRIGHT MEDICAL GROUP INC
Form S-1/A
February 13, 2002

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 13, 2002

REGISTRATION NO. 333-81618

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

WRIGHT MEDICAL GROUP, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	3842	13-
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S Identifi

5677 AIRLINE ROAD
ARLINGTON, TENNESSEE 38002
(901) 867-9971
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

F. BARRY BAYS
PRESIDENT AND CHIEF EXECUTIVE OFFICER
WRIGHT MEDICAL GROUP, INC.
5677 AIRLINE ROAD
ARLINGTON, TENNESSEE 38002
(901) 867-9971
(Name, address, including zip code, and telephone number, including area code, of agent for service)

COPIES TO:

JEFFREY R. POSS, ESQ.	ARNOLD B. PEINADO, II
Willkie Farr & Gallagher	Milbank, Tweed, Hadley &
787 Seventh Avenue	1 Chase Manhattan

New York, New York 10019
(212) 728-8000

New York, New York
(212) 530-5000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended, check the following box. / /

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. / /

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. / /

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

The information contained in this preliminary prospectus is not complete and may be changed. We may not offer or sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, Dated February 13, 2002

PROSPECTUS

6,000,000 SHARES

[LOGO]
COMMON STOCK

Wright Medical Group, Inc. is offering 3,000,000 shares of common stock. Selling stockholders are offering an additional 3,000,000 shares. We will not receive any of the proceeds from the sale of shares being sold by the selling stockholders.

Our common stock is listed on the Nasdaq National Market under the symbol "WMGI." The last reported sale price for the common stock on February 12, 2002 was $16.70 per share.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. PLEASE READ "RISK FACTORS" BEGINNING ON PAGE 7.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Public Offering Price	Underwriting Discount	Proceeds to Wright Medical Group, Inc.	Pr St
Per Share	$	$	$	
Total	$	$	$	

Wright Medical Group, Inc. and one of our stockholders have granted the underwriters a 30-day option to purchase from each of them up to 450,000 additional shares of common stock to cover over-allotments, if any. We will not receive any proceeds from the sale of shares by the selling stockholders.

JPMorgan

Credit Suisse First Boston

U.S. Bancorp Piper Jaffray

Lehman Brothers

Thomas Weisel Partners LLC

, 2002

Table of Contents

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. This prospectus is not an offer to sell, nor is it seeking an offer to buy, the securities in any state where the offer or sale is not permitted. The information in this prospectus is complete and accurate as of the date on the front cover, but the information may have changed since that date.

Prospectus Summary

THIS SUMMARY HIGHLIGHTS INFORMATION CONTAINED ELSEWHERE IN THE PROSPECTUS. THIS SUMMARY DOES NOT CONTAIN ALL OF THE INFORMATION YOU SHOULD CONSIDER BEFORE BUYING SHARES OF OUR COMMON STOCK. YOU SHOULD READ THE ENTIRE PROSPECTUS CAREFULLY.

Wright Medical Group, Inc.

Overview of Our Company

We are a global orthopaedic device company specializing in the design,

manufacture and marketing of reconstructive joint devices and bio-orthopaedic materials. Reconstructive joint devices are used to replace knee, hip and other joints that have deteriorated through disease or injury. Bio-orthopaedic materials are used to replace damaged or diseased bone and to stimulate natural bone growth. Within these markets, we focus on the higher-growth sectors of advanced knee implants, bone-conserving hip implants, revision replacement implants and extremity implants, as well as on the integration of our bio-orthopaedic products into reconstructive joint procedures and other orthopaedic applications. In 2000, we had net sales of $157.6 million and a net loss of $39.5 million. For the nine months ended September 30, 2001, we had net sales of $126.8 million and a net loss of $3.7 million. Our Adjusted EBITDA, or earnings before interest, taxes, depreciation, amortization and other non-cash charges, was $25.2 million for 2000 and $19.2 million for the nine months ended September 30, 2001.

We have been in business for over fifty years and have built a well-known, respected brand name and strong relationships with orthopaedic surgeons. In December 1999, Warburg, Pincus Equity Partners, L.P. and a group of investors acquired control of our company and led a recapitalization financing that both reduced our debt and provided us with investment capital. Shortly thereafter, a new management team was put in place and we acquired Cremascoli Ortho Group, based in Toulon, France. This acquisition extended our product offerings, enhanced our product development capabilities and expanded our European presence. We believe that by combining Cremascoli's strength in hip reconstruction with Wright's historical expertise in knee reconstruction and bio-orthopaedic materials, we now offer orthopaedic surgeons a broad range of reconstructive joint devices and bio-orthopaedic materials in over 40 countries.

Orthopaedic Industry

The worldwide orthopaedic industry was estimated to be approximately $11.0 billion in 2000, and we believe it will grow at approximately 6-8% annually over the next three to four years. The knee and hip reconstruction markets are two of the largest sectors of the orthopaedic market, together accounting for over $4.0 billion of implant and related product sales in 2000. Some of the key growth drivers of these markets include:

- an elderly population growing at a higher growth rate than that of the general population in industrialized countries;

- an aging "baby boomer" population with high expectations of maintaining their active lifestyles;

- improving technologies in orthopaedic implants and surgical techniques, which have made reconstruction procedures a viable option for younger patients; and

- increasing acceptance of bio-orthopaedic materials for use in reconstructive joint procedures and other orthopaedic applications.

The orthopaedic industry is currently dominated by six multinational companies, each with approximately $1.0 billion in annual sales. The size of these companies often leads them to concentrate their marketing and research and development efforts on products that they believe will have a relatively high minimum threshold level of sales. As a result, there is an opportunity for a mid-sized orthopaedic company, such as Wright, to focus on smaller, higher-growth sectors of the orthopaedic market. We believe that our global distribution system, which consists of a sales force of approximately 450 people, offers significant opportunities to access markets that may not be addressed by the larger multinationals.

Our Products

The ADVANCE-Registered Trademark- Knee System is our principal knee reconstruction product line and is intended to represent the next generation in total knee reconstruction. It offers patients a greater range of motion than traditional knee systems. We believe that our knee reconstruction products are differentiated by their unique design, brand recognition and innovative instrumentation. Our knee reconstruction product line had net sales of $62.9 million in 2000 and $50.2 million for the nine months ended September 30, 2001, representing approximately 40% of our total net sales in both periods.

The PERFECTA-Registered Trademark- Hip System is our principal hip reconstruction product line and has enjoyed over ten years of proven clinical success. One of our most recent product offerings in our hip reconstruction product line is the CONSERVE-Registered Trademark- Hip System, which we believe provides a better solution to many patients by conserving existing bone for future surgical procedures, if necessary. We believe that our hip reconstruction product line is differentiated by a range of offerings that accommodates a continuum of patient care from early intervention bone-conserving procedures to difficult revision replacement implants. Our hip reconstruction product line had net sales of $47.7 million in 2000 and $35.7 million for the nine months ended September 30, 2001, representing approximately 30% and 28%, respectively, of our total net sales.

We offer extremity reconstruction products for the hand, wrist, elbow, shoulder, foot and ankle. We believe that we are one of the recognized leaders in finger and toe implants. Our small joint orthopaedic implants have many years of successful clinical history, including our Swanson Hinge Finger, which has been used by surgeons for over 30 years. Our extremity product line had net sales of $17.3 million in 2000 and $15.3 million for the nine months ended September 30, 2001, representing approximately 11% and 12%, respectively, of our total net sales.

OSTEOSET-Registered Trademark- bone graft substitute and ALLOMATRIX-TM- injectable putty are our main bio-orthopaedic product offerings. We are the first company to receive U.S. Food and Drug Administration, or FDA, market clearance for use of resorbable synthetic bone graft substitutes in the spine with our OSTEOSET-Registered Trademark- pellets. We are rapidly expanding our product lines in the emerging markets of biological musculoskeletal repair, including synthetic and human tissue-based bone grafting materials. Bio-orthopaedic materials is our fastest growing product line with net sales of $21.0 million in 2000 and $19.3 million for the nine months ended September 30, 2001, representing approximately 13% and 15%, respectively, of our total net sales.

Our Strategy

Our management team has increased our focus and spending on research and development, significantly raised the efficiency of our manufacturing processes and improved our sales force productivity. These efforts in 2000, along with our December 1999 acquisition of Cremascoli, reversed a three year trend of flat or declining sales in our principal product lines and improved operating margins. We believe that there is still significant opportunity to improve our financial performance and continue our growth by:

- targeting high-growth, high-margin market sectors that may be underserved by larger orthopaedic companies;

- offering a comprehensive set of implants and related products in the

markets we serve to span the lives of patients;

- focusing our research and development efforts to accelerate delivery of new products and technologies; and

- leveraging our global infrastructure for increased growth and profitability.

Financial Overview

Our net sales for 2000 were $157.6 million, an increase of 44% over net sales of $109.2 million in 1999. Approximately $34.2 million of this increase, or 31% of net sales, is attributable to the inclusion of a full year of net sales of Cremascoli. Our growth in net sales for 2000 as compared to 1999, excluding sales from product lines acquired from our purchase of Cremascoli in December 1999, was $14.2 million, or 13%. We reported net losses of $39.5 million in 2000 and $40.4 million in 1999. These amounts include one-time costs associated with our recapitalization and acquisition of Cremascoli. For the nine months ended September 30, 2001, we had net sales of $126.8 million and a net loss of $3.7 million. Our Adjusted EBITDA, or earnings before interest, taxes, depreciation, amortization and other non-cash charges, for the nine months ended September 30, 2001 was $19.2 million, as compared to $19.6 million for the nine months ended September 30, 2000, and $25.2 million in 2000 as compared to $8.6 million in 1999, excluding non-recurring transaction and reorganization costs. Approximately 37% of our net sales for the nine months ended September 30, 2001 and approximately 40% of our 2000 net sales were generated internationally.

Recent Developments

On February 12, 2002, we announced our results of operations for our fiscal quarter and year ended December 31, 2001. Net sales for the fourth quarter of 2001 totaled $46.2 million, representing a 16% increase over net sales of $39.8 million in the fourth quarter of 2000. Excluding the impact of foreign currency, net sales increased 15% during the fourth quarter of 2001. Net income for the fourth quarter of 2001 increased to $2.2 million, compared to a net loss of $8.0 million in the same quarter of 2000. Our Adjusted EBITDA for the three months ended December 31, 2001 was $7.7 million, as compared to $5.6 million for the three months ended December 31, 2000.

For the full year 2001, our net sales totaled $172.9 million, representing a 10% increase over net sales of $157.6 million in 2000. Excluding the impact of foreign currency and discontinued products, net sales increased 11% during 2001. For the full year 2001, we achieved net income of $104,000, before the effect of our extraordinary debt retirement charge incurred during the third quarter, compared to a net loss of $39.5 million for the full year 2000. Our Adjusted EBITDA for the year ended December 31, 2001 was $26.9 million, as compared to $25.2 million for the year ended December 31, 2000.

Corporate Information

We founded our business in 1950. Our principal executive offices are located at 5677 Airline Road, Arlington, Tennessee 38002, and our telephone number is (901) 867-9971. Our website is located at www.wmt.com. Our website is not

intended to be part of this prospectus.

This prospectus contains references to our trademarks ADVANCE-Registered Trademark-, ADVANTIM-Registered Trademark-, ALLOMATRIX-TM-, ANCA FIT-TM-, AXIOM-Registered Trademark-, CONSERVE-Registered Trademark-, EVOLVE-Registered Trademark-, EVOLUTION-Registered Trademark-, GUARDIAN-Registered Trademark-, LINEAGE-TM-, LOCON-T-TM-, MIIG-TM-, OLYMPIA-TM-, ORTHOSPHERE-Registered Trademark-, OSTEOSET-Registered Trademark-, PER-Q-GRAFT-TM-, PERFECTA-Registered Trademark-, PROFEMUR-TM-, REPIPHYSIS-TM- and S.O.S-Registered Trademark-, among others. All other trademarks or trade names referred to in this prospectus are the property of their respective owners.

The Offering

Common stock offered:	
BY WRIGHT MEDICAL GROUP, INC.....	3,000,000 shares
BY THE SELLING STOCKHOLDERS.....	3,000,000 shares
COMMON STOCK OUTSTANDING AFTER THE OFFERING.....	31,546,127 shares
USE OF PROCEEDS.....	We intend to use the proceeds from the offering for general corporate purposes, including to fund our working capital, future product development and acquisition of technologies, products and companies. See "Use of Proceeds."
NASDAQ NATIONAL MARKET SYMBOL.....	"WMGI"

Except as otherwise noted, the outstanding share information in this prospectus excludes:

- 3,127,155 shares of our common stock that we may issue upon the exercise of outstanding options as of December 31, 2001 at a weighted average exercise price of $5.09 per share;
- 1,608,745 shares of our common stock available for future issuance under our 1999 Equity Incentive Plan as of December 31, 2001;
- shares of common stock issued upon exercise of stock options subsequent to December 31, 2001; and
- 709,094 shares of common stock that we may issue upon the exercise of outstanding warrants as of December 31, 2001 at an exercise price of $4.35 per share.

Except as otherwise noted, all information in this prospectus:

- assumes a public offering price of $16.70 per share; and

- assumes no exercise of the underwriters' over-allotment option.

Summary Financial Data

The following table provides summary consolidated financial data of Wright Medical Technology, Inc., our predecessor company, and WMG for the periods indicated. You should read the summary consolidated financial data set forth below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with our consolidated financial statements and related notes appearing elsewhere in this prospectus. The historical and pro forma results presented here are not necessarily indicative of future results.

	PREDECESSOR COMPANY		CONSOLIDATED WRIGHT ME	
IN THOUSANDS, EXCEPT PER SHARE DATA	YEAR ENDED DECEMBER 31, 1998	PERIOD FROM JANUARY 1 TO DECEMBER 7, 1999	PERIOD FROM DECEMBER 8 TO DECEMBER 31, 1999	YEAR ENDED DECEMBER 31, 2000
STATEMENT OF OPERATIONS DATA:				
Net sales	$106,972	$101,194	$ 7,976	$ 157,552
Cost of sales(1)	46,981	44,862	4,997	80,370
Gross profit	59,991	56,332	2,979	77,182
Operating expenses:				
Selling, general and administrative	55,974	47,547	4,837	82,813
Research and development	7,855	5,857	508	8,390
Amortization of intangible assets	2,748	2,334	466	5,586
Stock-based expense	176	523	--	5,029
Transaction and reorganization	--	6,525	3,385	--
Acquired in-process research and development costs	--	--	11,731	--
Losses of equity method investment	1,979	--	--	--
Total operating expenses	68,732	62,786	20,927	101,818
Income (loss) from operations	(8,741)	(6,454)	(17,948)	(24,636)
Interest expense, net	14,284	13,196	1,909	12,446
Other expense, net	1,044	616	67	870
Loss before income taxes and extraordinary item	(24,069)	(20,266)	(19,924)	(37,952)
Provision (benefit) for income taxes	102	190	(25)	1,541
Loss before extraordinary item	(24,171)	(20,456)	(19,899)	(39,493)
Extraordinary loss on early retirement of debt, net of taxes	--	--	--	--

Net loss.....	$(24,171)	$(20,456)	$ (19,899)	$ (39,493)
Net loss per common share, basic and diluted(2):				
Loss before extraordinary item.....			$(27,918.17)	$(3,405.71)
Extraordinary charge.....			--	--
			$(27,918.17)	$(3,405.71)
Weighted-average number of common shares outstanding.....			1	17
Pro forma basic and diluted net loss per common share (unaudited)(3):				
Loss before extraordinary item.....				$ (2.29)
Extraordinary charge.....				--
				$ (2.29)
Pro forma weighted-average number of common shares outstanding used in pro forma per share calculation, basic and diluted (unaudited)(3).....				17,260

5

In the as adjusted column of the consolidated balance sheet data below, we have adjusted the balance sheet data as of September 30, 2001 to give effect to our receipt of the estimated net proceeds of $46.8 million from the sale of 3,000,000 shares of common stock we are offering for sale under this prospectus at the assumed public offering price of $16.70 per share and the application of these proceeds as set forth under the caption "Use of Proceeds."

	AS OF SEPTEMBER 30, 2001 (UNAUDITED)	
IN THOUSANDS	ACTUAL	AS ADJUSTED
CONSOLIDATED BALANCE SHEET DATA:		
Cash and cash equivalents.....	$ 2,957	$ 49,727
Working capital.....	48,802	95,572
Total assets.....	201,382	248,152
Long-term liabilities.....	34,980	34,980
Stockholders' equity.....	$115,258	$162,028

IN THOUSANDS	Predecessor Company		Consolidated Wright M	
	Year Ended December 31, 1998	Period from January 1 to December 7, 1999	Period from December 8 to December 31, 1999	Year Ended December 31, 2000
OTHER DATA:				
Cash flows provided by (used in) operating activities.....	$ 4,402	$ 8,914	$(22,701)	$ 18,151
Cash flows used in investing activities.....	(3,179)	(2,179)	(22,410)	(14,109)
Cash flows provided by (used in) financing activities.....	(1,110)	(6,105)	51,844	6,028
Adjusted EBITDA(4).....	$ 2,352	$ 2,023	$ (3,327)	$ 25,198

---

(1) In connection with our recapitalization and our acquisition of Cremascoli, we recorded inventory step-ups pursuant to Accounting Principles Board (APB) opinion No. 16. This accounting treatment required a $31.1 million step-up of inventories above manufacturing costs. The step-up was charged to cost of sales over the following twelve months, reflecting the estimated period over which the inventory was sold. Cost of sales was charged $2.0 million in the period from December 8 to December 31, 1999, $29.1 million in the year ended December 31, 2000 of which $25.1 million was charged in the nine months ended September 30, 2000.

(2) Net loss applicable to common stockholders includes preferred stock dividends of $230,000 for the period from December 8 to December 31, 1999, preferred stock dividends of $4.4 million and $13.1 million of deemed dividends on the series C preferred stock for the year ended December 31, 2000, preferred stock dividends of $3.2 million and $13.1 million of deemed dividends on the series C preferred stock for the nine months ended September 30, 2000, and preferred stock dividends of $2.5 million for the nine months ended September 30, 2001.

(3) In calculating the pro forma net loss per share, we have given effect to the conversion of all of our outstanding preferred stock, plus accrued dividends into common stock as if the conversion occurred at the beginning of the respective period.

(4) Adjusted EBITDA consists of net income (loss) excluding net interest, taxes, depreciation, amortization, stock based expenses, non-cash charges related to acquired inventory, the in-process research and development write-off and the extraordinary loss on early retirement of debt. Adjusted EBITDA is provided because it is a measure of financial performance commonly used as an indicator of a company's historical ability to service debt. We have presented Adjusted EBITDA to enhance your understanding of our operating results. You should not construe it as an alternative to operating income as an indicator of operating performance. It should also not be construed as an alternative to cash flows from operating activities as a measure of liquidity determined in accordance with GAAP. We may calculate Adjusted

EBITDA differently from other companies. For further information, see our consolidated financial statements and related notes elsewhere in this prospectus.

Risk Factors

YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS AND ALL OTHER INFORMATION CONTAINED IN THIS PROSPECTUS BEFORE PURCHASING OUR COMMON STOCK. INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK AND YOU MAY LOSE PART OR ALL OF YOUR INVESTMENT IN THESE SHARES. PLEASE READ "SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS."

Risks Related To Our Business

OUR FUTURE PROFITABILITY DEPENDS ON THE SUCCESS OF OUR PRINCIPAL PRODUCT LINES

Sales of our knee and hip implant products accounted for approximately 68% of our net sales for the nine months ended September 30, 2001. We expect our sales to continue to be based largely on sales of these principal product lines and specifically our ADVANCE-Registered Trademark- knee system and PERFECTA-Registered Trademark- total hip system. Introduction of competitive products by third parties, adverse rulings by regulatory authorities, product liability lawsuits or other adverse publicity for these principal product lines may significantly and adversely affect our sales of these products and, as a result, would adversely affect our business, financial condition and results of operations.

IF WE FAIL TO COMPETE SUCCESSFULLY IN THE FUTURE AGAINST OUR EXISTING OR POTENTIAL COMPETITORS, OUR SALES AND OPERATING RESULTS MAY BE NEGATIVELY AFFECTED AND WE MAY NOT ACHIEVE FUTURE GROWTH

The markets for our products are highly competitive and dominated by a small number of large companies. We may not be able to meet the prices offered by our competitors, or offer products similar to or more desirable than those offered by our competitors. Many of our competitors in the orthopaedic implant market have:

- greater financial and other resources;

- more widely accepted products;

- greater technical capabilities;

- superior ability to maintain new product flow;

- patent portfolios that may present an obstacle to our conduct of business;

- stronger name recognition; and

- larger distribution networks.

IF WE ARE UNABLE TO CONTINUE TO DEVELOP AND MARKET NEW PRODUCTS AND TECHNOLOGIES, WE MAY EXPERIENCE A DECREASE IN DEMAND FOR OUR PRODUCTS OR OUR PRODUCTS COULD BECOME OBSOLETE, AND OUR BUSINESS WOULD SUFFER

We are continually engaged in product development and improvement programs. We may be unable to compete effectively with our competitors unless we can keep up with existing or new products and technologies in the orthopaedic implant market. Our competitors' new products and technologies may beat our products to market, may be more effective or less expensive than our products or render our

products obsolete. See "Business-Competition" for more information about our competitors.

IF SURGEONS DO NOT RECOMMEND AND ENDORSE OUR PRODUCTS, OUR SALES MAY DECLINE OR WE MAY BE UNABLE TO INCREASE OUR SALES AND PROFITS

In order for us to sell our products, surgeons must recommend and endorse them. We may not obtain the necessary recommendations or endorsements from surgeons. Acceptance of our products depends on educating the medical community as to the distinctive characteristics, perceived benefits, clinical efficacy and cost-effectiveness of our products compared to products of our competitors, and on training surgeons in the proper application of our products.

OUR BUSINESS PLAN RELIES ON CERTAIN ASSUMPTIONS ABOUT THE MARKET FOR OUR PRODUCTS, WHICH, IF INCORRECT, MAY ADVERSELY AFFECT OUR PROFITABILITY

We believe that the aging of the general population and increasingly active lifestyles will continue and that these trends will increase the need for our orthopaedic implant products. The projected demand for our products could materially differ from actual demand if our assumptions regarding these trends and acceptance of our products by the medical community prove to be incorrect or do not materialize or if non-surgical treatments gain more widespread acceptance as a viable alternative to orthopaedic implants.

WE ARE SUBJECT TO SUBSTANTIAL GOVERNMENT REGULATION THAT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS

The production and marketing of our products and our ongoing research and development, preclinical testing and clinical trial activities are subject to extensive regulation and review by numerous governmental authorities both in the U.S. and abroad. In the U.S., most of the medical devices we develop must undergo rigorous preclinical and clinical testing and an extensive regulatory approval process administered by the U.S. Food and Drug Administration, or FDA. In particular, in order for us to market our products for clinical use in the U.S., we must obtain clearance from the FDA through a Section 510(k) Premarket Notification, or 510(k), or a more extensive submission known as a Premarket Approval application, or PMA. Products distributed outside of the U.S. are subject to foreign government regulations, which vary by country. In the European Community, in order for a medical device to be commercially distributed, it must bear a CE conformity marking, indicating that it conforms to the essential requirements of the applicable European medical devices directive. U.S. and foreign regulations govern the testing, marketing and registration of new medical devices, in addition to regulating manufacturing practices, reporting, labeling and record keeping procedures. The regulatory process requires significant time, effort and expenditures to bring our products to market, and we cannot assure you that any of our products will be approved. Our failure to comply with applicable regulatory requirements could result in these government authorities:

- imposing fines and penalties on us;

- preventing us from manufacturing or selling our products;

- bringing civil or criminal charges against us;

- delaying the introduction of our new products into the market;

- recalling or seizing our products; or

- withdrawing or denying approvals or clearances for our products.

Even if regulatory approval or clearance of a product is granted, this could result in limitations on uses for which the product may be labeled and promoted. Further, for a marketed product, its manufacturer and manufacturing facilities are subject to periodic review and inspection. Later discovery of problems with a product, manufacturer or facility may result in restrictions on the product, manufacturer or facility, including withdrawal of the product from the market or other enforcement actions.

We are currently conducting clinical studies of some of our products under an FDA Investigational Device Exemption, or IDE. Clinical studies must be conducted in compliance with FDA regulations, or the FDA may take enforcement action. The data collected from these clinical investigations will ultimately be used to support market clearance for these products. There is no assurance that the FDA will accept the data from these clinical studies or that it will ultimately allow market clearance for these products.

MODIFICATIONS TO OUR MARKETED DEVICES MAY REQUIRE FDA REGULATORY CLEARANCES OR APPROVALS OR REQUIRE US TO CEASE MARKETING OR RECALL THE MODIFIED DEVICES UNTIL SUCH CLEARANCES OR APPROVALS ARE OBTAINED

When required, the products we market in the U.S. have obtained premarket notification under Section 510(k) or were exempt from the 510(k) clearance process. We have modified some of our products and product labeling since obtaining 510(k) clearance but we do not believe these modifications require us to submit new 510(k) notifications. However, if the FDA disagrees with us and requires us to submit a new 510(k) notification for modifications to our existing products, we may be the subject of enforcement actions by the FDA and be required to stop marketing the products while the FDA reviews the 510(k) notification. If the FDA requires us to go through a lengthier, more rigorous examination than we had expected, our product introductions or modifications could be delayed or canceled, which could cause our sales to decline. In addition, the FDA may determine that future products

will require the more costly, lengthy and uncertain Premarket Approval, or PMA, process. Products that are approved through a PMA generally need FDA approval before they can be modified. See "Business-Government Regulation."

OUR BIO-ORTHOPAEDICS BUSINESS IS SUBJECT TO EMERGING GOVERNMENT REGULATIONS THAT CAN SIGNIFICANTLY IMPACT OUR BUSINESS

The FDA regulates allograft-based products, processing and materials. The FDA has been working to establish a more comprehensive regulatory framework for allograft-based products, which are principally derived from cadaveric tissue. The framework developed by the FDA establishes criteria for determining whether a particular human tissue-based product will be classified as human tissue, a medical device or biologic drug requiring premarket clearance or approval. All tissue-based products are subject to extensive FDA regulation, including requirements designed to ensure that diseases are not transmitted to tissue recipients. The FDA has also proposed extensive additional regulations that would govern the processing and distribution of all allograft products. Consent to use the donor's tissue must also be obtained. If a tissue-based product is considered tissue, it does not require FDA clearance before being marketed. If it is considered a device or biologic drug, then FDA clearance may be required.

Additionally, our bio-orthopaedics business involves the procurement and transplantation of allograft tissue, which is subject to federal regulation under the National Organ Transplant Act, or NOTA. NOTA is a criminal statute

that prohibits the sale of human organs for valuable consideration within the meaning of the act, including bone and other tissue. NOTA permits the payment of reasonable expenses associated with the transportation, processing, preservation, quality control and storage of human tissue. We currently charge our customers for these expenses. In the future, if NOTA is amended or reinterpreted we may not be able to charge these expenses to our customers and, as a result, our business could be adversely affected.

THE FDA HAS CHALLENGED THE REGULATORY STATUS OF OUR ALLOMATRIX-TM- PRODUCTS

On April 11, 2001, the FDA sent us a "warning letter" stating that the FDA believes ALLOMATRIX-TM- Injectable Putty is a medical device that is subject to the premarket notification requirement. We believe that ALLOMATRIX-TM- Injectable Putty and some of our other allograft-based products are human tissue and therefore are not subject to FDA approval as medical devices. We asked the FDA to designate ALLOMATRIX-TM- Injectable Putty as a product regulated solely as a tissue. The FDA has orally advised us that after reviewing our designation request, it has decided to regulate ALLOMATRIX-TM- Injectable Putty as a medical device. Upon official notification of this decision, we will submit a 510(k) premarket notification for the product. We have continued to market ALLOMATRIX-TM- Injectable Putty after receiving the warning letter, and we intend to continue marketing and selling ALLOMATRIX-TM- Injectable Putty. The FDA has not raised any objection to our continued marketing and sale of ALLOMATRIX-TM- Injectable Putty pending submission of the premarket notification. There can be no assurance that the 510(k) premarket notification that we intend to submit will be cleared by the FDA in a timely manner or at all. Also, the FDA may take enforcement action against us, including requiring us to modify or cease distribution of ALLOMATRIX-TM- Injectable Putty, detaining or seizing our inventory of ALLOMATRIX-TM- Injectable Putty, requiring us to recall ALLOMATRIX-TM- Injectable Putty, enjoining future violations and seeking criminal and civil penalties against us and our officers and directors, any of which could adversely affect our financial condition and results of operations. In 2000 and the first nine months of 2001, our ALLOMATRIX-TM- products represented approximately 9% and 11% of our total net sales, respectively.

OUR BUSINESS COULD SUFFER IF THE MEDICAL COMMUNITY DOES NOT CONTINUE TO ACCEPT ALLOGRAFT TECHNOLOGY

New allograft products, technologies and enhancements may never achieve broad market acceptance due to numerous factors, including:

- lack of clinical acceptance of allograft products and related technologies;

- the introduction of competitive tissue repair treatment options that render allograft products and technologies too expensive and obsolete;

- lack of available third-party reimbursement;

- the inability to train surgeons in the use of allograft products and technologies;

- the risk of disease transmission; and

- ethical concerns about the commercial aspects of harvesting cadaveric tissue.

Market acceptance will also depend on the ability to demonstrate that existing and new allografts and technologies are attractive alternatives to existing tissue repair treatment options. To demonstrate this, we rely upon surgeon

evaluations of the clinical safety, efficacy, ease of use, reliability and cost effectiveness of our tissue repair options and technologies. Recommendations and endorsements by influential surgeons are important to the commercial success of allograft products and technologies. In addition, several countries, notably Japan, prohibit the use of allografts. If allograft products and technologies are not broadly accepted in the marketplace, we may not achieve a competitive position in the market.

WE DEPEND HEAVILY UPON A LIMITED NUMBER OF SOURCES OF DEMINERALIZED BONE MATRIX AND ANY FAILURE TO OBTAIN DBM FROM THESE SOURCES IN A TIMELY MANNER WILL INTERFERE WITH OUR ABILITY TO PROCESS AND DISTRIBUTE ALLOGRAFT PRODUCTS

Two not-for-profit tissue banks supplied us with 100% of the demineralized bone matrix, or DBM, a key component in the allograft products we currently produce, market and distribute, that we obtained in the United States in 2001. We cannot be sure that our supply of DBM will continue to be available at current levels or will be sufficient to meet our needs, or that our suppliers of DBM will be free from FDA regulatory action impacting their sale of DBM. Since there is a small number of suppliers, if we cannot continue to obtain DBM from these sources in volume sufficient to meet our needs, we may not be able to locate replacement sources of DBM on commercially reasonable terms, if at all. This could have the effect of interrupting our business, which could adversely affect our sales.

IF ADEQUATE LEVELS OF REIMBURSEMENT FROM THIRD-PARTY PAYORS FOR OUR PRODUCTS ARE NOT OBTAINED, SURGEONS AND PATIENTS MAY BE RELUCTANT TO USE OUR PRODUCTS AND OUR SALES MAY DECLINE

In the U.S., health care providers that purchase our products generally rely on third-party payors, principally federal Medicare, state Medicaid and private health insurance plans, to pay for all or a portion of the cost of joint reconstructive procedures and products utilized in those procedures. We may be unable to sell our products on a profitable basis if third-party payors deny coverage or reduce their current levels of reimbursement. Our sales depend largely on government health care programs and private health insurers reimbursing patients' medical expenses. Surgeons, hospitals and other health care providers may not purchase our products if they do not receive satisfactory reimbursement from these third-party payors for the cost of the procedures using our products. Payors continue to review their coverage policies carefully for existing and new therapies and can, without notice, deny coverage for treatments that include the use of our products.

In addition, some health care providers in the U.S. have adopted or are considering a managed care system in which the providers contract to provide comprehensive heath care for a fixed cost per person. Health care providers may attempt to control costs by authorizing fewer elective surgical procedures, including joint reconstructive surgeries, or by requiring the use of the least expensive implant available.

If adequate levels of reimbursement from third-party payors outside of the United States are not obtained, international sales of our products may decline. Outside of the United States, reimbursement systems vary significantly by country. Many foreign markets have government-managed health care systems that govern reimbursement for new devices and procedures. Canada and some European countries, in particular France, have tightened reimbursement rates. See "Business-Third-Party Reimbursement" for more information regarding reimbursement in the U.S. and abroad.

WE DERIVE A SIGNIFICANT PORTION OF OUR SALES FROM OPERATIONS IN INTERNATIONAL MARKETS THAT ARE SUBJECT TO POLITICAL, ECONOMIC AND SOCIAL INSTABILITY

We derive a significant portion of our sales from operations in international markets. We operate directly in a total of seven major international markets, namely Japan, Italy, France, the United Kingdom, Belgium, Germany and Canada. We operate through independent distributors in approximately 30 other international markets. Some of these markets are, to some degree, subject to political, social and/or economic instability. Approximately 40% of our net sales in 2000 and 37% of our net sales for the nine months ended September 30, 2001 were derived from our international operations. Our international sales operations expose us and our representatives, agents and distributors to risks inherent in operating in foreign jurisdictions. These risks include:

- the imposition of additional foreign governmental controls or regulations on orthopaedic implants and bio-orthopaedic products;

- new export license requirements particularly related to our bio-orthopaedic products;

- economic instability, including currency risk between the U.S. dollar and foreign currencies, in our target markets;

- a shortage of high-quality international salespeople and distributors;

- changes in third-party reimbursement policy that may require some of the patients who receive our implant products to directly absorb medical costs;

- changes in tariffs and other trade restrictions, particularly related to the exportation of our bio-orthopaedic products;

- work stoppages or strikes in the health care industry, which have affected our operations in France, Canada, Korea and Finland in the last twelve months;

- a shortage of nurses in some of our target markets, particularly affecting our operations in France; and

- exposure to different legal and political standards due to our operating in over 40 countries.

Accordingly, any material decrease in our foreign sales would negatively impact our profitability. Our international sales are predominately generated in Europe. In Europe, health care regulation and reimbursement for medical devices vary significantly from country to country. This changing environment could adversely affect our ability to sell our products in some European countries.

FLUCTUATIONS IN FOREIGN CURRENCY EXCHANGE RATES COULD RESULT IN DECLINES IN OUR REPORTED SALES AND EARNINGS

Since our international sales are denominated in local currencies and not in U.S. dollars, our reported sales and earnings are subject to fluctuations in foreign exchange rates. Our international net sales were adversely affected by the impact of currency fluctuations of $6.3 million in 2000 and $1.8 million for the nine months ended September 30, 2001. At present, we do not engage in hedging transactions to protect against uncertainty in future exchange rates between particular foreign currencies and U.S. dollars.

IF WE LOSE ONE OF OUR KEY SUPPLIERS, WE MAY BE UNABLE TO MEET CUSTOMER ORDERS FOR OUR PRODUCTS IN A TIMELY MANNER OR WITHIN OUR BUDGET

We rely on a limited number of suppliers for the components used in our products. We rely on one supplier for the silicone elastomer used in our

extremity products. We are aware of only two suppliers of silicone elastomer to the medical device industry for permanent implant usage. In addition, some of our new products under development use materials that are available only from limited sources.

Suppliers of raw materials and components may decide for reasons beyond our control to cease supplying raw materials and components to us. FDA regulations may require additional testing of any raw materials or components from new suppliers prior to our use of these materials or components and in the case of a device with a Premarket Approval, we may be required to obtain prior FDA permission, either of which could delay or prevent our access or use of such raw materials or components.

If we are unable to obtain materials we need from our key suppliers and we cannot obtain these materials from other sources, we may be unable to manufacture our products for a period of time or within our manufacturing budget, which could negatively impact our profitability.

IF OUR PATENTS AND OTHER INTELLECTUAL PROPERTY RIGHTS DO NOT ADEQUATELY PROTECT OUR PRODUCTS, WE MAY LOSE MARKET SHARE TO OUR COMPETITORS AND BE UNABLE TO OPERATE OUR BUSINESS PROFITABLY

We rely on patents, trade secrets, copyrights, know-how, trademarks, license agreements and contractual provisions to establish our intellectual property rights and protect our products. These legal means, however, afford only limited protection and may not adequately protect our rights. In addition, we cannot assure you that any of our pending patent applications will issue. The U.S. Patent and Trademark Office, or the PTO, may deny or require significant narrowing of claims in our pending patent applications, and patents issuing from the pending patent applications, if any, may not provide us with significant commercial protection. We could incur substantial costs in proceedings before the PTO. These proceedings could result in adverse decisions as to the priority of our inventions and the narrowing or invalidation of claims in issued patents. In addition, the laws of some of the countries in which our products are or may be sold may not protect our products and intellectual property to the same extent as U.S. laws, or at all. We may be unable to protect our rights in trade secrets and unpatented proprietary technology in these countries.

In addition, we hold licenses from third parties that are necessary to utilize certain technologies used in the design and manufacturing of some of our products. The loss of such licenses would prevent us from manufacturing, marketing and selling these products, which could harm our business.

We seek to protect our trade secrets, know-how and other unpatented proprietary technology, in part, with confidentiality agreements with our employees, independent distributors and consultants. We cannot assure you, however, that:

- these agreements will not be breached;

- we will have adequate remedies for any breach; or

- trade secrets, know-how and other unpatented proprietary technology will not otherwise become known to or independently developed by our competitors.

IF WE LOSE ANY EXISTING OR FUTURE INTELLECTUAL PROPERTY LAWSUITS, A COURT COULD REQUIRE US TO PAY SIGNIFICANT DAMAGES OR PREVENT US FROM SELLING OUR PRODUCTS

The medical device industry is litigious with respect to patents and other intellectual property rights. Companies in the medical device industry have used intellectual property litigation to gain a competitive advantage. We are

currently involved in an intellectual property lawsuit with Howmedica Osteonics Corp., a subsidiary of Stryker Corporation, where it is alleged that our ADVANCE-Registered Trademark- Knee product line infringes one of Howmedica's patents. In 2000, approximately 9% of our total net sales were derived from products that are the subject of this litigation. If Howmedica Osteonics Corp. were to succeed in obtaining the relief it claims, the Court could award damages to Howmedica Osteonics Corp., and could impose an injunction against further sales of this product. If a final judgment is rendered against us, we may be forced to raise or borrow funds, as a supplement to any available insurance claim proceeds, to pay the damages award. In a separate matter, a judgment was rendered against us for approximately $14 million in connection with litigation against a former employee, relating to the former employee's alleged misappropriation of trade secrets. The Tennessee Court of Appeals reversed the trial court's findings, in part, including the $14 million judgment against us. The Court of Appeals modified the trial court's judgment rendered against us to $500,000 in damages. Either party could seek permission to appeal the case to the Tennessee Supreme Court. If the Tennessee Supreme Court reverses the Court of Appeal's findings, we may be forced to raise or borrow the money to pay any damages award. See "Business--Legal Proceedings" for more specific information regarding these lawsuits.

In the future, we may become a party to other lawsuits involving patents or other intellectual property. A legal proceeding, regardless of the outcome, could drain our financial resources and divert the time and effort of our management. If we lose one of these proceedings, a court, or a similar foreign governing body, could require us to pay significant damages to third parties, require us to seek licenses from third parties and pay ongoing royalties, require us to redesign our products or prevent us from manufacturing, using or selling our products. In addition to being costly, protracted litigation to defend or prosecute our intellectual property rights could result in our customers or potential customers deferring or limiting their purchase or use of the affected products until resolution of the litigation.

IF PRODUCT LIABILITY LAWSUITS ARE BROUGHT AGAINST US, OUR BUSINESS MAY BE HARMED

The manufacture and sale of medical devices exposes us to significant risk of product liability claims. In the past, we have had a number of product liability claims relating to our products. In the future, we may be subject to additional product liability claims, some of which may have a negative impact on our business. Our existing product liability insurance coverage may be inadequate to protect us from any liabilities we might incur. If a product liability claim or series of claims is brought against us for uninsured liabilities or in excess of our insurance coverage, our business could suffer. In addition, as a result of a product liability claim, we may have to recall some of our products, which could result in significant costs to us.

WE MAY BE LIABLE FOR CONTAMINATION OR OTHER HARM CAUSED BY HAZARDOUS MATERIALS THAT WE USE

Our research and development and manufacturing processes involve the use of hazardous materials. We are subject to federal, state and local regulation governing the use, manufacture, handling, storage and disposal of hazardous materials. We cannot completely eliminate the risk of contamination or injury resulting from hazardous materials and we may incur liability as a result of any contamination or injury. In addition, under some environmental laws and regulations, we could also be held responsible for all of the costs relating to any contamination at our past or present facilities and at third-party waste disposal sites. Although we have incurred immaterial costs to date relating to environmental consulting and monitoring fees, we may incur more significant expenses in the future relating to compliance with environmental laws. Such future expenses or liability could have a significant negative impact on our financial condition. See "Business--Environmental."

EFFORTS TO ACQUIRE OTHER COMPANIES OR PRODUCT LINES COULD ADVERSELY AFFECT OUR OPERATIONS AND FINANCIAL RESULTS

We may pursue acquisitions of other companies or product lines. Our ability to grow through acquisitions depends upon our ability to identify, negotiate, complete and integrate suitable acquisitions and to obtain any necessary financing. Even if we complete acquisitions, we may also experience:

- difficulties in integrating any acquired companies, personnel and products into our existing business;

- delays in realizing the benefits of the acquired company or products;

- diversion of our management's time and attention from other business concerns;

- limited or no direct prior experience in new markets or countries we may enter;

- higher costs of integration than we anticipated; or

- difficulties in retaining key employees of the acquired business who are necessary to manage these acquisitions.

In addition, an acquisition could materially impair our operating results by causing us to incur debt or requiring us to amortize acquisition expenses and acquired assets.

OUR QUARTERLY OPERATING RESULTS ARE SUBJECT TO SUBSTANTIAL FLUCTUATIONS AND YOU SHOULD NOT RELY ON THEM AS AN INDICATION OF OUR FUTURE RESULTS

Our quarterly operating results may vary significantly due to a combination of factors, many of which are beyond our control. These factors include:

- demand for products, which historically has been highest in the first and fourth quarters;

- our ability to meet the demand for our products;

- increased competition;

- the number, timing and significance of new products and product introductions and enhancements by us and our competitors;

- our ability to develop, introduce and market new and enhanced versions of our products on a timely basis;

- changes in pricing policies by us and our competitors;

- changes in the treatment practices of our surgeon customers;

- the timing of significant orders and shipments;

- availability of raw materials;

- work stoppages or strikes in the health care industry; and

- general economic factors.

Our acquisition of Cremascoli may make it more difficult for us to evaluate and

predict our future operating performance. Our historical results of operations as a combined entity are limited and only give effect to the operations of Cremascoli since we acquired it in December 1999. Consequently, our historical results of operations may not give you an accurate indication of how we, together with Cremascoli, will perform in the future.

We believe that quarterly sales and operating results may vary significantly in the future and that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. We cannot assure you that our sales will increase or be sustained in future periods or that we will be profitable in any future period. Any shortfalls in sales or earnings from levels expected by securities or industry analysts could have an immediate and significant adverse effect on the trading price of our common stock in any given period.

WE RELY ON OUR INDEPENDENT SALES DISTRIBUTORS AND SALES ASSOCIATES TO MARKET AND SELL OUR PRODUCTS

Our success depends largely upon marketing arrangements with independent sales distributors and sales associates, in particular their sales and service expertise and relationships with the customers in the marketplace. Independent distributors and sales associates may terminate their relationship with us, or devote insufficient sales efforts to our products. We do not control our independent distributors and they may not be successful in implementing our marketing plans. Our failure to attract and retain skilled independent sales distributors and sales associates could have an adverse effect on our operations. Our Australian distributor informed us that it intends to terminate our agreement when it expires in February 2002. We have appointed a new distributor to distribute our products in Australia beginning March 1, 2002. We may experience reduced sales in Australia as a result of the transition from one distributor to another.

IF A NATURAL OR MAN-MADE DISASTER STRIKES OUR MANUFACTURING FACILITIES, WE WILL BE UNABLE TO MANUFACTURE OUR PRODUCTS FOR A SUBSTANTIAL AMOUNT OF TIME AND OUR SALES WILL DECLINE

We have relied to date principally on our manufacturing facilities in Arlington, Tennessee and Toulon, France. These facilities and the manufacturing equipment we use to produce our products would be difficult to replace and could require substantial lead-time to repair or replace. Our facilities may be affected by natural or man-made disasters. In the event one of our facilities was affected by a disaster, we would be forced to rely on third-party manufacturers or shift production to our other manufacturing facility. Although we believe we possess adequate insurance for damage to our property and the disruption of our business from casualties, such insurance may not be sufficient to cover all of our potential losses and may not continue to be available to us on acceptable terms, or at all.

WE HAVE A HISTORY OF NET LOSSES AND MAY NOT BE PROFITABLE IN THE FUTURE

We have had a history of net losses and there can be no assurances that we will not continue to report net losses for the foreseeable future, which could cause our stock price to decline and adversely affect our ability to finance our business in the future. We reported net losses of $24.2 million in 1998, $40.4 million in 1999, $39.5 million in 2000 and $3.7 million for the nine months ended September 30, 2001. Our net loss in 2000 was primarily attributable to interest costs on borrowed money and non-cash expenses associated with the inventory step-ups charged to cost of sales, the amortization of acquired intangibles and stock-based compensation. Our net loss in the first nine months of 2001 was primarily attributable to interest costs on borrowed money and the

non-cash extraordinary charge related to the write-off of unamortized loan costs associated with our past credit facilities. For additional information, you should read the discussion under "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" included elsewhere in this prospectus.

OUR ABILITY TO USE OUR NET OPERATING LOSS CARRYFORWARDS COULD BE LIMITED

Our ability to use our net operating loss carryforwards is limited. At December 31, 2000, we had net operating loss carryforwards totaling approximately $62.8 million domestically, and $15.2 million internationally, available to reduce our future federal income tax liabilities. Our ability to use these net operating loss carryforwards to reduce our future federal income tax liabilities is subject to annual limitations. In addition, any net operating loss carryforwards generated after our December 1999 recapitalization could also be limited if we were to experience another greater-than 50% change in ownership over any three-year period, all as defined and governed by section 382 of the Internal Revenue Code. For purposes of determining if a 50% change in ownership occurs within any three-year period, any public stock offerings during that period (including this offering) are taken into account in accordance with applicable regulations. The limitation of our net operating loss carryforwards accumulated through December 1999 and any future limitation of net operating loss carryforwards generated since then could result in a material adverse effect on our ability to realize these tax benefits and adversely effect our liquidity.

IF WE CANNOT RETAIN OUR KEY PERSONNEL, WE WILL NOT BE ABLE TO MANAGE AND OPERATE SUCCESSFULLY AND WE MAY NOT BE ABLE TO MEET OUR STRATEGIC OBJECTIVES

Our continued success depends, in part, upon key managerial, scientific, sales and technical personnel, as well as our ability to continue to attract and retain additional highly qualified personnel. We compete for such personnel with other companies, academic institutions, government entities and other organizations. There can be no assurance that we will be successful in retaining our current personnel or in hiring or retaining qualified personnel in the future.

Many of our existing management personnel have been employed by WMG for two years or less, including our President and Chief Executive Officer, who joined us in January 2000, and our Executive Vice President and Chief Financial Officer, who joined us in December 2000. Our future success depends to a significant extent on the ability of our executive officers and other members of our management team to operate effectively, both individually and as a group. We cannot be certain that we will be able to satisfactorily allocate responsibilities and that the new members of our executive team will succeed in their roles. Loss of key personnel or the inability to hire or retain qualified personnel in the future could have a material adverse effect on our ability to operate successfully.

Risks Related to this Offering

IF A SIGNIFICANT NUMBER OF SHARES OF OUR COMMON STOCK IS SOLD INTO THE MARKET FOLLOWING THE OFFERING, THE MARKET PRICE OF OUR COMMON STOCK COULD SIGNIFICANTLY DECLINE, EVEN IF OUR BUSINESS IS DOING WELL

Many of our stockholders will have an opportunity to sell their stock following the offering. Also, many of our employees, directors, officers, sales representatives and distributors may exercise their stock options in order to sell the stock underlying their options in the market under a registration statement we have filed with the SEC. Sales of a substantial number of shares of

our common stock in the public market after the offering could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities. Officers, directors and our principal stockholders owning an aggregate of approximately 18,809,049 shares of our common stock have agreed that they will not, without the prior written consent of the underwriters, directly or indirectly sell any of these restricted shares, or any of the 894,378 shares of our common stock that we may issue upon the exercise of outstanding options or warrants held by our officers, directors and principal stockholders, for 90 days after the date of this prospectus. For a more detailed description, see "Shares Eligible for Future Sale" and "Underwriting."

OUR CERTIFICATE OF INCORPORATION, OUR BYLAWS AND DELAWARE LAW CONTAIN PROVISIONS THAT COULD DISCOURAGE, DELAY OR PREVENT A TAKEOVER OF WMG

Provisions of our certificate of incorporation, bylaws and Delaware law may discourage, delay or prevent a merger with, or acquisition of, WMG that you may consider favorable. See "Management--Board Composition" and "Management--Executive Compensation" and "Description of Capital Stock--Undesignated Preferred Stock", "Description of Capital Stock--Charter and By-Laws Anti-Takeover Provisions" and "Description of Capital Stock--Anti-Takeover Provisions of Delaware Law" for more information on the specific provisions of our certificate of incorporation, our bylaws and Delaware law that could discourage, delay or prevent a change of control of WMG.

OUR STOCK PRICE MAY BE VOLATILE AND YOUR INVESTMENT IN OUR COMMON STOCK COULD SUFFER A DECLINE IN VALUE

While there is currently a public market for our common stock, trading may not continue. You may be unable to resell the common stock you buy at or above the public offering price. We will establish the public offering price through our negotiations with the representatives of the underwriters. You should not view the price they and we establish as any indication of prices that will prevail in the trading market. With the current uncertainty about health care policy, reimbursement and coverage in the United States, there has been significant volatility in the market price and trading volume of securities of medical device and other health care companies unrelated to the performance of these companies. These broad market fluctuations may negatively affect the market price of our common stock. Some specific factors that may have a significant effect on our common stock market price include:

- actual or anticipated fluctuations in our operating results;
- our announcements or our competitors' announcements of technological innovations or new products;
- clinical trial results;
- changes in our growth rates or our competitors' growth rates;
- developments regarding our patents or proprietary rights, or those of our competitors;
- FDA and international actions with respect to the government regulation of medical devices and third-party reimbursement matters;
- public concern as to the safety of our products;

- changes in health care policy in the United States and internationally;

- conditions in the financial markets in general or changes in general economic conditions;

- our inability to raise additional capital;

- conditions of other medical device companies or the medical device industry generally; and

- changes in stock market analyst recommendations regarding our common stock, other comparable companies or the medical device industry generally.

OUR EXECUTIVE OFFICERS, DIRECTORS AND SIGNIFICANT STOCKHOLDERS MAY BE ABLE TO INFLUENCE MATTERS REQUIRING STOCKHOLDER APPROVAL

Our executive officers and directors (including stockholders with which directors are affiliated) after the offering will beneficially own approximately 52% of our outstanding voting common stock. Immediately after the offering, Warburg Pincus and its affiliates will own approximately 41% of our voting common stock. Our amended and restated certificate of incorporation contains restrictions that prohibit Warburg Pincus from owning more than 49% of our voting securities. We anticipate that following the closing of the offering, Warburg Pincus will convert all of its shares of non-voting common stock into shares of voting common stock such that Warburg Pincus will own approximately 46% of our outstanding shares of voting common stock. Additionally, following the closing of this offering and the conversion by Warburg Pincus, there will be no shares of our non-voting common stock outstanding. See "Principal and Selling Stockholders." This concentration of ownership may have the effect of delaying, preventing or deterring a change in control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale or merger of WMG and may negatively affect the market price of our common stock. Upon the completion of the offering, Warburg Pincus will continue to have the right under our stockholders agreement to designate two persons to our board of directors. As a result of this share ownership and minority representation on our board of directors, our current stockholders, in particular Warburg Pincus, will be able to influence all affairs and actions of our company, including matters requiring stockholder approval such as the election of directors and approval of significant corporate transactions. The interests of our executive officers, directors and principal stockholders may differ from the interests of the other stockholders.

Special Note Regarding Forward-Looking Statements

This prospectus contains forward-looking statements, principally in the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." Generally, you can identify these statements because they use words like "anticipates," "believes," "expects," "future," "intends," "plans," and similar terms. These statements are only our current expectations. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy, and actual results may differ materially from those we anticipated due to a number of uncertainties, many of which are unforeseen, including, among others, the risks we face as described on the previous pages and elsewhere in this prospectus. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus.

We believe it is important to communicate our expectations to our investors. There may be events in the future, however, that we are unable to predict accurately or over which we have no control. The risk factors listed on the

previous pages, as well as any cautionary language in this prospectus, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Before you invest in our common stock, you should be aware that the occurrence of the events described in the previous risk factors and elsewhere in this prospectus could negatively impact our business, operating results, financial condition and stock price.

Use of Proceeds

We estimate that the net proceeds from the sale of the 3,000,000 shares of common stock that we are offering under this prospectus at an assumed public offering price of $16.70 per share will be approximately $46.8 million after deducting the underwriting discounts and estimated offering expenses. We will not receive any proceeds from the sale of common stock by the selling stockholders.

We plan to use the net proceeds of the offering for general corporate purposes, including to fund working capital, expansion of our current product offerings through research and development and acquisitions of technologies, products and companies. We have no present understandings, commitments or agreements with respect to any acquisitions. We anticipate our spending on research and development to remain consistent as a percentage of net sales with our past levels of spending.

Pending the uses described above, we intend to invest the net proceeds of the offering in short-term, investment-grade, interest-bearing securities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" for additional information regarding our sources and uses of capital.

Price Range of Common Stock

Our common stock began trading on the Nasdaq National Market System on July 13, 2001 under the symbol "WMGI". Before that date, no public market for our common stock existed. The following table sets forth, for the periods indicated, the high and low closing sales prices per share of our common stock as reported on the Nasdaq National Market.

	HIGH	LOW
FISCAL YEAR 2001		
Third Quarter (since July 13, 2001).....	$18.50	$14.65
Fourth Quarter.....	$18.05	$14.00
FISCAL YEAR 2002		
First Quarter (through February 12, 2002).....	$18.25	$16.00

On February 12, 2002, the last reported sales price of our common stock on the Nasdaq National Market was $16.70 per share. As of January 25, 2002, there were 66 stockholders of record and an estimated 3,400 beneficial stockholders.

Dividend Policy

We have never declared or paid cash dividends on our common stock. We currently intend to retain all future earnings for the operation and expansion of our business. We do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future. Any payment of cash dividends on our common stock will be at the discretion of our board of directors and will depend upon our results of operations, earnings, capital requirements, contractual restrictions and other factors deemed relevant by our board. In addition, our current credit facility prohibits us from paying any cash dividends without our lenders' consent.

Capitalization

The following table sets forth our consolidated cash and cash equivalents and capitalization as of September 30, 2001.

In the as adjusted column, we have made adjustments to give effect to our receipt of the estimated net proceeds of $46.8 million from the sale of 3,000,000 shares of common stock we are offering for sale under this prospectus at an assumed public offering price of $16.70 per share, and the application of these proceeds as set forth under the caption "Use of Proceeds."

You should read this table in conjunction with our consolidated financial statements and their notes contained elsewhere in this prospectus. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Use of Proceeds," "Description of Capital Stock" and the notes to our consolidated financial statements included elsewhere in this prospectus for additional information.

The outstanding share information in the table below is based on the number of shares outstanding as of September 30, 2001. The table below excludes:

- 3,244,606 shares of our common stock that we may issue upon the exercise of outstanding options at a weighted average exercise price of $4.92 per share;
- 1,522,451 shares of our common stock available for future issuances under our 1999 Equity Incentive Plan; and
- 727,276 shares of common stock that we may issue upon the exercise of outstanding warrants at an exercise price of $4.35 per share.

	As of September 30, 2001 (unaudited)	
IN THOUSANDS, EXCEPT SHARE DATA	Actual	As Adjusted

Cash and cash equivalents	$ 2,957	$ 49,727
Notes payable and capitalized lease obligations, including current portion	$ 23,530	$ 23,530
Stockholders' equity:		
Preferred stock, $.01 par value, 5,000,000 shares authorized; no shares issued and outstanding actual; no shares issued and outstanding as adjusted	--	--
Common stock, voting, $.01 par value, 70,000,000 shares authorized; 23,009,647 shares issued and outstanding actual; 26,009,647 shares issued and outstanding as adjusted	230	260
Common stock, non-voting, $.01 par value, 30,000,000 shares authorized, 5,288,595 shares issued and outstanding actual and as adjusted	53	53
Additional paid-in capital	206,210	252,950
Deferred compensation	(5,171)	(5,171)
Accumulated other comprehensive loss	(1,741)	(1,741)
Accumulated deficit	(84,323)	(84,323)
Total stockholders' equity	115,258	162,028
Total capitalization	$138,788	$185,558

Selected Financial Data

The following table sets forth certain selected consolidated financial data of Wright Medical Group, Inc. and Wright Medical Technology, Inc., our predecessor company, for the periods indicated. We derived our selected consolidated financial data as of December 31, 2000, 1999, 1997 and 1996 and for the year ended December 31, 2000, the period from January 1, 1999 to December 7, 1999, the period from December 8, 1999 to December 31, 1999 and for the years ended December 31, 1997 and 1996 from our consolidated financial statements audited by Arthur Andersen LLP. We derived our selected consolidated financial data as of December 31, 1998 and for the year then ended from our consolidated financial statements audited by BDO Seidman, LLP. The audited consolidated financial statements as of December 31, 2000 and 1999 and for the year ended December 31, 2000, for the period January 1, 1999 to December 7, 1999, for the period December 8, 1999 through December 31, 1999 and for the year ended December 31, 1998 are included elsewhere in this prospectus. The audited consolidated financial statements as of December 31, 1998, 1997 and 1996 and for each of the two years ended December 31, 1997 and 1996 are not included in this prospectus. The selected consolidated financial data for the nine months ended September 30, 2000 and 2001 has been derived from our unaudited consolidated financial statements which, in the opinion of management, include all adjustments, consisting solely of normal recurring adjustments, necessary for a fair presentation of the consolidated financial information shown on these statements. The results for the nine months ended September 30, 2001 are not necessarily indicative of the results to be expected for the full year or any future period.

Predecessor Company

IN THOUSANDS, EXCEPT PER SHARE DATA	Year Ended December 31, 1996	1997	1998	Period from January 1 to December 7, 1999
STATEMENT OF OPERATIONS DATA:				
Net sales	$121,868	$122,397	$106,972	$101,194
Cost of sales(1)	44,433	46,687	46,981	44,862
Gross profit	77,435	75,710	59,991	56,332
Operating expenses:				
Selling, general and administrative	63,528	67,753	55,974	47,547
Research and development	13,196	11,609	7,855	5,857
Amortization of intangible assets	3,266	3,364	2,748	2,334
Stock-based expense	--	--	176	523
Transaction and reorganization	--	--	--	6,525
Acquired in-process research and development costs	--	--	--	--
Losses of equity method investment	500	1,217	1,979	--
Total operating expenses	80,490	83,943	68,732	62,786
Income (loss) from operations	(3,055)	(8,233)	(8,741)	(6,454)
Interest expense, net	11,947	13,062	14,284	13,196
Other expense, net	(413)	1,277	1,044	616
Loss before income taxes and extraordinary item	(14,589)	(22,572)	(24,069)	(20,266)
Provision (benefit) for income taxes	--	--	102	190
Loss before extraordinary item	--	--	(24,171)	(20,456)
Extraordinary loss on early retirement of debt, net of taxes	--	--	--	--
Net loss	$(14,589)	$(22,572)	$(24,171)	$(20,456)
Net loss per common share, basic and diluted(2):				
Loss before extraordinary item				
Extraordinary charge				
Weighted-average number of common shares outstanding				
Pro forma basic and diluted net loss per common share (unaudited)(3):				
Loss before extraordinary item				
Extraordinary charge				
Pro forma weighted-average number of common shares outstanding, basic and diluted (unaudited)(3)				

	Consolidated Wright Medical Group, Inc.	
	Period from December 8 to December 31,	Year Ended December 31,

IN THOUSANDS, EXCEPT PER SHARE DATA	1999	2000	2000 (unaudited)	20 (unaudite
STATEMENT OF OPERATIONS DATA:				
Net sales	$ 7,976	$ 157,552	$ 117,714	$126,764
Cost of sales(1)	4,997	80,370	63,562	37,967
Gross profit	2,979	77,182	54,152	88,797
Operating expenses:				
Selling, general and administrative	4,837	82,813	61,063	69,784
Research and development	508	8,390	6,074	6,842
Amortization of intangible assets	466	5,586	4,190	4,024
Stock-based expense	--	5,029	2,914	1,587
Transaction and reorganization	3,385	--	--	--
Acquired in-process research and development costs	11,731	--	--	--
Losses of equity method investment	--	--	--	--
Total operating expenses	20,927	101,818	74,241	82,237
Income (loss) from operations	(17,948)	(24,636)	(20,089)	6,560
Interest expense, net	1,909	12,446	9,223	7,365
Other expense, net	67	870	1,191	178
Loss before income taxes and extraordinary item	(19,924)	(37,952)	(30,503)	(983
Provision (benefit) for income taxes	(25)	1,541	1,030	1,089
Loss before extraordinary item	(19,899)	(39,493)	(31,533)	(2,072
Extraordinary loss on early retirement of debt, net of taxes	--	--	--	(1,611
Net loss	$ (19,899)	$ (39,493)	$ (31,533)	$ (3,683
Net loss per common share, basic and diluted(2):				
Loss before extraordinary item	$(27,918.17)	$(3,405.71)	$(7,516.63)	$ (0.57
Extraordinary charge	--	--	--	(0.20
	$(27,918.17)	$(3,405.71)	$(7,516.63)	$ (0.77
Weighted-average number of common shares outstanding	1	17	6	8,037
Pro forma basic and diluted net loss per common share (unaudited)(3):				
Loss before extraordinary item		$ (2.29)		$ (.09
Extraordinary charge		--		(.07
		$ (2.29)		$ (.17
Pro forma weighted-average number of common shares outstanding, basic and diluted (unaudited)(3)		17,260		21,873

IN THOUSANDS	Predecessor Company As of December 31, 1996	1997	1998	Consolidate As of Decemb 1999	
CONSOLIDATED BALANCE SHEET DATA:					
Cash and cash equivalents	$ 910	$ 466	$ 579	$ 6,733	$
Working capital	50,472	40,366	27,409	83,840	
Total assets	166,326	153,083	129,897	238,312	
Long-term liabilities	106,834	108,361	113,432	137,368	
Redeemable preferred stock	84,954	99,953	106,470	70,867	
Stockholders' equity (deficit)	$(58,506)	$(97,010)	$(132,045)	$(22,834)	$

IN THOUSANDS	Predecessor Company 1996	1997	1998	Period from January 1 to December 7, 1999
OTHER DATA:				
Cash flows provided by (used in) operating activities	$ (565)	$(1,539)	$ 4,402	$ 8,914
Cash flows used in investing activities	(4,662)	(5,528)	(3,179)	(2,179)
Cash flows provided by (used in) financing activities	5,011	6,623	(1,110)	(6,105)
Adjusted EBITDA(4)	11,896	6,780	2,352	2,023
Depreciation	11,272	12,926	9,213	6,236
Amortization of intangible assets	3,266	3,364	2,748	2,334
Capital expenditures	$ 3,778	$ 6,015	$ 3,147	$ 2,179

IN THOUSANDS	Consolidated Wright Medical Group, Inc. Period from December 8 to December 31, 1999	Year Ended December 31, 2000	Nine Months Ended September 30, 2000 (unaudited)	2001 (unaudited)
OTHER DATA:				
Cash flows provided by (used in) operating activities	$ (22,701)	$ 18,151	$ 9,490	$ (1,481)
Cash flows used in investing activities	(22,410)	(14,109)	(10,235)	(13,012)

Cash flows provided by (used in) financing activities	51,844	6,028	6,530	1,204
Adjusted EBITDA(4)	(3,327)	25,198	19,609	19,221
Depreciation	489	11,008	8,708	7,228
Amortization of intangible assets	466	5,586	4,190	4,024
Capital expenditures	$ 11	$ 14,109	$ 10,235	$ 13,235

---

(1) In connection with our recapitalization and our acquisition of Cremascoli, we recorded inventory step-ups pursuant to APB No. 16. This accounting treatment required a $31.1 million step-up of inventories above manufacturing costs. The step-up was charged to cost of sales over the following twelve months, reflecting the estimated period over which the inventory was sold. Cost of sales was charged $2.0 million in the period from December 8 to December 31, 1999, $29.1 million in the year ended December 31, 2000 of which $25.1 million was charged in the nine months ended September 30, 2000.

(2) Net loss applicable to common stockholders includes preferred stock dividends of $230,000 for the period from December 8, to December 31, 1999, preferred stock dividends of $4.4 million and $13.1 million of deemed dividends on the series C preferred stock for the year ended December 31, 2000, preferred stock dividends of $3.2 million and $13.1 million of deemed dividends on the series C preferred stock for the nine months ended September 30, 2000, and preferred stock dividends of $2.5 million for the nine months ended September 30, 2001.

(3) In calculating the pro forma net loss per share, we have given effect to the conversion of all of our outstanding preferred stock, plus accrued dividends into common stock as if the conversion occurred at the beginning of the respective period.

(4) Adjusted EBITDA consists of net income (loss) excluding net interest, taxes, depreciation, amortization, stock based expenses, non-cash charges related to acquired inventory, the in-process research and development write-off and the extraordinary loss on early retirement of debt. Adjusted EBITDA is provided because it is a measure of financial performance commonly used as an indicator of a company's historical ability to service debt. We have presented Adjusted EBITDA to enhance your understanding of our operating results. You should not construe it as an alternative to operating income as an indicator of operating performance. It should also not be construed as an alternative to cash flows from operating activities as a measure of liquidity determined in accordance with GAAP. We may calculate Adjusted EBITDA differently from other companies. For further information, see our consolidated financial statements and related notes elsewhere in this prospectus.

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

THE FOLLOWING DISCUSSION AND ANALYSIS OF OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS SHOULD BE READ IN CONJUNCTION WITH THE "SELECTED FINANCIAL DATA" AND OUR CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES APPEARING ELSEWHERE IN THIS PROSPECTUS. THIS DISCUSSION AND ANALYSIS CONTAINS FORWARD-LOOKING STATEMENTS BASED ON OUR CURRENT EXPECTATIONS, ASSUMPTIONS, ESTIMATES AND

PROJECTIONS. THESE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES. OUR ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE INDICATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS, AS MORE FULLY DESCRIBED UNDER THE HEADING "RISK FACTORS" AND ELSEWHERE IN THIS PROSPECTUS.

Overview

We are a global orthopaedic device company specializing in the design, manufacture and marketing of reconstructive joint devices and bio-orthopaedic materials. Reconstructive joint devices are used to replace knee, hip and other joints that have deteriorated through disease or injury. Bio-orthopaedic materials are used to replace damaged or diseased bone and to stimulate bone growth. We have been in business for over fifty years and have built a well-known and respected brand name and strong relationships with orthopaedic surgeons.

Our corporate headquarters and U.S. operations are located in Arlington, Tennessee, where we conduct our domestic manufacturing, warehousing, research and administrative activities. Outside the U.S., we operate manufacturing and administrative facilities in Toulon, France, research, distribution and administrative facilities in Milan, Italy and sales and distribution offices in Canada, Japan and across Europe. Our global distribution system consists of a sales force of approximately 450 persons that market our products to orthopaedic surgeons and hospitals. We have approximately 200 exclusive independent distributors and sales associates in the U.S. and approximately 250 distributors and sales associates internationally. In addition, we sell our products to stocking distributors in certain international markets, who resell the products to third-party customers.

In December 1999, an investment group led by Warburg Pincus acquired majority ownership of our predecessor company, Wright Medical Technology, Inc., in a transaction that recapitalized our business. Our recapitalization was accounted for using the purchase method of accounting and generated intangible assets totaling $34.6 million, of which $10.0 million was allocated to goodwill. In addition, we recorded a $24.0 million inventory step-up in accordance with APB No. 16. The step-up was subsequently charged to cost of sales over the twelve-month period during which these inventories were estimated to be sold, totaling $2.0 million during the period from December 8 to December 31, 1999 and $22.0 million during 2000. Also in connection with our recapitalization in 1999, we recorded a one-time write-off of purchased in-process research and development costs totaling $11.7 million.

In December 1999, immediately following our recapitalization, we acquired Cremascoli Ortho Group, an orthopaedic device company based in Toulon, France. As a result of this acquisition, we enhanced our product development capabilities, expanded our presence in Europe and extended our product offerings.

The acquisition, which was accounted for using the purchase method of accounting, generated intangible assets totaling $24.9 million, of which $8.2 million was allocated to goodwill. In addition, we recorded an inventory step-up totaling $7.1 million. The step-up was subsequently charged to cost of sales over the nine-month period from January 1, 2000 to September 30, 2000, during which these inventories were estimated to be sold. No in-process research and development was identified related to this acquisition. The acquisition of Cremascoli accounted for approximately $34.2 million of the increase in our total net sales for the year 2000 as compared to 1999.

Net sales in our international markets totaled $29.4 million, or approximately 27% of our total net sales in 1998, $29.6 million, or approximately 27% of our total net sales in 1999, $62.6 million, or approximately 40% of our total net

sales in 2000 and $46.8 million, or approximately 37% of our total net sales in the first nine months of 2001. No single foreign country accounted for more than 10% of our total net sales during 1999 or 2000; however, Italy and France together represented approximately 17% of our total net sales in 2000 and 16% in the first nine months of 2001.

In August 2001, we began selling our products in Japan through our newly formed wholly-owned Japanese subsidiary. In Japan, we have transitioned from a distributor-based sales network to a direct sales initiative. We view this direct sales initiative as a positive event in the long-term growth of our international business.

During the mid- and late-1990s, we experienced operating difficulties resulting from several successive years of flat or declining net sales, an expense infrastructure that reduced our profit generating capability and debt service and repayment requirements that became difficult to meet. Following our December 1999 recapitalization, a new management team was put in place. This management team implemented a turnaround strategy that increased our focus and spending on research and development, significantly raised the efficiency of our manufacturing processes and improved our sales force productivity. Since then, we have experienced growth in net sales across our primary product lines, improved our operating efficiencies and renewed our ability to meet our debt service and repayment obligations.

Net Sales and Expense Components

NET SALES

We derive our net sales primarily from the sale of reconstructive joint devices and bio-orthopaedic materials. Our reconstructive joint device net sales are derived from three primary product lines: knees, hips and extremities. Of our total net sales in 2000, our knee product lines represented approximately 40%, our hip product lines represented approximately 30% and our extremities product lines represented approximately 11%. Sales of our bio-orthopaedic materials represented approximately 13% of our total net sales in 2000. In the first nine months of 2001, our knee, hip, extremity and bio-orthopaedic product lines represented approximately 40%, 28%, 12% and 15%, respectively, of our total net sales.

Other product sales totaled approximately 6% of our total net sales in 2000 and 5% in the first nine months of 2001, consisting of various orthopaedic products not considered to be part of our knee, hip, extremity or bio-orthopaedic product lines that we manufactured directly or distributed for others. A substantial majority of our other product sales consisted of products added as a result of our acquisition of Cremascoli. We anticipate that other product sales will decline in the future, both in amount and as a percentage of total net sales, as we continue to focus our resources on our reconstructive joint device and bio-orthopaedic product lines.

Net sales consist of product sales less provisions for sales returns, which are established at the time of the sale. We recognize revenue upon shipment of a product to customers or, for inventory held on consignment, when evidence of customer acceptance is obtained. In limited circumstances, we have agreed to repurchase inventory from certain international stocking distributors if this inventory is not acquired by a third-party customer. In these instances, revenue recognition is deferred until evidence is obtained that the inventory has been sold to a third-party customer.

Our total net sales were $107.0 million in 1998, $109.2 million in 1999, $157.6 million in 2000 and $126.8 million for the nine months ended September 30, 2001. The following table sets forth our net sales by product line for 1998, 1999, 2000 and for the nine months ended September 30, 2000 and 2001, respectively:

	PREDECESSOR COMPANY		CONSOLIDATED WRIGHT MEDICAL G	
IN THOUSANDS:	YEAR ENDED DECEMBER 31, 1998	PERIOD FROM JANUARY 1 TO DECEMBER 7, 1999	PERIOD FROM DECEMBER 8 TO DECEMBER 31, 1999	YEAR ENDED DECEMBER 31, 2000
Knee products.....	$56,116	$52,753	$ 3,448	$62,889
Hip products.....	28,330	23,596	1,912	47,690
Extremity products.....	13,675	13,774	836	17,271
Bio-orthopaedic materials.....	4,869	7,367	896	20,996
Other.....	3,982	3,704	884	8,706
Total net sales.....	$106,972	$101,194	$7,976	$157,552
AS A PERCENTAGE OF TOTAL NET SALES:				
Knee products.....	52.5%	52.1%	43.2%	39.9%
Hip products.....	26.5%	23.3%	24.0%	30.3%
Extremity products.....	12.8%	13.6%	10.5%	11.0%
Bio-orthopaedic materials.....	4.6%	7.3%	11.2%	13.3%
Other.....	3.6%	3.7%	11.1%	5.5%
Total net sales.....	100.0%	100.0%	100.0%	100.0%

EXPENSES

COST OF SALES. Cost of sales consists primarily of direct labor, allocated manufacturing overhead, raw materials and components, royalty expenses associated with licensing technologies used in our products or processes and certain other period expenses. Cost of sales and corresponding gross profit percentages can be expected to fluctuate in future periods depending upon changes in our product sales mix and prices, distribution channels and geographies, manufacturing yields, period expenses and levels of production volume.

Our costs of sales for the period from December 8 to December 31, 1999 and the year ended December 31, 2000 are not comparable to those of prior periods because (a) under U.S. generally accepted accounting principles, we were

required to step-up our inventories in connection with our recapitalization and the acquisition of Cremascoli, in the amount of $31.1 million and (b) we changed our method of accounting for surgical instruments effective December 8, 1999, which discontinued the practice of charging related expenses to cost of sales. The following table sets forth our cost of sales expressed as a percentage of sales for 1998, 1999, 2000 and for the nine month periods ended September 30, 2000 and 2001, respectively, adjusted to exclude the cost of sales associated with our inventory step-ups and the costs associated with surgical instruments historically carried in inventories:

	PREDECESSOR COMPANY		CONSOLIDATED WRIGHT MEDICAL GROU		
	YEAR ENDED DECEMBER 31, 1998	PERIOD FROM JANUARY 1 TO DECEMBER 7, 1999	PERIOD FROM DECEMBER 8 TO DECEMBER 31, 1999	YEAR ENDED DECEMBER 31, 2000	N 20 (UNAUDITE
Cost of sales.....	43.9%	44.3%	62.7%	51.0%	54
Effect of acquisition costs assigned to inventory.....	--	--	(25.1)%	(18.5)%	(21
Surgical instrument expenses included in cost of sales prior to change in method of accounting.....	(4.1)%	(2.9)%	--	--	
Adjusted cost of sales.....	39.8%	41.4%	37.6%	32.5%	32

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense consists primarily of salaries, sales commissions, royalty expenses associated with our key surgeons, marketing costs, facility costs, other general business and administrative expenses and, beginning on December 8, 1999, depreciation expense associated with surgical instruments that we loan to surgeons to use when implanting our products. These surgical instruments are depreciated over their useful life of 1 to 6 years. We expect that our selling, general and administrative expenses will increase in absolute dollars in future periods to the extent that any further growth in net sales drives commissions and royalties, and as we continue to add infrastructure to support our expected business growth and public company requirements.

RESEARCH AND DEVELOPMENT. Research and development expense includes costs associated with the design, development, testing, deployment, enhancement and regulatory approval of our products. We anticipate that our research and development expenditures will increase in absolute dollars in future periods as we continue to increase our investment in product development initiatives; however, we expect these expenses to be relatively consistent as a historical percentage of net sales.

AMORTIZATION OF INTANGIBLES. Amortization of intangible assets is primarily related to our recapitalization and our acquisition of Cremascoli. Intangible

assets consist of goodwill and purchased intangibles principally related to completed technology, workforce, distribution channels and trademarks. Goodwill is amortized on a straight-line basis over 20 years, and purchased intangibles are amortized over periods ranging from three months to 15 years.

At December 31, 2000 and September 30, 2001, we had net intangible assets totaling $54.7 million and $50.0 million, respectively. We expect to amortize approximately $5.4 million in 2001. This amortization gives effect to the settlement of $3.1 million of Cremascoli acquisition consideration remaining in escrow as of September 30, 2001. This matter was in arbitration and was settled in October 2001. Accordingly, we recorded additional goodwill of approximately $1.1 million for the portion of the escrow released to the sellers.

STOCK-BASED EXPENSE. Stock-based expense includes the amortization of non-cash deferred compensation recorded in connection with the issuance of stock options, stock-based incentives and the sale of equity securities when the estimated fair market value of the securities is deemed for financial reporting purposes to exceed their respective exercise or sales price. Additionally, for stock-based incentives granted to consultants, we defer and amortize the fair value of such grants as calculated pursuant to Statement of Financial Accounting Standards (SFAS) No. 123. We amortize deferred compensation on a straight-line basis over the respective vesting periods of the stock-based incentives, which is generally four years, and we immediately expense all stock-based compensation associated with the issuance of equity where no vesting restrictions apply.

We issued stock options and stock-based incentives and sold equity securities generating approximately $7.9 million of stock-based compensation for the year ended December 31, 2000 and we recognized $5.0 million of this amount during 2000 as compensation expense. In the first nine months of 2001, we incurred approximately $3.6 million of additional deferred compensation related to option grants, and we recognized stock-based compensation expense totaling $1.6 million. Based on the stock-based compensation we incurred through September 30, 2001, we expect that $2.0 million in 2001, $1.7 million in 2002, $1.7 million in 2003, $1.5 million in 2004 and $200,000 in 2005 will be recognized as non-cash stock-based expense.

INTEREST EXPENSE, NET. Interest expense consists primarily of interest associated with borrowings outstanding under our senior credit facilities and our subordinated notes, offset partially by interest income on invested cash balances. Interest expense includes $457,000 and $339,000 for the first nine months of 2001 and 2000, respectively, of non-cash expense associated with the amortization of deferred financing costs resulting from the origination of our senior credit facilities. In July 2001, we repaid amounts outstanding under our Euro-denominated senior credit facility, and in August 2001, we renegotiated the terms of our dollar-denominated senior credit facility. Accordingly, we estimate the amortization of deferred financing costs to be approximately $255,000 annually over the remaining term of our new senior credit facility.

We used the net proceeds from our initial public offering completed on July 18, 2001 to repay our senior subordinated notes and reduce our outstanding bank borrowings. As a result, we expect that net interest expense will decrease in periods following our initial public offering as compared to prior periods. Based on interest rates in effect at September 30, 2001, we expect that our repayment of debt in connection with our initial public offering will reduce our net interest expense by approximately $7.8 million annually.

OTHER (INCOME)/EXPENSE, NET. Other (income)/expense consists primarily of net gains and losses resulting from foreign currency fluctuations. We expect other expense and income to fluctuate in future periods depending upon our relative exposures to foreign currency risk and ultimate fluctuations in exchange rates.

PROVISION/(BENEFIT) FOR INCOME TAXES. Our payment of income taxes has generally been limited to earnings generated by certain of our foreign operations, principally in Europe. Domestically, we have incurred no tax liability in recent years. At December 31, 2000, we had net operating loss carryforwards of approximately $62.8 million domestically, which expire in 2010 through 2020, and $15.2 million internationally, which expire in 2003 through 2006. Generally, we are limited in the amount of net operating loss carryforwards which can be utilized in any given year. Additionally, we have domestic tax credit carryforwards of approximately $1.1 million, which expire through 2012.

In light of our historical operating performance, we have established a valuation allowance against both our domestic and international net operating loss carryforwards. We will continue to reassess the realization of our net operating loss carryforwards and adjust the related valuation allowance as necessary.

EXTRAORDINARY LOSS ON EARLY RETIREMENT OF DEBT. We used the proceeds of our initial public offering to repay amoun